



GOVERNANCE INDICATORS FOR STRATEGIC BUSINESS DECISIONS: DIVERSITY OF WESTERN ASIAN COUNTRIES IN TERMS OF DEMOCRACY



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ABSTRACT

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The main objective of the research is to configure the countries of Western Asia from the standpoint of governance with a particular focus on democracy indicator. We are interested in the government indicators because since the times of Washington consensus the foreign aid paradigm has changed: a priority is given to funding development programs in countries with good governance. In order to measure the progress there is the need to quantify differences in governments among nations and to measure its quality. Governance indicators and the Democracy Index as well, are also supposed to help business leaders in strategic decisions. Comparative analysis technique and a concept of correlation are used as a methodology of the research while configuring the countries of Western Asia in terms of democracy. It is verified whether the more democratic countries in the region are the more trustful and prosperous societies. It is debated whether there is the need for democracy so as to reach good governance and economic growth.

Contribution/ Originality: This study is one of very few studies which have investigated fractionalization of Western Asian region in terms of governance with the special focus on democracy. We report first results and encourage further investigation of the region from the standpoint of other political economy categories.

1. INTRODUCTION

The article dwells on the results of the team serial project, an objective of which is to configure the region of Western Asia in different political economy categories such as population, capital income, human development, economic globalization, trade, foreign direct investment, trust, ethnicity, language, religion, rule of law and control of corruption and other categories (Alhanaqtah, 2016; Alhanaqtah, 2016a; Alhanaqtah, 2016b; Alhanaqtah, 2017a; Alhanaqtah, 2017b). At this stage we are interested in the analysis of the diversity of Western Asian countries in terms of governance. For this purpose we will use governance indicators. In particular, we will focus on indices of democracy and will try to verify a statistical relationship between the democracy and economic growth.

First, we will discuss why the issue of measuring governance remains sensitive and will point shortcomings in the data collection and measurement. Second, we will focus on governance indicators. The objective of the current research is to focus on the democracy indicator as a constituent of a body of governance indicators. We will

critically review different indices of democracy. Third, we will configure the countries of Western Asia in terms of democracy. Through a comparative analysis technique we will analyze the diversity within a target region and will show where it fits in the world spectrum. Fourth, we will debate whether democracy helps economic growth. Fifth, we will make an investigation for the Western Asian countries, whether there are linkages between democracy and some socio-economic categories: generalized trust, happiness, life satisfaction and capital income. Finally, we will discuss the results.

1.1. Unit and Variables of Analysis

The unit of analysis is a particular country. We investigate 17 countries of Western Asia: Armenia, Azerbaijan, Bahrain, Georgia, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Palestinian Territories, Qatar, Saudi Arabia, Syrian Arab Republic, Turkey, United Arab Emirates and Yemen. The region significantly overlaps with the Middle East.

We use the composite Democracy Index, compiled by the [Economist Intelligence Unit \(2017\)](#). It consists of 5 elements, each counting 20 %: civil liberties, election processes and pluralism, political participation, political culture, functioning of government. Results are expressed on scale from 1 to 10. We are interested in the government indicators because since the times of [Washington Consensus \(1989\)](#) the foreign aid paradigm has changed. Nowadays the largest foreign aid providers - the International Monetary Fund, the World Bank and donor-countries - give a priority to funding development programs in countries with good governance. Thus, in order to measure the progress there is the need to quantify differences in governments among nations and to measure the quality of governance. Governance indicators and the Democracy Index as well, are supposed to help business leaders prepare for opportunity, empowering them to act with confidence when making strategic decisions.

1.2. Methodology of Analysis

First, we use a comparative analysis technique as a methodology of the research. We begin with ranking the data of all the world economies in ascending order. This way we may see how countries are located in the world on a chosen criterion - democracy. Then we place our target region - Western Asia - along the world spectrum. Then we describe whether the countries of a target region are at the top, middle, bottom or scattered randomly; whether they are similar or clustered, or diverge radically. Second, we rank countries of a target region in categories of democracy, trust, happiness, life satisfaction and capital income per capita. Then we compute a linear correlation coefficient between the democracy rank and a rank of corresponding variable. We want to verify whether the more democratic countries are, correspondingly, the more: trustful societies, the societies where people are happy and satisfied with their lives, the societies with the higher level of per capita income.

In short, current research contributes to the literature by conducting the first study on fractionalization of Western Asian region in terms of governance with the special focus on democracy. We report first results and encourage further investigation of Western Asia from the standpoint of other political economy categories.

2. PREMISES OF THE GOVERNANCE INDICATORS

The origin of the concept of governance came from the debates on foreign aid. After the Second World War the United Nation began an aid and relief program which included the provision of raw materials needed to recover war damaged economies. It is known as Marshall Plan, started in 1948 by the American aid program to Western Europe countries. In 1944 the World Bank was created to provide structural development funds to poorer countries. In 1950s the United States began aid programs towards its allies, whilst the Soviet Union did the same. The aid of the last was initially directed towards China and later to African countries. When at the end of 1950s the accent of the Cold War shifted away from military confrontation, the United States called on their allies to share the aid burden both bilaterally and through their contribution to the World Bank.

In those years the main analysis of development economics had focused on explanation of underdevelopment. The problem with underdevelopment was that the less developed countries were caught with two shortages - investment capital and foreign exchange. Both shortages could be alleviated with the help of the foreign aid. The paradigm of the foreign aid provision, inherent for those years, was to direct funds towards promoting *industrial development*, preferable large scale projects. It was considered that by the time the benefits would trickle down to the rest of the population. Nevertheless, in 1970s-1980s, after the series of financial crises, especially in Latin America, it had become obvious that the *foreign aid was failing to promote growth*.

