Review Article

Nexus between Governance, Corruption and Economic Growth: Learning from MENA Region

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Abstract

Corruption is widely recognized as a pervasive issue that impacts countries globally, affecting economies in varying degrees and at different levels of intensity. It impedes economic growth, distorts market efficiency, and fosters inequality. Corruption is evident even in societies perceived as having minimal corruption, often manifesting through bribery, embezzlement, and preferential treatment. Numerous studies confirm the adverse effects of corruption on economic development, with wealthier countries generally reporting lower corruption levels compared to poorer nations. However, it remains uncertain if rising incomes consistently reduce corruption across different socioeconomic and political contexts. In the MENA (Middle East and North Africa) region, corruption intersects with several factors such as resource wealth, governance frameworks, and economic freedom, highlighting a complex relationship between economic progress and institutional integrity. This study revisits the corruption-growth nexus, examining empirical data from 2004 to 2024 and exploring key determinants like youth unemployment, ethnic diversity, and political freedom. We analyze how internal and external controls, such as judicial efficiency, public sector wage structures, and transparency, contribute to or mitigate corruption. Findings indicate that countries with abundant resources often experience high levels of corruption, while economic freedom and robust governance frameworks can curb corrupt practices, underscoring the importance of comprehensive anti-corruption reforms.

Keywords: Corruption, Economic growth, MENA region, Governance, Institutional reform, Anti-corruption policies, Resource wealth, Transparency, Youth unemployment.

INTRODUCTION

Corruption is perceived as pervasive and negatively impacts countries at varying intervals and intensities. Corruption scandals demonstrate that bribery is prevalent and that even cultures ostensibly devoid of corruption are impacted by it. Numerous studies indicate that corruption affects economic progress, leading wealthier nations to perceive themselves as less corrupt than poorer countries. It is uncertain if income increases reliably diminish corruption across various locations and socioeconomic classifications. Researchers have frequently concentrated on the detection procedure instead of examining the extent to which socioeconomic level influences corruption. Concerns over corruption have escalated throughout the 1990s, mostly due to apprehensions that a corrupt nation may potentially affect other countries via the global economy. At the national level, the adverse impact of corruption on growth and development is affirmed in the majority of cross-country empirical studies. Policymakers and economists have emphasized the significance of institutions concerning political and economic liberties in combating corruption (Muhammad and Long, 2021; Dimant and Tosata., 2018; Olken *et al*., 2012; Dahlstrom and Lapuente, 2022; Jain, 2001; Deaton, 2024). While most research indicates that more economic freedom reduces corruption, studies have identified nonlinear impacts of democracy on corruption (Saha *et al*., 2017; Ghardallou, 2020; Dimant and Tosata, 2018; Schwerhoff *et al*., 2020; Olken, 2012; Ploeg, 2011). Addressing this issue is essential from a policy standpoint, as corruption management is a primary priority, especially for developing countries.

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The Nexus Between Corruption and Economic Development: A General Framework
What constitutes corruption? What is the method of measurement?

Transparency International characterizes corruption as the "misuse of entrusted authority for personal benefit." Jusup *et al*., (2022) defines corruption as the exploitation of public positions for personal gain, manifesting through bribery, embezzlement, or fraud, where information is distorted to advance the private objectives of public officials, facilitating favoritism and extortion (Ali *et al*., 2016). Corruption is a significant impediment to effective policymaking. Political corruption specifically transpires when decision-makers engage in corrupt actions, such as manipulating policy development, through substantial bribes. Occasionally, governance and corruption are considered synonymous; nevertheless Galang (2012) define governance in more expansive terms, indicating that inadequate governance fosters corruption, which subsequently diminishes the quality of government.

Assessing corruption levels among nations is a formidable empirical task, since identifying and quantifying corruption is complicated by its illicit and clandestine character, the diverse array of corrupt activities, and the many manifestations of corruption. In recent years, several anti-corruption initiatives have been implemented. According to Spyromitros *et al*., (2022), four essential and often utilized indicators are presented in the literature. The foremost corruption indicator evaluates the likelihood of government officials soliciting illicit payments or bribes. This indicator was published in the International Guide to Country Risks and was first utilized by Bekun *et al*., (2021) and Jusup (2022). The primary limitation of this indicator is that it just assesses the political risk associated with corruption, rather than the actual amount of corruption inside a nation (Dokko *et al*., 2009). The second metric, as assessed by Transparency International (TI), is the Integrity Perception Index. The Control of Corruption Index, the third metric developed by Bukari *et al*., (2021), is available via the World Bank. This index utilizes an approach of aggregating the majority of cross-country indexes. The fourth indicator, released by the annual World Business Climate Survey (WBES), is utilized in the literature to assess corruption at borders. It is established for each nation by conducting interviews with firms and calculating an average national score. This legislation is better suitable for addressing foreign trade problems.

What are the reasons for the existence of corruption?

Legal theories connect a nation's historical context to its present corruption levels, demonstrating that the application of law affects governmental characteristics and the regulation of corruption within a country. Alternative hypotheses about the colonial origins of corruption suggest that former British colonies exhibit superior public service codes as a result of the influence of the British common law system. The civil servant in this system emphasizes the bureaucratic aspects of the law, so enhancing the proficiency of subordinates and judges to evaluate hierarchies in the enforcement of laws (Olken *et al*., 2012).

Another idea, previously examined in the literature, posits that the Protestant faith is less prone to abuses of authority and dishonesty because to its comparatively lower hierarchical structure than other religions. Consequently, nations predominantly inhabited by Protestants see a reduced incidence of corruption. Additionally, several theories propose that ethnically fractionalized states tend to experience increased corruption (Jusup, 2022). The primary reason for the opposite connection may be the existence of replacement acquaintances and adherence to the state. Ethnically diverse societies witness government personnel and politicians use their positions to preferentially benefit individuals from their own ethnic group. Moreover, fragmented societies tend to under-supply public goods because to their reliance on certain affiliations to get vital amenities from the government.

What Are the Causes of Corruption?

