

EMEA: Winds of change?

Emerging Markets • Economics • Europe, Middle East and Africa

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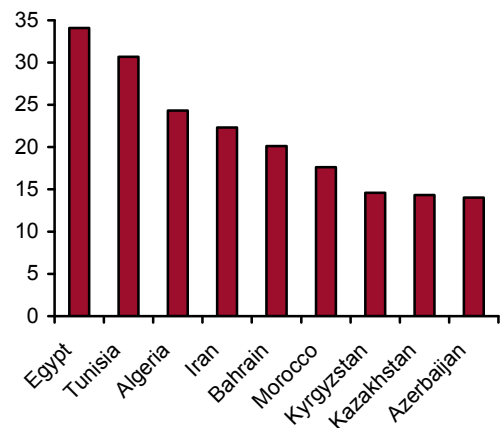
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- The five EMEA countries that experienced anti-government protests during the past weeks – Algeria, Egypt, Jordan, Tunisia and Yemen – all have “mixed” political regimes, based on a classification methodology we borrow from academic literature. Academic research on political instability suggests that countries that are characterized by a “mixed” political regime (i.e., neither a full democracy nor a full autocracy) might be more prone to political instability than full democracies or full autocracies.
- We identified 21 other emerging markets in the EMEA region with political regimes comparable to those of these five countries. Some of these 26 countries also share similar demographic and socio-economic characteristics, in terms of the youth population ratio, youth unemployment rate and degree of income inequality, which might also affect political stability, in our view.
- In most of these 26 countries, the share of young people (aged 15-29) in the total population is about 30% compared to a global average of 25%-26%. In Algeria, Iran, Jordan, Oman, Rwanda, Tajikistan and Yemen, this ratio exceeds 30%. At the other end of the scale is Belarus, where this ratio is 23%.

- Egypt and Tunisia stand out with the highest youth unemployment rates (34% and 31%, respectively), out of the 11 economies where (admittedly poor quality) data were available. These two countries are followed by Algeria and Iran with youth unemployment rates over 20%. At the other end of the scale are Azerbaijan, Kazakhstan and Kyrgyzstan with youth unemployment rates below 15%.

Exhibit 1: Youth unemployment rate

Unemployment rate among the 15-24 age group, %



Source: UN, World Bank; most recent available data.

- Available indicators suggest that income distribution in some sub-Saharan countries is more unequal than it is in Tunisia, while Iran, Jordan and Yemen have more unequal income distribution than Egypt. Also noteworthy is that income distribution in Azerbaijan, Belarus, Kazakhstan and Tajikistan is more equal than in either Egypt or Tunisia.
- Overall, the above-mentioned socio-economic indicators for Azerbaijan, Belarus and Kazakhstan suggest that these countries probably face a lower risk of political instability than the other countries in the 26-country list mentioned above.

We identify 26 emerging markets in EMEA with “mixed” political regimes; the five EMEA countries which experienced anti-government protests during the past weeks – Algeria, Egypt, Jordan, Tunisia and Yemen – are among these countries

Academic research on political instability suggests that countries that are characterized by a “mixed” political regime (i.e., neither a full democracy nor a full autocracy) might be more prone to political instability than full democracies or full autocracies.

This categorization is based on two components of the Polity IV dataset, which codes the authority characteristics of states.¹ These two components refer to the way in which the executive comes to power and the degree and forms of political participation in a particular country. Goldstone et al. suggest that a characterization of political regimes based on these political features may be a predictor for the onset of political instability and that countries with “mixed” political regimes may be more prone to experience “instability episodes” than other types of regimes. In their definition, an “instability episode” covers various possibilities, including a major shift in the political institutions of a country.²

Exhibit 2: Socio-economic indicators for selected EMEA countries

Ranked by youth unemployment rate and youth population ratio

Country	Youth unemployment rate (aged 15-24, %)	Population aged 15-29 (% of total)	GDP per capita PPP (US\$ per person)	Gini index ¹
	2000-2010	2010	2010	2000-2010
Egypt	34.1	29.2	6,367	32.1
Tunisia	30.7	28.9	9,489	40.8
Algeria	24.3	30.7	7,104	na
Iran	22.3	33.9	11,025	38.3
Bahrain	20.1	28.0	26,808	na
Morocco	17.6	29.1	4,773	40.9
Kyrgyzstan	14.6	29.7	2,162	33.5
Kazakhstan	14.3	27.2	12,402	30.9
Azerbaijan	14.0	28.8	9,954	31.0
Niger	3.2	24.4	721	43.9
Madagascar	2.3	27.3	911	47.3
Tajikistan	na	31.5	1,907	29.0
Oman	na	31.5	26,198	na
Rwanda	na	30.9	1,203	46.7
Yemen	na	30.3	2,596	37.7
Jordan	na	30.2	5,659	37.7
Cameroon	na	29.2	2,165	44.6
Sudan	na	28.5	2,466	na
Angola	na	28.2	6,413	58.6
Nigeria	na	28.1	2,399	42.9
Uganda	na	28.0	1,246	42.6
Guinea	na	27.4	1,057	43.3
Chad	na	27.3	1,653	39.8
Burkina Faso	na	27.3	1,342	39.6
Kuwait	na	25.2	38,293	na
Belarus	na	23.1	13,865	28.8

¹The Gini index ranges between 0 and 100. A value of 0 represents absolute equality and 100 absolute inequality. We note that the Gini coefficient can be calculated in several different ways (e.g., income vs. consumption, gross vs. net), which might result in significantly different metrics. Here we rely on the most recent figures provided by the UN and the World Bank. Source: IMF, UN, World Bank, Credit Suisse.

¹ Source for the database: www.systemicpeace.org/polity/polity4.htm, M.G. Marshall and K. Jaggers, Polity IV Project: Political Regime Characteristics and transitions 1800-2008.