Since that time the foreign aid paradigm has shifted to a new one: provision of aid based on the progress in *government reforms*. Additionally, more attention in aid management was paid to the social conditions at the local level and to the greater efficiency and effectiveness at the national level. Efficiency was defined in sense of economic efficiency (value for money) while effectiveness was defined in the sense of becoming viable (competitive in the world markets). The new paradigm of the foreign aid came true in [Washington Consensus \(1989\)](#) represented a set of policy measures advocated by the International Monetary Fund, the World Bank and the US government: control of the size of government spending, the phasing out of subsidies to inefficient sectors, the freeing of controls over trade and foreign investment, the introduction of pro market reforms and the protection of property rights. At this stage, the idea of good governance was defined as an efficient and effective public sector ([World Bank, 1989](#)). This new emphasis reflected a major change in the world economy - acceleration of globalization. The phenomenon was being held responsible for the accelerating growth of the world economy ([Arndt and Oman, 2006](#)).

Since the mission of the World Bank is to fund countries' development programs, it made attempts to measure international differences and the quality of governance. The pioneer in this field was an economist from Chili - Daniel Kaufman. His first mission was to the slums of Colombia, where he faced to a paradox: how such wealth and such abject poverty were able to coexist in the same country. The answer that he came to had less to do with economics and more with politics - the abuse of power, the politics of patronage and corruption. Later, missions to Africa confirmed these convictions. When in Tanzania, for example, he saw enterprises securing scarce foreign exchange not based on their economic efficiency but on their proximity to power. However, in an international body like the World Bank, it was almost a taboo to mention that the fault may lie in 'corruption', since that implied that the fault lay in one of the member governments ([Griffiths, 2016](#)). This made it difficult to openly criticize the political system of a member state. Thus, Kaufman and his colleagues used technocratic language to propose 'technocratic' reforms that indirectly touched politics and the perversion of power ([Kaufmann, 2008](#)). A new tactic allowed them to conceal highly sensitive political questions, though only partially successful. The World Bank began to develop indicators that helped define and measure the differences in forms and context of corruption. In 1996, already as a director of the World Bank Institute, Kaufman published the first annual World Bank Governance Indicators.

3. METHODOLOGY OF THE WORLD BANK GOVERNANCE INDICATORS

We focus on the governance indicators produced by the World Bank Institute for several reasons:

- they come from a recognized international organization;
- they are already being used as assessment criteria in the international aid effort, and are employed as a guide to aid allocation, especially the US Millennium Challenge Account ([Knoll and Zloczynski, 2012](#))
- these indicators are cited repeatedly through the literature and through the policy-making process;
- they have being increasingly employed as inputs into academic exercises in policy analysis ([Griffiths, 2016](#)).

There are six governance indicators which follow the political process from the formulation of policy to its execution and implementation. It is a three step process with two indicators for each step (Figure 1).

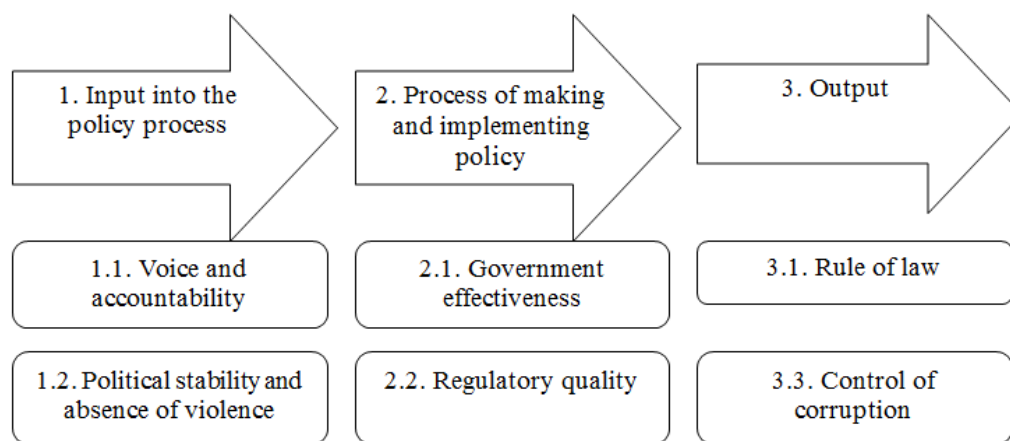


Figure-1. The World Bank governance indicators and the policy process

Source: Griffiths (2016).

The World Bank indicators (WBI) provide evidence for 214 countries. The methodology is as follows. Firstly, it calculates the average for all observations. Secondly, it produces the world average and then awards that a value of zero. Thirdly, the individual country results are awarded a 'plus' if they are above the world average, and a 'minus' if they are below. The index is scored from 'the best' +2.5 to 'the worst' -2.5 (Kaufmann *et al.*, 2011). The Figure 1 shows that there is a very complex set of socio-economic processes, each of which the World Bank has compressed into a one single indicator. As it was mentioned above, the World Bank team deliberately tried to depoliticize the indicators in order to allow the World Bank to operate in sensitive policy areas (Hood, 1991).

To assess the accuracy of the governance indicators, it is necessary to return to the guiding principles behind their construction and review some of the *criticism*.