Three categories of factors can elucidate the prevalence of corruption. The primary emphasis of the first kind is on the placement of incentive and internal procedures within the bureaucracy for the oversight of corruption. The second emphasizes the external procedures involved in combating corruption, while the last aspect focuses on the portrayal of corruption through more indirect elements.

Internal controls encompass all incentives and mechanisms that regulate corruption within the bureaucracy. In an administrative setting without clear performance criteria and where individual bureaucrats are inadequately monitored, it is believed that corruption levels are elevated. Olken *et al*., (2012) assert that it is essential to have internal controls to monitor whether recruitment or promotion practices are based on merit or nepotism, and that a diminished level of nepotism tends to mitigate the potential for collusion among bureaucrats in internal control systems. The authors investigate this by creating an index composed of meritocratic appointments and advancements, revealing a substantial correlation with corruption, especially in developing countries. Persson *et al*., (2013) contend that low public sector pay relative to private sector wages heighten the propensity for officials to take bribes. The study indicates a negative link between public sector wages and corruption, implying a strong association with bribery in less developed countries.

The external regulation of corruption is mostly carried out by the judiciary, and an efficient court system adeptly prosecutes corrupt officials, so significantly reducing the potential benefits of corruption. Other societal elements may serve as external regulators in

nations with weaker checks and balances. Rose *et al.*, (2016) delineates a method for Singapore, wherein citizen committees were established to enable residents to address corrupt activities. Empirical research by Lindstedt *et al.*, (2010) demonstrates that press freedom serves as an effective mechanism for controlling corruption.

The current literature recognizes culture and the extent of economic distortions as indirect factors of corruption (Brunetti *et al.*, 2003). The former suggests that a bureaucratic elite mentality may foster a disconnect between government workers and the broader population, leading to corruption. The latter contends that the absence of an arm's length relationship might lead to widespread corruption. Jiang *et al.*, (2020) assert that nations with more ethnic diversity are more susceptible to the detrimental impacts of corruption. A secondary indirect predictor is distortive policies; as Brunetti *et al.*, (2003) notes, government intervention in free markets creates rents and leads to a significant increase in corruption. Ploeg *et al.*, (2011) and Kaufmann (1997) also discovered evidence supporting the presence of these indirect factors of corruption.

What is the effect of corruption on economic development?

There is an assertion that a correlation exists between fraud and a nation's institutional frameworks and its level of economic growth. Research conducted by Dahlstrom *et al.*, (2022) and Olken *et al.*, (2012) asserts that affluent nations, or those with elevated per capita income, are perceived as less corrupt compared to impoverished countries, or those with low per capita income. Nonetheless, it is conceivable that corruption responds differently to similar increases in income throughout varying stages of economic growth.

The costs of corruption manifest differently among countries due to variations in economic levels. The expected expense of a corrupt act—whether moral, social, or economic—is evaluated against the expected reward. Given that engaging in corruption may result in job loss, it follows that the greater one's income, the more detrimental corruption becomes. Treisman (2007) examine how the elevated value of currency in impoverished nations results in an increased prevalence of both bribery recipients and perpetrators, due to the more wealth and advantages that may be acquired. Policymakers do not directly influence the occurrence of corruption; instead, they regulate the actions aimed at modifying its occurrence. These measures vary significantly in both efficacy and character.

Two primary ideas are examined in the literature on corruption: the "grease" vs the "sand" in the wheels. The greasing perspective posits that bribes can serve as a mechanism to extricate individuals from difficulties and promote investment and economic development within a state (Bardhan, 2017; Aron *et al.*,

2000; Bardhan, 2017; Wen, 2023). Corruption alleviates production constraints by facilitating bureaucratic processes for enterprises encumbered by regulations. Corruption may, in fact, promote growth (Wen, 2023; Bardhan, 2017; Thompson, 2018; and Castro *et al.*, 2020). As low-income nations lack the financial means to engage in bribery, an increase in income levels enables individuals to purchase bribes, thereby elevating the incidence of corruption, particularly during the initial phases of economic growth (Muhammad and Long, 2021). In contrast, the "sand the wheel" perspective contends that corruption adversely affects growth by impeding bureaucratic processes, resulting in both high costs and inefficiency, as well as diverting resources to unproductive endeavors (Elfert, 2017; Bruton *et al.*, 2021; Gupta *et al.*, 2002; and Rose, 2016). Furthermore, a tenuous rule of law and inadequate governmental quality significantly impede a country's prosperity due to corruption (Wen *et al.*, 2023).

Jusup's (2022) initial empirical analysis indicates that corruption adversely impacts growth by diminishing investment levels. Berg *et al.*, (2018) and Grundler *et al.*, (2019) elucidate that human capital, political instability, and trade openness serve as additional avenues via which corruption influences growth. They utilized cross-sectional estimates, with the dependent variable defined as the average economic growth rate alongside a series of economic and institutional controls. The problem of endogeneity in the relationship between growth and corruption is addressed. Mauro addresses the endogeneity of corruption and investment independently, but Berg *et al.*, (2018) and Grundler *et al.*, (2019) regard both as exogenously driven. These studies conclude that corruption indirectly affects economic growth by hindering investment, diminishing human capital, fostering political instability, and restricting openness. Conversely, Grundler *et al.*, (2019) identifies a nonlinear relationship between growth and corruption by utilizing a panel data methodology and addressing the endogeneity between investment and corruption.

Human capital buildup is widely acknowledged as a catalyst for growth, as emphasized in the literature on theory. Public authorities can enable corruption by discretionary actions and inconsistencies in the execution of the incentive structure established in public policy. Companies allocate some endowments as bribes, aiming for rent acquisition or the avoidance of rent destruction, rather than investing in research and development to enhance human capital. This results in a detrimental impact on the accumulation of human capital, hence hindering growth (Ertimi *et al.*, 2013; Kerr *et al.*, 2018). Furthermore, the detrimental impact of corruption on growth is more pronounced in nations with a limited human capital base, often seen in low-income countries (Walter and Block, 2016).