² For more details please see: J. A. Goldstone, R.H. Bates, D.L. Epstein, T.R. Gurr, M.B. Lustik, M.G. Marshall, J. Ulfelder and M. Woodward, A Global Model for Forecasting Political Instability, American Journal of Political Science, Vol. 54, No. 1, January 2010, pp. 190-208.

The five EMEA countries that experienced anti-government protests during the past weeks – Algeria, Egypt, Jordan, Tunisia and Yemen – all have “mixed” political regimes, based on the above-mentioned categorization. Additionally, we identified 21 other emerging markets that share some political regime characteristics with these five countries. We restrict our selection to EMEA countries with a nominal GDP of at least \$4bn in 2010. (For the list please refer to Exhibit 2.)

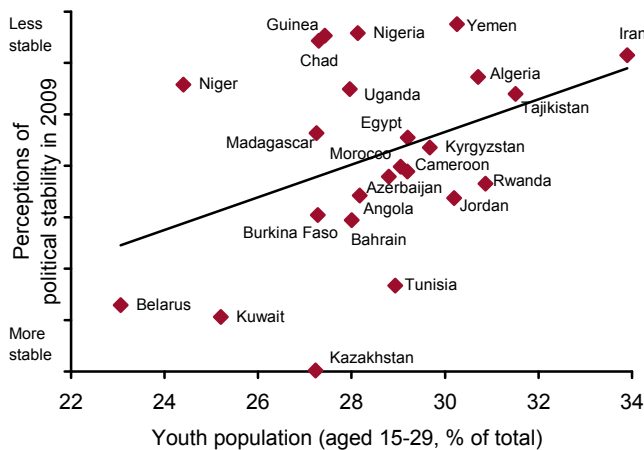
In addition to the type of political regime, demographic and socio-economic variables might have an impact on political stability

The recent anti-government protests in Egypt and Tunisia suggest that demographic and socio-economic variables may be important triggers of discontent. Notably, Egypt and Tunisia stand out with the highest youth unemployment rates (34% and 31%, respectively, recorded in 2005), out of the 11 countries for which (admittedly poor quality) data were available. These two countries are followed by Algeria and Iran with youth unemployment rates over 20% in 2006-2007. At the other end of the scale are Azerbaijan, Kazakhstan and Kyrgyzstan, where the youth unemployment rate was below 15% in 2004-2007 (Exhibits 1 and 2).

In the absence of youth unemployment data for most countries in our list, we examined the youth population ratio. In most of the 26 countries, the share of young people (aged 15-29) in the total population is large, at about 30% compared to a global average of about 25%-26%. In Algeria, Iran, Jordan, Oman, Rwanda, Tajikistan and Yemen, this ratio exceeded 30% in 2010, according to UN estimates. At the other end of the scale is Belarus, where this ratio is 23%. A scatter-plot of youth population ratios against the Worldwide Governance Indicators for political stability (2009), which measures the perceptions of the likelihood that a government will be destabilized or overthrown, suggests that demographics might actually be a significant factor for political stability (Exhibit 3).³

Exhibit 3: Youth ratio and political stability

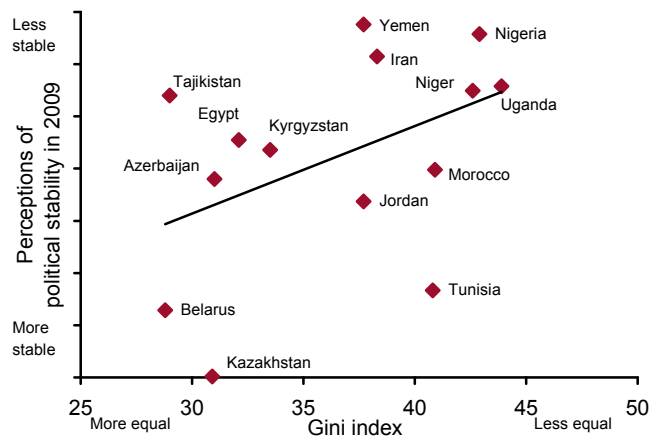
Selected emerging markets countries in EMEA



Source: UN, World Bank, Worldwide Governance Indicators 2009, Credit Suisse

Exhibit 4: Income inequality and political stability

Selected emerging markets countries in EMEA



Source: UN, World Bank, Worldwide Governance Indicators 2009, Credit Suisse

Income inequality is another potential variable that might matter for political stability. Income distribution in some sub-Saharan countries is more unequal (as measured by the Gini index⁴) than it is in Tunisia, while the income distribution in Iran, Jordan and Yemen is more unequal than in Egypt. Also noteworthy is that income distribution in Azerbaijan, Belarus, Kazakhstan and Tajikistan is more equal than in either Egypt or Tunisia.

³ Source for the dataset: <http://info.worldbank.org/governance/wgi/index.asp> The WGI are produced by D. Kaufmann, A. Kraay and M. Mastruzzi.

⁴ Please refer to the note below Exhibit 2 for the interpretation of Gini index.

This note should be treated as a factsheet; it does not aim to reach firm conclusions on the issue of political stability

Overall, the above socio-economic indicators for Azerbaijan, Belarus and Kazakhstan suggest that these countries probably face a lower risk of political instability than the other countries in the 26-country list mentioned above.

This note does not aim to reach firm conclusions on the issue of political stability and should be treated as a factsheet of available information on political regimes and socio-economic variables that might influence political instability. It is worth highlighting that socio-economic data for the selected countries are limited and subject to concerns about data quality. Furthermore, there may be several other variables that are not considered here, including qualitative ones, which could affect the probability of social unrest, political instability or a regime change in a particular country.

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