First, the government indicators are composite indices, i.e. different rather complex dimensions are summarized down to a single number (30-40 elements are included into each indicator). This is also important that each component embodies various dimensions, and the selection and allocation of these dimensions among the six components has been accomplished without any formalized theoretical or empirical underpinning (Langbein and Knack, 2010; Thomas, 2010). Moreover, there is a subjective element in the whole exercise. If to compare WBI with the indicators from the World Value Survey, they are not opinion polls and, what is more, they are not random. The so-called 'rule-based indicators' (indicators in the form of actual laws and regulations, and the qualitative indicators that often accompanied such analyses) are seems deliberately avoided by the World Bank. The possible explanation is that the way in which 'rule-based indicators' are recorded does not allow for judging the efficiency in the functioning of governments. Instead, 'outcome-based indicators' by the World Bank allow assessment how governments actually work, by looking at the results. The problem is that these rely very much on the views and opinions, which invariably carry a measure of subjectivity and which are always difficult to verify (Glaeser *et al.*, 2004).

Second, there is also an element of subjectivity in coded rank numbers. For example, if one is good, ten is bad (?). If a country is performing well, or it is surging up the rankings, experts tend to judge it favorably. The data, then, would reflect past performance or reputation, rather than the current picture (Kurtz and Shrank, 2006). The response of the World Bank is to run a series of statistical tests and refute the accusation. Additionally, when some of the indicators were incorporated into the Millennium Development Goals and used for development aid allocation, the World Bank stressed more publicly than before the error margins and the dangers of establishing country-rankings too rigorously. In addition, from 2006 onwards, the World Bank has begun releasing more of the disaggregated data into the public domain (Erkkilä and Piironen, 2014).

Third, there is a problem of weighting of components of each index (whether the weights have to be equal). Extra weights were assigned to those observations that are close to each other and, therefore, less to outsiders. The

danger here is that if the results are tending to cluster around a central point, this will have the effect of reinforcing the central tendency and artificially narrowing the room for error. As D. Kaufmann warned: 'Margins of error are not trivial, and caution in interpreting the results is warranted – one should not precisely rank countries' (Griffiths, 2016). This is worth bearing in mind when looking at the results. As a consequence, this problem has the following effects:

- (1) the range of a statistical error (the measure of uncertainty in data) is very large, i.e. there is a 50-50 percent chance that the result lays outside the range;
- (2) though the WBI are commonly used and recognized, the whole process, which has become less transparent, places a lot of weight on our confidence in the World Bank team.

The fourth critical remark is about the global average. Centering the indicators on a different average every year makes the comparison over time very difficult, except in relation to the average. In other words, a country can move up or down the rankings but the goalposts move every year (Arndt and Oman, 2006). The response of the World Bank is an argument that it is still valuable to see countries' performances relative to the average, and relative to each other (Kaufmann *et al.*, 2007a).

Fifth, the World Bank is biased towards business and market oriented policies. The market capitalism is considered as being the best route for development (alternatively to, for example, state-led industrialization or state sponsored national champions), so the bank has skewed some to the areas of inquiry in this direction. In order to answer market-type questions there is the need for people with market-type knowledge, so the sources of data employed by the Bank are produced largely by Western experts. Thus, basically, capitalism is writing its own governance indices (Kurtz and Shrank, 2006). The World Bank replies to this by insisting that it does not rely exclusively on commercial reports but also uses sources compiled by governments and NGOs (Griffiths, 2016). The World Bank also suggests that if the object is to measure the business climate, the resources employed should reflect that aspect. It is not a bias, they argue, but something inherent in their whole approach (Kaufmann *et al.*, 2007b).

On balance, although the World Bank indices are important as a focus of debate and in the articulation policy, it does take a limited pro-growth and pro-market approach and attaches it to a label that is intended to be neutral.

4. DEMOCRACY AND GROWTH

There are alternative indicators that look more consistent with the terminology but also share some criticism. There are three dimensions of the index that have been most employed in the literature attempting to link governance to questions of prosperity and growth. These are the link between economic performance and the input 'voice and accountability', link with process 'regulatory quality' and the link with the two outputs 'rule of law' and 'control of corruption' (look Figure 1).

4.1. Democracy Indicators

To narrow the focus of this paper we consider the World Bank input indicator for Voice and Accountability, as well as other indices for democracy. The Democracy Index is used in the research for a comparative analysis of Western Asian countries.

4.1.1. The World Bank Indicator for Voice and Accountability

The World Bank Indicator for Voice and Accountability (indicator # 1.1 in Figure 1) suffers the same mentioned above drawbacks, inherent to other indicators. The problem with the Indicator is that in its efforts to absorb as many components as possible, the result has become rather amorphous. It does indeed contain everything that we could understand under the term 'voice and accountability' but rendered in such a way that it is impossible to see which particular dimension might operate in which direction (Griffiths, 2016). In other words, it is difficult to

disengage which bits of the index are supposed to have what kind of effect. Moreover, this kind of index offers precious little help if the intention is to go beyond highlighting problems and instead try to actually facilitate improvements in policy. Thus, it is difficult for social scientists to extract policy recommendations from the indicator. There are alternatives.

4.1.2. Freedom House Index

The first alternative is the Freedom House Index, published annually since 1973 by an organization founded in 1941 in USA (Freedom in the World, 2017). The index is composite and is made up of the following components with fixed weights: political rights (40 %) and civil liberties (60 %). The outcomes are based on a poll of experts who are asked 25 questions (10 questions for political rights and 15 for civil liberties) with the range for answers from 0 to 4. Based on these scores countries are ranked on a scale of 1 to 7, where the lowest score represents the greatest freedom. The average is then used to classify a country as 'Free' (1.0 to 2.5), 'Partly Free' (3.0 to 5.0) or 'Not Free' (5.5 to 7.0). The first critical remark is about a number of experts - only 32, which places doubts over the range of expertise they represent and their impartiality. Second, commentators felt that the range of 'rights' analyzed had been ideologically chosen, and that there was a large measure of subjectivity in determining countries' positions in the rankings (Griffiths, 2016). What became obvious was that countries considered friendly to the USA were treated more leniently than the others. Since then the rankings have still been suspected of exercising erratic judgments (Alston, 2005). The final concern with the Freedom House Index is that democracy is more than the granting of political rights and civil liberties.