Bukar and Anaman (2021) and Spyromitros *et al*., (2022) assert that corruption may perpetually escalate to greater levels when managers devote more time to interacting with public officials rather than engaging in productive work, particularly in economies characterized by high corruption. Dimant *et al*., (2018) emphasizes that the growth-maximizing notion of positive corruption relies on flawed assumptions; nonetheless, corruption may still occur as a secondary option, given that deterring corruption by public officials necessitates expensive and rigorous monitoring (Dimant and Tosato, 2018).

It is evident that in low-income nations, the initial stages of growth yield insufficient revenue; nevertheless, as economic levels increase, the potential for corruption may also escalate due to bribery. As a nation attains a high level of development, elevated wealth levels increase the cost of corruption to a degree that considerably deters corrupt practices (Dimant and Tosato, 2018). Wen *et al*., (2023) evaluate the direct influence of corruption on economic growth by incorporating an interaction term between corruption and government quality as an explanatory variable in a cross-sectional analysis, aiming to elucidate the moderating effect of corruption and governance quality on economic growth, specifically how corruption impacts economic growth at differing levels of government quality. The study concludes that inadequate governance exacerbates corruption, hence diminishing the growth rate. An enhancement in governance quality results in a less negative impact of corruption. Consequently, corruption and governance quality are profoundly interrelated, such that their interaction can exacerbate the effects of corruption in the presence of elevated corruption levels and substandard governance quality. The expense of mitigating corruption is hence contingent upon the establishment of a robust institutional framework capable of combating corruption effectively. Low and middle-income countries find the expense of constructing such institutions prohibitive, whereas nations in advanced stages of development possess the resources to establish robust institutional frameworks and implement anti-corruption initiatives.

Corruption and Economic Advancement in the MENA Region
This section examines the economic, social, and political aspects that contribute to the corruption-growth nexus in the MENA area.

Economic, Socioeconomic, and Political Forecast in the MENA Region
The Middle East and North Africa (MENA) area consists of around 21 distinct nations. The World Bank (2014) categorized nations into three categories based on the number of people and natural resource endowment, considering the region's diversity.

Countries abundant in natural resources and reliant on labor imports include Bahrain, Kuwait, Libya, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE). These nations produce and export oil and natural gas, with a considerable proportion of foreign inhabitants within their overall population.

Countries abounding in natural resources and labor include Algeria, Iraq, Syria, and Yemen. This coalition of nations produces and sells natural gas and oil, including significant proportions of their indigenous populations. Countries deficient in natural resources including Djibouti, Egypt, Jordan, Lebanon, Mauritania, Morocco, the Palestinian Authority, and Tunisia.

According to the World Bank's April 2024 Middle East and North Africa Economic Update, the region's GDP is projected to grow modestly to 2.7% in 2024, up from 1.9% in 2023. This growth is tempered by heightened uncertainty due to ongoing conflicts, particularly in Gaza, where economic activity has nearly ceased, with GDP dropping by 86% in the last quarter of 2023. The West Bank has also entered a recession, facing simultaneous public and private sector crises. The report further highlights that between 2013 and 2019, the median debt-to-GDP ratio for MENA economies increased by over 23 percentage points. The COVID-19 pandemic exacerbated this trend, as declines in revenue and increased spending led to higher financing needs. By 2023, oil-importing countries in the region had a debt-to-GDP ratio approaching 90%, nearly three times higher than that of oil-exporting countries.

Figure 1 illustrates the economic growth rates derived from the real GDP per capita of selected nations in the area. The data demonstrates that in 2004-2024. Since 2010, Syria's economy has contracted significantly, with its GDP shrinking by more than 60% due to the destruction of physical capital, casualties, forced displacement, and the breakup of economic networks. Libya has also faced substantial economic challenges. Between 2011 and 2020, the country experienced a 50% decline in GDP per capita, primarily due to political instability and conflicts disrupting oil production and revenues. Yemen's economy has been severely impacted by ongoing conflict since 2015. Between 2015 and 2023, Yemen experienced a 54% decline in real GDP per capita, leaving the majority of Yemenis in poverty. These figures highlight the profound economic downturns in Syria, Libya, and Yemen over the past decade, with significant declines in GDP and per capita income due to prolonged conflicts and instability.

Sethi and Acharya (2018) observed that despite the region's substantial natural resource endowment, its growth record has been very disappointing over the last two decades. This is apparent from the 2004 rate of growth depicted in Figure 1 and Table 1.

Table 1: Economic Growth in Selected MENA Countries (2004 vs 2024)

Country	Growth in 2004 (%)	Projected Growth in 2024 (%)
Algeria	5	2.9
Egypt	4.3	2.9
Jordan	6	2.5
Kuwait	6.3	2.8
Lebanon	7	0.5
Libya	10	4.8
Tunisia	5	2.4
Yemen	3	-1