4.1.3. Democracy Index

This need for a wider definition of democracy lies at the heart of the *Democracy Index* compiled by the EIU (2017) which considered that freedom was an essential but not sufficient ingredient in democracy. The index is composite with 5 components weighted equally: civil liberties, election process and pluralism, political participation, political culture and functioning of government. The index is based on experts' opinions to 12 questions in each category. But instead of allowing a graduated scale of responses (like the Voice and Accountability Index by the World Bank) it prefers a simply 'yes/no' answer (though it does allow for half-way opinions), arguing that it leaves less room open for differences in interpretation among the experts. The index also includes survey data. Results are expressed on scale of 1 to 10. The countries then are categorized in one of four types of regimes: full democracies, flawed democracies, hybrid regimes and authoritarian regimes. There are ten the most and the least democratic countries in Table 1.

Table-1. The Democracy Index in the top- and bottom-10 world countries, 2016

Top-10 world countries		Bottom-10 world countries	
Norway	9.93	Uzbekistan	1.95
Iceland	9.5	Democratic Republic of Congo	1.93
Sweden	9.39	Saudi Arabia	1.93
New Zealand	9.26	Tajikistan	1.89
Denmark	9.2	Turkmenistan	1.83
Canada	9.15	Equatorial Guinea	1.7
Ireland	9.15	Central African Republic	1.61
Switzerland	9.09	Syria	1.43
Finland	9.03	Chad	1.50
Australia	9.01	North Korea	1.08

Source: constructed based on data from Democracy Index (2016).

Having looked at various indices of democracy, there is an interest to analyze the path by which the democracy would be expected to help economic growth. On one hand, does democracy help economic growth? What is the linkage between the democracy and growth?

4.2. Linkage between Democracy and Growth

4.2.1. Political and Economic Rights

The first link between democracy and growth is political and economic rights. This link hinges on the assumption that the granting and reinforcement of individual political rights will lead to the reinforcement of economic rights, in particular what are called 'property rights'.

4.2.2. Decision-Making

The second link is about decision-making. If economic rights are guaranteed, individuals and businesses are free to decide for themselves on their levels and distribution of consumption and investment. Guided by signals from the market, it is presumed that they will make optimal decisions and so achieve the best growth result possible. Moreover, since citizens will control those whom they have chosen to take decisions on their behalves, they will also optimize government expenditure and keep a check on the twin dangers of clientalism and corruption¹ (Griffiths, 2016). This, in turn, will ensure the better provision of public goods, including better regulation and control.

4.2.3. Generalized Trust

The third link relates to generalized trust in a society. If access to and participation in a political process is open and transparent then governments discharge their functions more fairly and effectively. In turn, it makes ethnic, language and religious differences less important politically. Eventually, it results in reinforcement the levels of generalized trust.

Here the whole edifice is premised on a Western democratic understanding of 'voice and accountability' (Kahn, 2012). On the other hand, generally speaking, do we need democracy for growth?

4.3. Do We Need Democracy for Growth?

First, whether democracy is a precondition for the protection of economic rights? The conservative, dictatorships, such as the Pinochet regime in Chili in the 1970-80s and the Fujimora regime in Peru in the 1990s, both successfully supported economic rights and free markets (Barro, 1996).

Second, authoritative, non-democratic regimes may promote growth through policies that are not market-enhancing, but which employ state support for 'national champions' to push growth forward. Indeed, in many countries the initial stages of economic growth have been accompanied by active state promotion (Chang, 2002) China is the most recent example of the same phenomenon (Griffiths, 2016).

Thus, it is logically to wonder, *whether social scientists have actually established any links between democracy and growth? Was the linkage between democracy and growth statistically verified?* The answer is 'no'. The empirical link between democracy and growth is contradictory. The strongest link was established between democracy and levels of income (GDP). However, that might mean that richer countries can afford democracy (Table 1). Some studies

¹ The one remark here is that the power distribution within society may allow some groups of citizens to use the political process to grant themselves 'economic rents'. For example, organized groups may allocate themselves transfer payments from the budget, which lead to the corresponding increase of (other people's) taxes. Additionally, labor unions or business associations may lobby successfully for protectionist measures in the forms of regulations that penalize consumers Barro (1996), Tavares and Wacziarg (2001).

have suggested a weak negative relationship between democracy and growth (Butkiewicz and Yanikkaya, 2006). There is little evidence, either, that regime change produces a positive growth effect, and this from studies before the changes brought about by the Arab Spring (Griffiths, 2016).

Possible explanations for absence or weak statistical relationship between democracy and growth are as follows:

- all studies have different definitions of democracy and different specifications in their models, and all pay too little attention to the range of influences affecting economic growth or the channels through which democracy may affect its dynamics (Persson and Tabellini, 2006);
- social scientists ignore the margins of error contained in the Democracy Index (even if one is not specified, does not mean that the error does not exist) (Griffiths, 2016);
- estimates of GDP per capita and, therefore, growth estimates for the poorer countries are notoriously unreliable for the poorer countries. It undermines any correlation and regression analysis (Alhanaqtah, 2016);
- democracy is too blunt an indicator to cover the complexity of power balances, decision-making structures and institutional forms that exist in the world, and that each has different potential effects (Acemoglu *et al.*, 2013);
- even when we can establish a relationship, the components have been so aggregated that it is impossible to filter out any sensible policy advice over which part of the policy or regulatory system to alter to have any impact. In fact, most of these elements, that could contribute to 'better regulation' are under-tested or have not been tested at all (Parker and Kirkpatrick, 2012).

On balance, the process of economic growth is so complex and contains so many components, that it is difficult to isolate one variable from the rest. In other words, in any complex process the contribution to the whole of any single component is likely to be small and, therefore, very difficult to capture statistically. That is why the statistical verification of the linkage between democracy and its expected influence on growth is weak.

5. CONFIGURING WESTERN ASIAN COUNTRIES IN TERMS OF DEMOCRACY

To analyze the diversity of the Western Asian countries we use the Democracy Index, compiled by the EIU (2017) (Table 2).

Table-2. The Democracy Index and its elements for countries of Western Asia, 2016

Country	Score	(1)	(2)	(3)	(4)	(5)	Category
Syria	1,43	0	0	2,78	4,38	0	Authoritarian regimes
Saudi Arabia	1,93	0	2,86	2,22	3,13	1,47	
Yemen	2,07	0	0	4,44	5	0,88	
Azerbaijan	2,65	0,5	2,14	3,33	3,75	3,53	
UAE	2,75	0	3,57	2,22	5	2,94	
Bahrain	2,79	1,25	3,21	2,78	4,38	2,35	
Oman	3,04	0	3,93	2,78	4,38	4,12	
Qatar	3,18	0	3,93	2,22	5,63	4,12	
Kuwait	3,85	3,17	4,29	3,89	4,38	3,53	
Armenia	3,88	4,33	2,86	4,44	1,88	5,88	
Jordan	3,96	4	4,29	3,89	4,38	3,24	
Iraq	4,08	4,33	0,07	7,22	4,38	4,41	Hybrid regimes
Palestine	4,49	4,33	2,14	7,78	4,38	3,82	
Lebanon	4,86	4,42	2,14	7,78	4,38	5,59	
Turkey	5,04	5,83	6,07	5	5,63	2,65	
Georgia	5,93	8,67	4,29	6,11	5	5,59	
Israel	7,85	9,17	7,5	8,89	7,5	6,18	Flawed democracy
mean	3,75	median		3,85	SD		1,5

Note: (1) - electoral process and pluralism, (2) - functioning of government, (3) - political participation, (4) - political culture, (5) - civil liberties, SD - standard deviation.

Source: constructed based on data from Democracy Index (2016).

Despite some obstacles, the Democracy Index is more representative than the Voice and Accountability Index by the World Bank or the Freedom House Index. Recall that the Democracy Index consists of 5 elements, each

counting 20 %: civil liberties, election processes and pluralism, political participation, political culture, functioning of government. Results are expressed on scale from 1 to 10 (the higher the value the more democratic is the regime in the country).

For the purpose of our analysis we have ranked all world countries by the Democracy Index value. Then we divided the map of the world Democracy Index into deciles. In addition to Table 2, Figures 2-3 show that in the *world context* index values are normally distributed; the countries of Western Asia gravitate to the bottom of the world spectrum. In the lowest 10th decile (among the least democratic regimes) we observe Syria, Saudi Arabia and Yemen. In the 9th decile there are Azerbaijan, UAE, Bahrain, Oman and Qatar. In the 8th decile we see Qatar, Kuwait, Armenia and Jordan. There are countries with hybrid regimes from 5th to 7th deciles: Iraq, Palestine, Lebanon are in the 7th decile, Turkey is in the 6th decile and Georgia is in the 5th decile. The only country in the region with a flawed democracy is Israel in the 2nd decile.

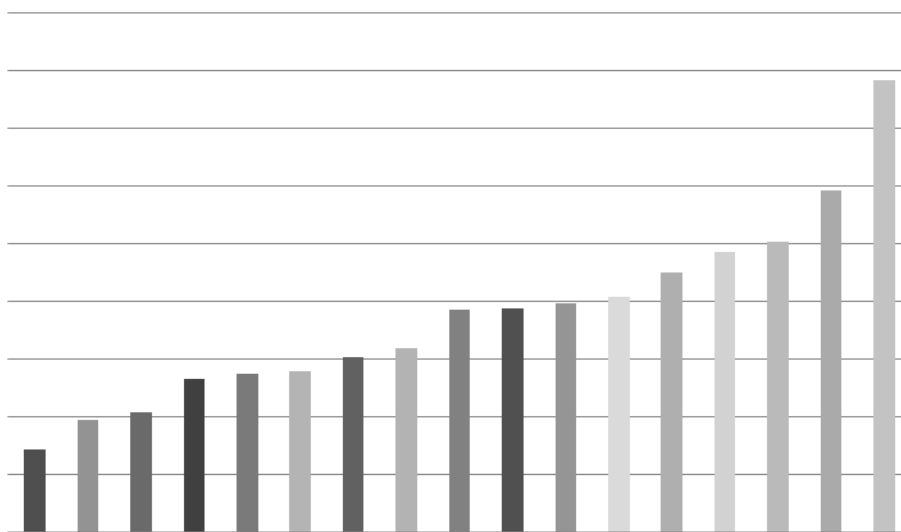


Figure-2. Ranking of Western Asian countries by the Democracy Index (2016)

Source: constructed in MS Excel based on data from Democracy Index (2016)

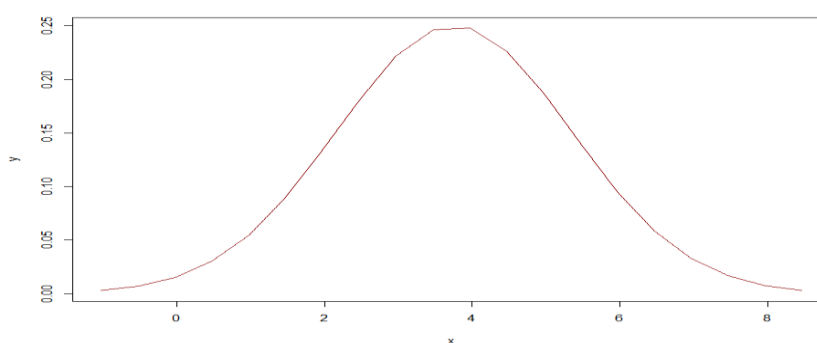


Figure-3. Gauss function for the distribution of Western Asian countries in terms of democracy

Source: Constructed in R Studio (R script is in Appendix).