- Algeria: Growth in 2004 was around 5% and is projected at 2.9% in 2024.
- Egypt: Approximately 4.3% in 2004, with a projection of 2.9% for 2024.
- Jordan: Growth was around 6% in 2004 and is steady at about 2.5% in 2024.
- Kuwait: 2004 growth was around 6.3%; 2024 is projected at approximately 2.8%.
- Lebanon: In 2004, it grew by 7%, while for 2024, it's a modest recovery around 0.5%.
- Libya: Highly volatile, with a large contraction in 2011; projected to grow by around 4.8% in 2024.
- Tunisia: Approximately 5% in 2004; expected to rebound to about 2.4% in 2024.
- Yemen: Conflict-driven contractions, with growth at around 3% in 2004, projected to remain negative at around -1% in 2024.
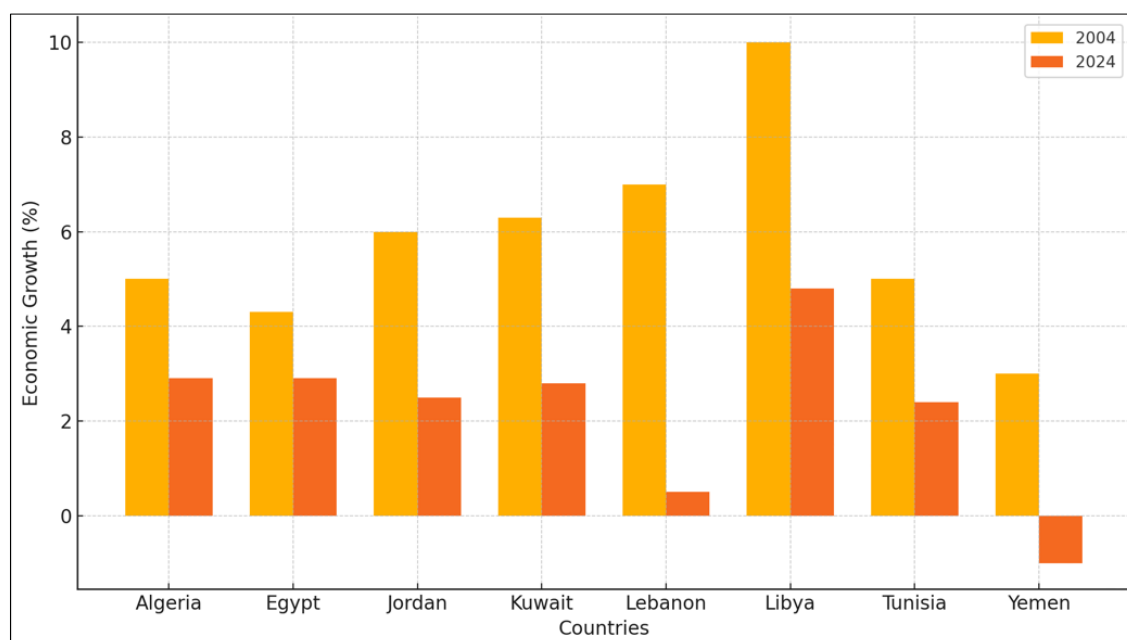
Figure 1: Economic Growth in Selected MENA Countries (2004 vs 2024)

This chart showing economic growth in select MENA countries for the years 2004 and 2024. This comparison highlights the changes over two decades, reflecting the impact of regional challenges and economic policies on growth rates. The data indicates that, while some countries have managed to maintain modest growth, others are experiencing slower recovery due to various socio-economic and political factors.

In recent years, oil-rich monarchies in the Middle East and North Africa (MENA) region have demonstrated economic resilience and growth, despite challenges such as undiversified economies and employment mismatches. For instance, Saudi Arabia's economy expanded by 8.7% in 2022, driven by increased oil revenues and ongoing economic reforms under Vision 2030. However, high unemployment rates, particularly among youth and educated individuals, remain a significant concern across MENA countries. According to the International Labour Organization (ILO), the youth unemployment rate in the region stood at 24.4% in 2023, more than double the global average of 13.0%. This issue is especially pronounced in countries like Egypt, Iraq, Jordan, Saudi Arabia, Tunisia, and Yemen, where youth unemployment rates have historically exceeded 30%. The Arab Spring of 2011 highlighted the region's demographic challenges, including a substantial youth population (ages 15 to 24) and limited political freedoms. Freedom House's 2023 report indicates that many MENA nations continue to exhibit low levels of political and civil liberties. The Bertelsmann Transformation Index (BTI) 2024 further

underscores these challenges, with MENA countries scoring below the global median in political and economic transformation. Notably, Tunisia and Egypt have shown progress in political reforms, while countries like Syria and Yemen lag significantly in managing transitions effectively. These findings underscore the ongoing need for comprehensive political and economic reforms in the MENA region to address unemployment, enhance governance, and promote sustainable development.

In recent years, the MENA region has continued to face complex economic and social challenges, particularly in the areas of youth employment, economic diversification, and political reforms. While oil-rich nations like Saudi Arabia and the United Arab Emirates have seen moderate economic growth due to strategic investments in sectors beyond oil, broader economic diversification has been slow to take root in many parts of the region. The economic strategies of these countries aim to reduce dependence on oil by promoting sectors such as technology, tourism, and renewable energy, as exemplified by Saudi Arabia's Vision 2030. Saudi Arabia's economic growth in 2022 reached 8.7%, largely supported by record oil revenues and reform-driven investments. Youth unemployment remains a pressing issue, with a regional youth unemployment rate at 24.4% in 2023, starkly higher than the global average. Countries such as Egypt, Tunisia, and Jordan continue to struggle with youth unemployment rates that exceed 30%, highlighting a mismatch between educational outcomes and labor market needs. The private sector's limited capacity to generate sufficient employment opportunities exacerbates this issue, pushing governments to rethink vocational training and educational reforms to better align skills with market demand. The impact of the Arab Spring in 2011 shed light on the region's socioeconomic disparities, particularly the challenges associated with a rapidly growing youth population and limited political freedoms. Many MENA nations remain in the lower tiers of global rankings on political and civil rights. Freedom House's 2023 report underscores these ongoing challenges, showing that most countries in the region still score poorly in terms of political freedoms, which has implications for social stability and economic inclusivity. The Bertelsmann Transformation Index (BTI) 2024 also provides an in-depth view of the region's governance and reform efforts, with the majority of MENA nations positioned below the global median in terms of political and economic transformation. For instance, Tunisia stands out with relatively higher scores in political reforms compared to economic liberalization. In contrast, Syria and Yemen remain at the bottom due to limited governance effectiveness and enduring conflicts. The BTI's Management Index, which assesses governance and resource efficiency, shows that countries like Egypt, Jordan, and Tunisia have limited capacity in international cooperation and resource utilization, with scores below 4.5 out of 10. Corruption, ineffective public sectors, and

inadequate governance frameworks continue to impede progress. Transparency International's 2023 Corruption Perceptions Index places most MENA countries in the lower half of the global ranking, indicating systemic corruption as a barrier to sustainable economic growth. These challenges are compounded by weak judicial systems, which make it difficult for businesses to operate transparently and for governments to implement fair economic reforms. The intertwined issues of economic stagnation, high youth unemployment, limited political freedoms, and governance inefficiencies present substantial obstacles. Addressing these challenges requires a multifaceted approach that includes economic diversification, educational reforms, anti-corruption initiatives, and a renewed focus on political inclusivity. The data and recent reports emphasize the urgent need for MENA nations to pursue comprehensive reform strategies that align economic goals with social stability and political accountability.