In the *regional context* the countries of Western Asia are clustered. The largest cluster is represented by the countries with authoritarian regimes. The smaller cluster is represented by the countries with hybrid regimes. The vast majority of the Arabic Middle East countries belong in the cluster with the authoritarian regimes. The density curve in the Figure 3 shows that the distribution of countries in terms of the Democracy Index is normal. The most democratic country in the region is Israel. The most relatively democratic Arabic country of Western Asia is Jordan, while Syria, Saudi Arabia and Yemen are the least democratic, in accordance with the Democracy Index.

Democracy is supposed to affect economic growth via: linkage political and economic rights, control decision makers, openness and transparency. All the countries of the region (except Israel) do not fully satisfy these criteria. Institutes of property rights and contraction are not properly developed, private investments are not high, citizens do not have sufficient control over public goods distribution and the political processes are not transparent enough. At the same time we cannot approve of that these obstacles directly and strongly affect economic growth, since economic growth is very complex and contains many variables.

6. RELATIONSHIP BETWEEN DEMOCRACY AND SOCIO-ECONOMIC CATEGORIES

It was considered above that the statistical verification of the linkage between democracy and its expected influence on growth is weak. In this section we approve of this conclusion by additional investigation of the linkage between democracy and a corresponding variable - trust, happiness, life satisfaction and capital income.

6.1. Linkage between Democracy and Trust (Happiness, Life Satisfaction, Capital Income)

The methodology of the analysis is as follows. We ranked the countries of the target region by five indicators separately (Table 3):

- Democracy Index (2016);
- Trust Index (World Values Survey, 2015) (Variable # 24 'Most people can be trusted');
- Happiness indicator (World Happiness Report, 2016);
- Life satisfaction indicator (WVS, 2015) (Variable # 23 'Satisfaction with your life');
- GDP PPP per capita (The World Bank Open Data, 2015).

Table-3. Ranking of the Western Asian countries by some socio-economic categories

Country	Democracy	Trust	Happiness	Life satisfaction	Income
Armenia	8	13	13	12	14
Azerbaijan	14	9	9	5	9
Bahrain	12	3	6	4	5
Georgia	2	14	14	11	13
Iraq	6	4	12	8	10
Israel	1	6	1	-	7
Jordan	7	12	8	6	12
Kuwait	9	5	5	3	2
Lebanon	4	10	10	7	11
Oman	11	-	-	-	6
Palestine	5	8	11	10	15
Qatar	10	7	4	1	1
Saudi Arabia	16	1	3	-	4
Syria	17	-	16	-	-
Turkey	3	11	7	2	8
UAE	13	-	2	-	3
Yemen	15	2	15	9	16

Note: "-" means there is no data.

Source: constructed and ranked based on data from Democracy Index (2016); WHR (2016); WVS (2015) the WB (2015).

Then we estimated the strength and the direction of a linear relationship between the democracy rank and a rank of a corresponding variable. We wanted to find out whether the more democratic countries are correspondingly: the more trustful societies, the societies where people are satisfied with their lives, the societies where people find themselves as happy and the societies with the higher level of the per capita income. The computations show that the linear correlation coefficient between:

- 'Democracy' and 'Trust' is -0.6;
- 'Democracy' and 'Happiness' is 0.06;
- 'Democracy' and 'Satisfaction with your life' is -0.21;

- 'Democracy' and 'GDP PPP per capita' is -0.3.

The results are rather interesting for interpretation. We observed the absence of a linear relationship between the democracy rank and ranks for personal life satisfaction and happiness. It means that not a political regime alone, including democratic, makes people happy and satisfied with their lives. The relationship between democracy and GDP PPP per capita is weak and negative.

Interestingly, the relationship between the democracy rank and the rank for the level of trust in a society is moderate and, importantly, is negative (Figure 4).

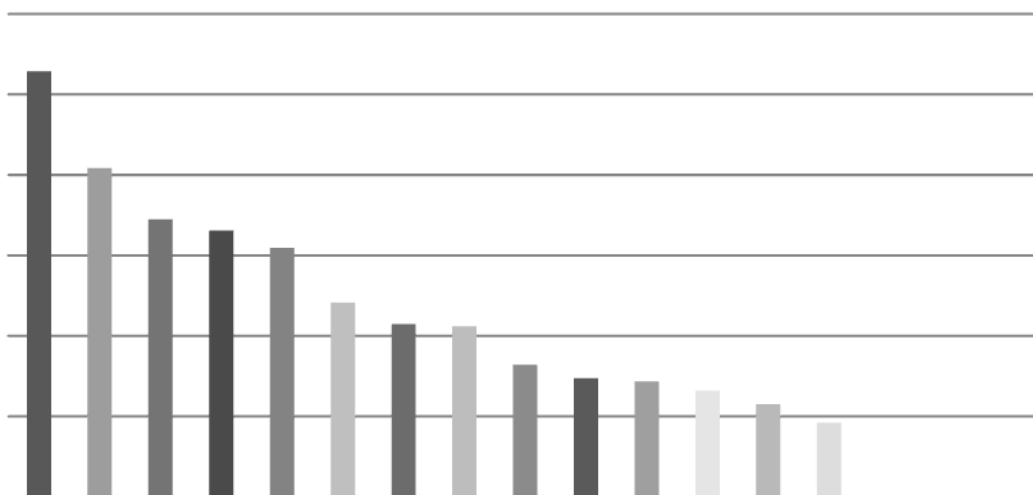


Figure-4. Ranking of Western Asia countries by the Trust Index, 2014

Note: There is no data on Oman, Syria and UAE.

Source: constructed based on data from WVS (2015).

It turns out that in Western Asia the more relatively democratic the society the lower the level of generalized trust (trust in most people), while trust is central to the formation of a society. In accordance with the study by Alhanaqtah (2016) the most trustful society in Western Asia is Saudi Arabia, and it is one of the most trustful in the world. At the same time Saudi Arabia appears at the bottom of the world/regional ranking by the Democracy Index. Yemen occupies 2nd decile in the top by the Trust Index and, at the same time, it is one of the least democratic societies in the world and in the region. Surprisingly, suffering in civil war Iraqi society is quite trustful (the 3rd decile on the world map of trust, alongside with Kuwait), and it is in the middle of the spectrum of the Democracy Index. Palestine, Qatar and Israel are in the 5th decile of the world map of trust. Interestingly, that Israel is one of the most democratic countries in the world, and the first in the region by the Democracy Index. However, the level of generalized trust does not correspond to the level of democracy, i.e. the Trust Index is not high. Georgia is in the 6th decile by the Trust Index and is in the 5th decile by the Democracy Index. Jordan, Lebanon and Azerbaijan are in the 8th decile by the Trust Index, which is rather low in the world context, while by the Democracy Index Jordan is the first in the Arabic Middle East, followed by Lebanon. Armenia is in 9th decile by the Trust Index and is in the 8th decile by the Democracy Index, which means that the society is relatively both not democratic and not trustful. Surprisingly, Turkey represents the least trustful society in the region and in the world as well. It is located in the 10th decile, in the bottom of the world map of trust. At the same time it occupies higher places within the region by the Democracy Index.

6.2. Discussion

Do the observed results mean that the democracy adversely affects the level of generalized trust in the Western Asian countries? Or, whether the negative relationship between the democracy rank and the trust rank is purely a coincidence? Whether the democracy is at all the determinant of trust? These questions need additional

investigations. Here are some preliminary comments. In the research of Western Asian countries in terms of religious diversity, fulfilled by Alhanaqta (2016) it was found out that in the world context Western Asian countries mostly represent the top and the middle of the world spectrum of religion fractionalization. The majority of Muslim states (Yemen, Turkey, Jordan, Qatar, Saudi Arabia) cluster the most homogeneous end of the scale (1st decile). The majority of states from the rest of the group is in the middle. We may see Palestine, UAE, Israel, Syria, Oman, Armenia, Iraq, Azerbaijan from 4th to 6th deciles. The most diversified country Lebanon is in the 10th decile. In Muslim states, which represent the majority of the Western Asian countries, religiosity is highly supported on the state level and embedded into the daily life. It influences formal and informal norms of people's interactions, as well as the level of trust. Thus, there is an obvious cultural factor - religion - that has complicated the possibility of democracy (irrespective, whether the phenomena of democracy is needed or not). A number of observers have suggested that Islam itself constitutes an insuperable obstacle to the emergence of democracy, since it has never accepted the principle of the separation of church and state (Fukuyama, 2015). First, let's simply have a glance at numbers above. Since the relationship between the democracy and the level of generalized trust is negative, while the relationship between the religion and trust is positive, we find the high level of religious homogeneity of the Western Asian countries as a positive factor for trust creation. Moreover, we find that the factor of religion is more important than the factor of democracy for formation of trustful societies, societies with higher moral standards.

Additionally, we did not find a relationship between democracy and categories of capital income per person, individual happiness and life satisfaction. As it was mentioned above, statistical verification between democracy and economic growth has never been established by social scientists due to the complexity of the economic growth, which cannot be affected only by the political regime in the country. We have come to the same conclusion for the Western Asian countries.

7. CONCLUSIONS

In the research we considered the premises of the governance indicators and critically reviewed several governance indicators, with a particular focus on democracy indicators. We also configured the Western Asian region in terms of the democracy. Through a comparative analysis technique we analyzed the diversity within a target region and showed where it fits in the world spectrum. The main conclusions are as follows.

- The origin of the concept of governance came from the debates on foreign aid. Since the times of Washington Consensus the foreign aid paradigm has shifted to a new one: provision of aid based on the progress in government reforms. To measure this progress the World Bank implemented governance indicators which are used to measure the progress in reforms and quality of governance from the standpoint of Anglo-Saxon concept of a 'good' governance and to quantify differences in governments among nations.
- Governance indicators are also supposed to help business leaders in strategic decisions. However, recent debates as well as our analysis show, the real embodiment of this intention is doubtful.
- There is some criticism of the methodology of the governance indicators. First, the government indicators are composite indices. Each component embodies various dimensions, the selection and allocation of which among the components has been accomplished without any formalized theoretical or empirical underpinning. Second, there is also an element of subjectivity in coded rank numbers. Third, there is a problem of weighting of components of each index. Fourth, centering the indicators on a different global average every year makes the comparison over time very difficult, except in relation to the average (for the World Bank indicators). Fifth, although the World Bank indicators are important as a focus of debate and in the articulation policy, they are biased towards business and market oriented policies, i.e. the market capitalism is considered as being the best route for development.
- There are several questions of a particular interest.