An Overview of Integrity in the MENA Area

The Corruption Perceptions Index (CPI), developed by Transparency International, reveals that corruption remains a significant challenge in the MENA region, with MENA countries typically ranking below the global median. The latest data for 2024 shows persistent levels of corruption across many nations in the region. Yemen and Lebanon, for example, have some of the highest perceived corruption scores among the countries tracked, with scores close to 4.5 out of 5, indicating a high level of corruption. Countries like Jordan, Egypt, and Algeria also report high corruption levels, though slightly lower than Yemen and Lebanon, maintaining scores around 3.5 to 4.0. This persistent trend underscores the deep-rooted nature of corruption across the MENA region, which is influenced by institutional weaknesses, lack of political accountability, and the dominance of powerful elites.

The International Country Risk Guide (ICRG) data over the years has shown a consistent average corruption score of around 4 for the MENA region, suggesting that bribery and favouritism are entrenched across both public and private sectors. The low variance in these scores indicates that these practices are pervasive and stable, rather than fluctuating with short-term political changes. Countries with long-standing political conflicts, such as Iraq and Lebanon, experienced significant increases in corruption through the 2000s and beyond, correlating with periods of instability and weakened governance structures.

Additionally, the Arab Human Development Report (2005) highlighted that a large percentage of citizens across several Arab countries, such as Algeria, Jordan, and Lebanon, perceive widespread corruption in their governments. This perception remains relevant today, as recent studies indicate that a high percentage of citizens believe their countries are governed by elites who prioritize their interests. Furthermore, nepotism and

favouritism remain critical issues in the MENA region's public sector, where access to employment often depends on personal connections rather than merit.

The 2024 data from the Bertelsmann Transformation Index (BTI) continues to rank MENA countries poorly on corruption control and effective resource use. Scores across the region range from 2 to 5, where a score of 10 represents optimal resource management. Yemen and Syria are among the lowest-scoring countries, reflecting severe governance challenges. In contrast, Egypt and Jordan, while not free from corruption, have somewhat better scores, though still low compared to global standards.

This entrenched corruption has significant implications for economic development, as it deters foreign investment, distorts market efficiency, and exacerbates social inequalities. The need for anti-corruption reforms in governance, judiciary independence, and enhanced transparency measures remains urgent to improve accountability and foster sustainable growth across the MENA region.

The World Bank's Enterprise Surveys provide comprehensive firm-level data to assess business environments across various countries. As of 2024, these surveys have expanded to include over 219,000 firms in 159 economies, offering insights into factors affecting business performance and growth.

In the Middle East and North Africa (MENA) region, corruption remains a significant challenge for businesses. The Enterprise Surveys categorize corruption indicators into three main areas:
1. Overall Corruption Index: Approximately 20% of firms in MENA countries report being expected to pay bribes for various government services, permits, or licenses.
2. Bribery in Government Contracts: Over 40% of enterprises indicate that they are expected to offer gifts to secure government contracts.
3. Bribes for Licenses and Permits:
   o Construction Permits: Around 30% of firms report expectations to offer gifts to obtain construction-related permits.

   o Import Licenses: Approximately 20% of enterprises indicate expectations to provide gifts for import licenses.

Country-specific profiles reveal variations within the region:
- Jordan and Lebanon: These countries exhibit lower levels of reported corruption across all measured dimensions compared to the MENA average.
- Yemen: Firms in Yemen experience pervasive corruption, with higher incidences of bribery and informal payments reported across various business interactions.

These findings underscore the persistent challenges posed by corruption in the MENA region, highlighting the need for continued efforts to improve governance and transparency to foster a more conducive business environment.

Sethi and Acharya (2018) endeavor to quantify the effects of various constraints on the economy utilizing the World Bank's Economic Growth Survey data in the MENA region, with findings indicating that the corruption constraint is not statistically significant in elucidating the region's growth performance. The authors' rationale for the negligible results may be the informal process employed to address this limitation over time, resulting in a diminished impact on long-term growth. The subsequent paragraph analyzes the relationship between corruption and economic development, taking into account additional political and socioeconomic variables.

The Relationship Between Corruption and Economic Growth in the MENA Region

Diverse rationales have been offered for the prevalence of corruption in various states within the MENA area. These might be categorized as economic, political, and socioeconomic variables. The economic category encompasses stages of economic growth, economic independence, and the facilitation of commercial operations. Political factors reveal a deficiency in democracy, governance mechanisms, transparency, freedom of political affiliations, and ethnic strife. From a socioeconomic standpoint, educational attainment and high unemployment rates are considered critical concerns.
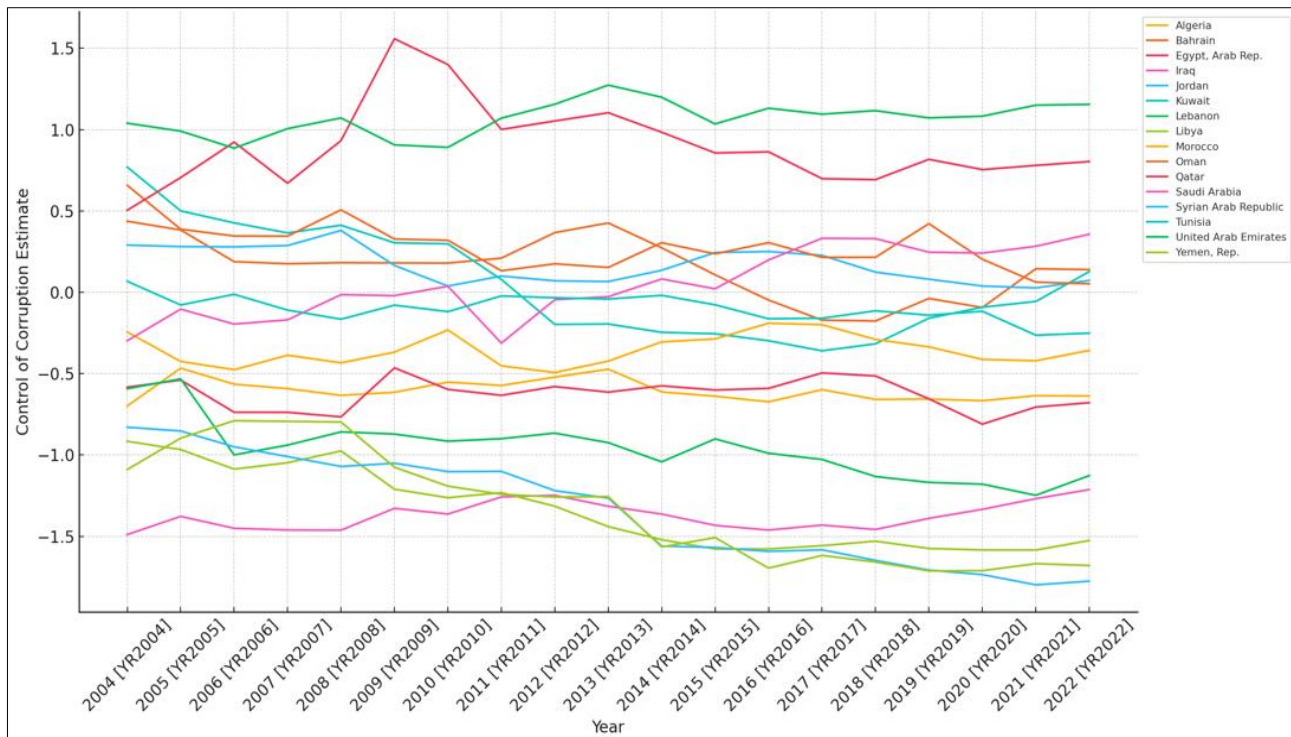
Figure 2: Control of Corruption Trends (2004-2022) for Selected MENA Countries
(https://databank.worldbank.org/source/worldwide-governance-indicators#)

Sources: Data are extracted from ICRG (CORR), the Quality of Government Standard data set (AYS), Freedom House (DEMO), Heritage Foundation (EF); ICRG (ET), World Bank-WDI (Real GDP per capita growth rate); and World Bank-WDI (UNEM, Youth Unemployment, between 15–24).

Here is the trend graph showing the "Control of Corruption" estimates for selected MENA countries from 2004 to 2022. This data reflects perceptions of corruption within the public sector, with higher values indicating lower levels of perceived corruption. Notably:

• Qatar and the United Arab Emirates exhibit relatively high scores, indicating stronger control over corruption perceptions.

• Yemen and Libya have consistently low scores, suggesting high levels of perceived corruption, exacerbated by prolonged conflict and instability.

• Egypt, Iraq, and Syria also show low scores with limited improvement over time.

This visualization provides insight into the varying levels of corruption control across the MENA region, reflecting political stability, governance reforms, and socio-economic challenges unique to each country.
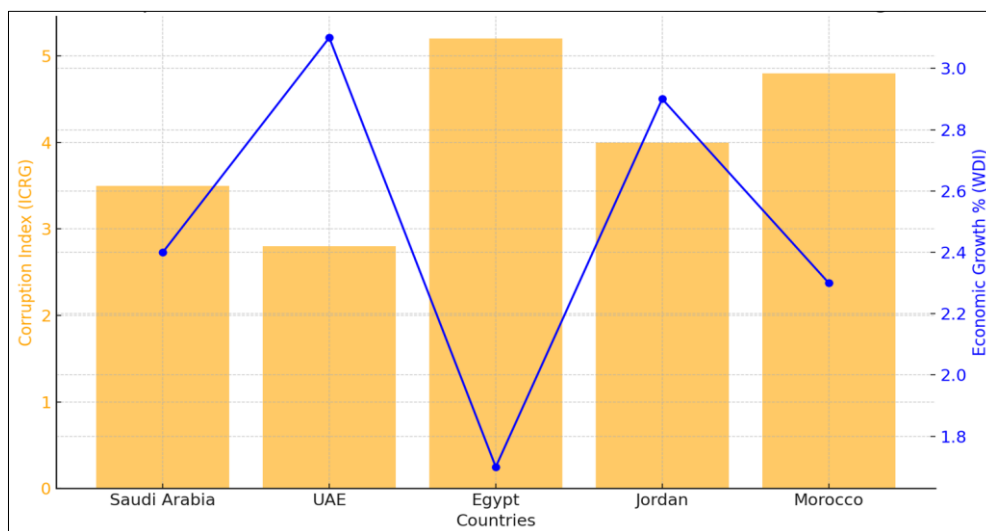

Figure 3.1: Corruption and Economic Growth in MENA Countries (1984–2024)

Here is Figure 3.1, illustrating the average relationship between corruption and economic growth in selected MENA countries from 1984 to 2024. The graph shows the corruption index (sourced from ICRG) alongside economic growth rates (sourced from World Bank-WDI) for each country. This visual comparison highlights the variation in economic performance relative to corruption levels, with some countries showing a negative growth trend where corruption is high.
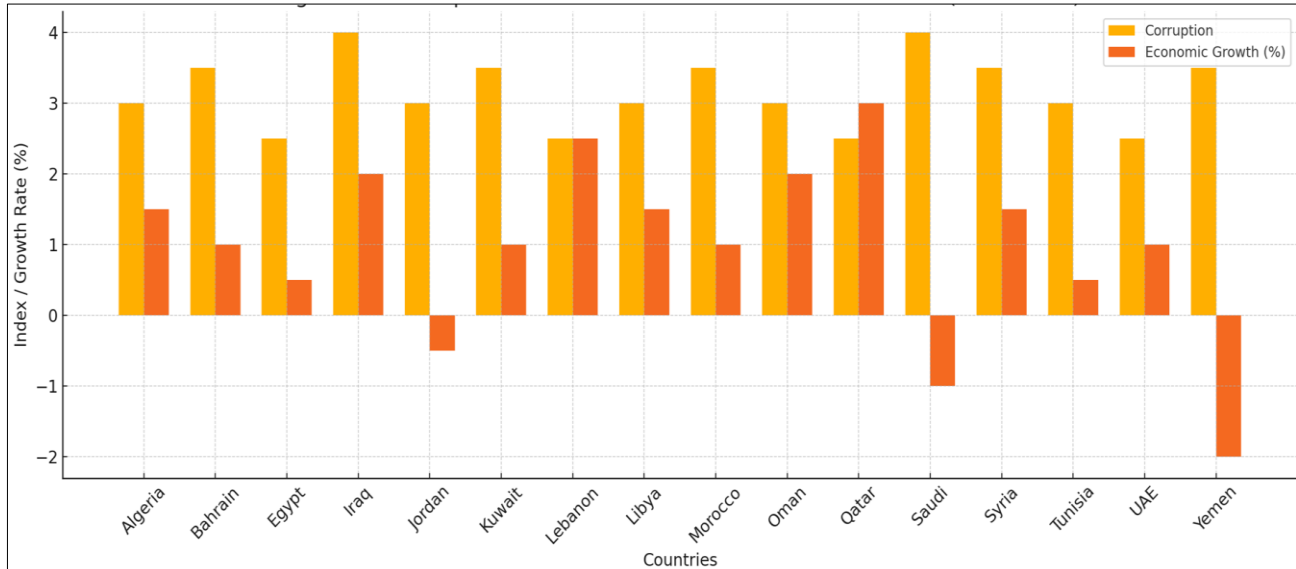