First, does democracy help economic growth? The linkages between the democracy and growth are revealed via political and economic rights, decision-making and generalized trust in a society.

Second, do we need democracy for growth? The economic history of some countries shows that democracy is not necessarily a precondition for the protection of economic rights. The conservative regimes and dictatorships also successfully could support economic rights and free markets. Moreover, authoritative, non-democratic regimes may promote growth through policies that are not market-enhancing but which employ state support for 'national champions' to push growth forward.

Third, was the linkage between democracy and growth statistically verified? The answer is that the empirical link between democracy and growth is contradictory. The strongest link was established between democracy and levels of income (GDP). However, that might mean that richer countries can afford democracy. There is little evidence that regime change produces a positive growth effect. The explanation is that in any complex process, like economic growth, the contribution to the whole of any single component is likely to be small and, therefore, very difficult to capture statistically. That is why the statistical verification of the linkage between democracy and its expected influence on growth is weak.

- To analyze the diversity of the Western Asian countries we used the Democracy Index, compiled by the Economist Intelligence Unit. In the *world context* the countries of Western Asia gravitate to the bottom of the world spectrum. In the *regional context* the countries of Western Asia are clustered. The largest cluster is represented by the countries with authoritarian regimes. The smaller cluster is represented by the countries with hybrid regimes. The vast majority of the Arabic Middle East countries belong in the cluster with the authoritarian regimes. The most relatively democratic Arabic country of Western Asia is Jordan, while Syria, Saudi Arabia and Yemen are the least democratic. The most relatively democratic country in the region is Israel.
- We estimated the strength and the direction of a linear relationship between the democracy rank and a rank of a corresponding variable - GDP per capita PPP, Trust Index, Happiness Index and the level of satisfaction of one's life. We wanted to find out whether the more democratic countries are, correspondingly, the more trustful societies, the societies where people are happier and are satisfied with their lives, the societies with the higher level of the per capita income. We observed the absence of a linear relationship between the democracy rank and ranks for personal life satisfaction and happiness. It means that not a political regime alone, including democratic, makes people happy and satisfied with their lives. The relationship between democracy and GDP PPP per capita is weak and negative.
- The relationship between the democracy rank and the rank for the level of trust in a society is moderate and, essentially, is negative. It turns out that in Western Asia the more relatively democratic the society the lower the level of generalized trust (trust in most people), while trust is central to the formation of a society. In Muslim states, which represent the majority of the Western Asian countries, religiosity is highly supported on the state level and embedded into the daily life. It influences formal and informal norms of people's interactions, as well as the level of trust. Thus, there is an obvious cultural factor - religion - that has complicated the possibility of democracy (irrespectively, whether the phenomena of democracy is needed or not).
- Since the relationship between the democracy and the level of generalized trust is negative, while the relationship between the religion and trust is positive, we find the high level of religious homogeneity of the Western Asian countries as a positive factor for trust creation. Moreover, we find that the factor of religion is more important than the factor of democracy for formation of trustful societies, societies with higher moral standards.
- The relationship between democracy and categories of capital income per person, individual happiness and life satisfaction was not found out. As it was mentioned above, statistical verification between democracy

and economic growth have never been established by social scientists due to the complexity of the economic growth, which cannot be affected only by the political regime in the country. We have come to the same conclusion for the Western Asian countries.

- It is useful to take into account that because of the methodological, normative and legitimate drawbacks some developing countries' governments and scholars now increasingly tend to resist international governance ratings². They express the distrust to indicators because they resent as pro-liberalization and pro-market and, therefore, as a continuation of the Washington Consensus. They accuse governance indicators to reflect a Western or Anglo-Saxon type of governance ideal that is not helpful to understand the governance reality in their countries (Girvan, 2002; Arndt and Oman, 2008)³. Furthermore, rating countries in terms of good governance implies that there is only one true system of good governance. So, we may wonder about the nature of the opposite.
- The governance indicators are still popular, despite their drawbacks, for the following reasons: users of indicators do not understand the limitations; complex composite indicators meet an important demand for summary measurements of the quality of governance; users follow other users and users perceive that there is no alternative (Arndt and Oman, 2008).
- We understand that every governance indicator that ranks countries will be biased because it is based on preferences and norms which are not necessarily shared entire the world. This normative content and bias is often hidden for users and they are unaware that they might not share the norms inherent to a particular indicator. Thus, there is a danger of misinterpreting and misuse.

Finally, from our point of view, the Democracy Index, as well as the whole conception of democracy (in the Western sense), are highly dubious and unreliable for evaluating good governance, for distribution foreign aid, for making strategic business decisions or any social, economical and political recommendations for countries. In addition to its methodological weaknesses, it is highly biased and, seems, is used as a tool for political and economical manipulations in favour of global actors.

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² According to the experience of some World Bank and UNDP staff members, interviewed by Arndt and Oman (2008).

³ Meisel (2004) explains why Anglo-Saxon type of governance does not help to explain the rapid growth in the Asian economies and offers a new model of 'governance cultures', helpful for developing countries today.

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APPENDIX: R-SCRIPT

```
# R-script for Figure 3
d<-c(1.43,1.93,2.07,2.65,2.75,2.79,3.04,3.18,3.85,3.88,3.96,4.08,4.49,4.86,5.04,5.93,7.85)
mu<-mean(d)
mu
median(d)
sd<-sd(d)
sd
mu+3*sd
mu-3*sd
x<-seq(-1.030851,8.534381,by=0.5)
y<-dnorm(x,mean=mu,sd=sd)
plot(x,y,type="l",col="dark red")
```

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