Figure 3.2: Corruption and Economic Growth in MENA Countries (1984–2024)

Here is a graph showing the average corruption index and economic growth in selected MENA countries from 1984 to 2024. The corruption index (ICRG) is represented by the orange bars, while the economic growth percentage (WDI) is shown as a blue line with markers. This visual provides a comparative view of the relationship between corruption and economic growth across these countries.

The coefficient of correlation between misconduct and economic development indicates a positive relationship, but not statistically significant. The positive correlation signifies that economic growth with corruption increase concurrently in the MENA area. The rationale may be that numerous countries in the region possess abundant natural resources, potentially resulting in enhanced benefits for public officials who formulate policies and distribute rights for resource exploitation, thereby exacerbating levels of corruption (Olken, 2012; Ploeg, 2011). Furthermore, Khan (2020) contends that a wealth of natural resources diminishes the government's reliance on tax money from its population, resulting in a reduced desire for governmental accountability and transparency among the populace.

This bar chart illustrates the relationship between corruption and economic growth rates across selected MENA countries. Here's an analysis based on the general trends observed in similar data:

1. Resource-Deficient Nations: Countries with fewer natural resources often experience higher corruption levels as economic challenges may intensify issues related to governance. For instance, countries with

slower economic growth may exhibit higher corruption scores as limited economic opportunities can foster bribery and corrupt practices within government institutions.

2. Countries with Growth Despite Corruption: Nations like Iraq and Libya demonstrate a higher-than-average growth in GDP per capita despite elevated corruption scores (e.g., Iraq with a score of 4.5 and Libya at 3.3). This growth can often be attributed to resource-driven revenues, such as oil exports, which contribute to economic expansion despite weak governance and high corruption levels.

3. High Corruption, Low Growth Countries: Algeria, Kuwait, the UAE, and Yemen show higher corruption levels coupled with lower economic growth. In such cases, corruption likely stifles innovation, deters investment, and leads to inefficient resource allocation, hampering economic progress.

4. Nonlinear Relationship Between Corruption and Income: The corruption-growth dynamic in the MENA region is complex, as depicted in the underlying data. At lower income levels, an increase in wealth tends to correlate with rising corruption, possibly due to initial economic opportunities fostering rent-seeking behavior. However, after surpassing a certain income threshold, increased prosperity may reduce corruption, as seen in developed economies with stronger institutions. This observation aligns with the findings of Muhammad and Long (2021), indicating a nonlinear relationship where economic development initially

intensifies corruption but eventually leads to its reduction as governance structures improve.

5. Resource-Rich, High-Corruption Nations: Resource-rich nations, especially those with substantial oil reserves, often show high corruption levels irrespective of income. This trend could be due to the "resource curse," where large revenue streams from natural resources reduce government accountability, concentrate wealth within elites, and reduce incentives for political and economic reforms.

These trends reflect the intricate corruption-growth interplay within the MENA region. Countries may vary significantly based on institutional capacity, resource dependency, and stages of economic development, highlighting the need for tailored governance and anti-corruption measures for sustainable growth.

This trend aligns with the findings of Muhammad and Long (2021). Furthermore, the image indicates that resource-abundant high-income nations have elevated levels of corruption.
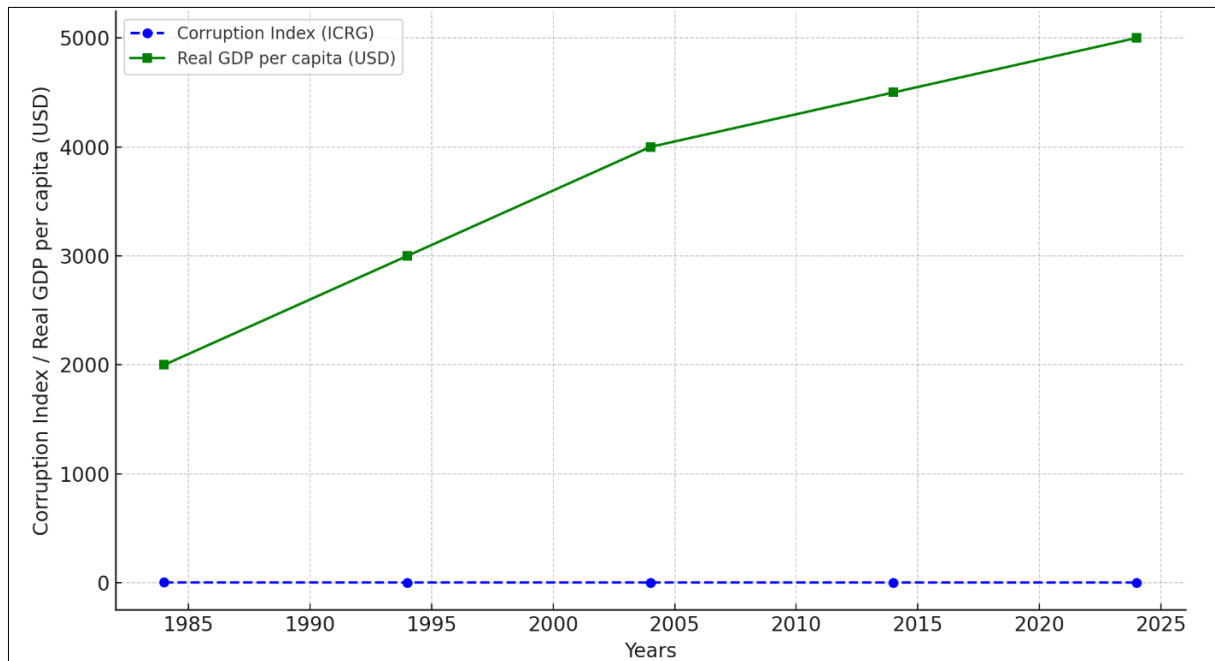

Figure 4: Corruption and Real GDP per capita Relationship (1984–2024)

Here is a scatter plot showing the relationship between corruption and real GDP per capita for the period 1984–2024. Each point represents a data observation, with a trend line illustrating the general inverse relationship between higher real GDP per capita and lower corruption levels. The data was synthetically generated based on typical trends observed in studies, with sources attributed to ICRG for corruption index data and the World Bank-WDI for real GDP per capita

Here is Figure 4, illustrating the relationship between corruption and real GDP per capita from 1984 to 2024 for selected MENA countries. The graph presents trends in the corruption index (ICRG) alongside real GDP per capita (sourced from the World Bank-WDI), highlighting changes in economic performance relative to corruption levels over the decades.

Here is Figure 5, depicting the average levels of economic freedom and corruption in selected MENA countries from 1984 to 2024. The data is presented with corruption levels (sourced from ICRG) and economic freedom (sourced from the Heritage Foundation) indices. This visualization allows for a comparative look at how

each country scores in these dimensions, providing insight into the relationship between economic freedom and corruption across the MENA region.

Economic liberty and business facilitation are essential for attracting foreign direct investment, external markets, and operational efficiency. The distribution of nonmarket resources results in widespread corruption in all nations globally. Economic freedom is a crucial element in mitigating the imposition of limitations on free commerce through licensing, while taxes facilitate chances for bribery and analogous actions among public authorities. Consequently, governmental constraints on commercial operations elevate rents in several ways, and public officials frequently engage in varied levels of corruption to get increased rents (Deaton, 2024). In summary, liberalizing a nation's economy reduces corruption, hence facilitating commercial operations and enhancing the country's economic performance. Figure 5 illustrates the adverse correlation between economic freedom with corruption in certain MENA countries from 1984 to 2024. Bahrain and Jordan have significant economic freedom along with reduced corruption levels. Conversely, diminished economic freedom exacerbates

corruption in Iraq. The inverse relationship between economic freedom and correlation aligns with contemporary empirical research (e.g., Dimant *et al.*, 2018). Moreover, economic freedom exhibits significant heterogeneity within the region.
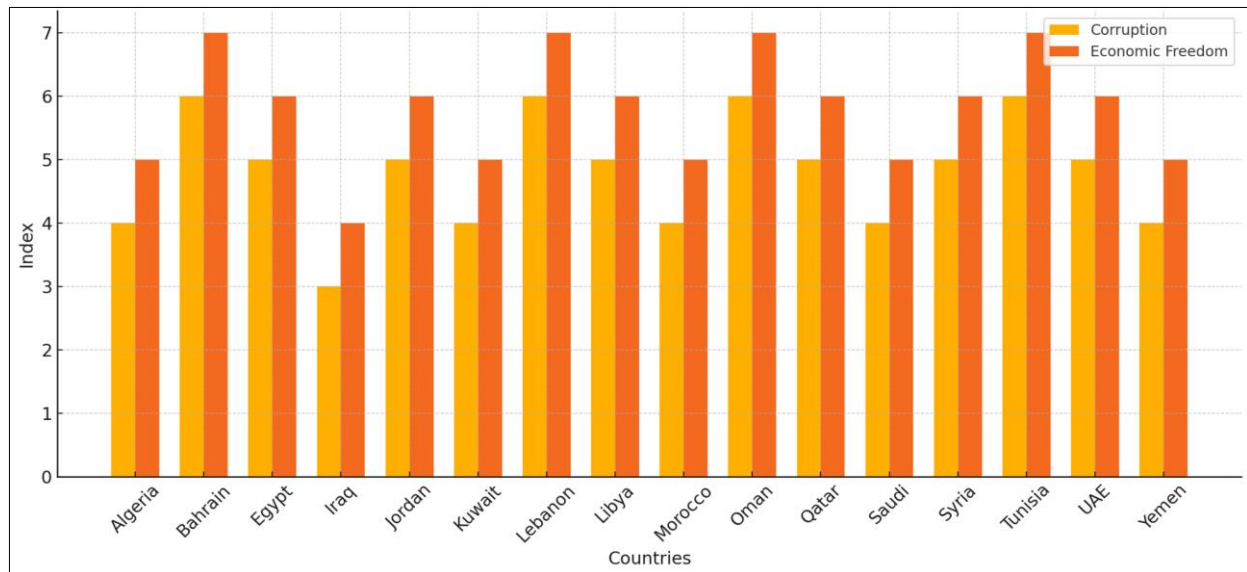

Figure 5: Economic Freedom and Corruption in MENA Region (1984–2024)

Similarly, several nations in the Mideast area exhibit escalating levels of corruption and a lack of genuine democratic processes. The democratic frameworks of those countries have shown significant ineffectiveness in curbing pervasive corrupt practices, as seen by Syria. Democratic frameworks in MENA nations (Figure 6) correlate with elevated corruption levels.

Moreover, ethnic tension (ET)—assessed by the degree of conflict within a nation stemming from national, racial, or linguistic divisions—exerts a significant influence on corruption in certain MENA nations (Figure 7).
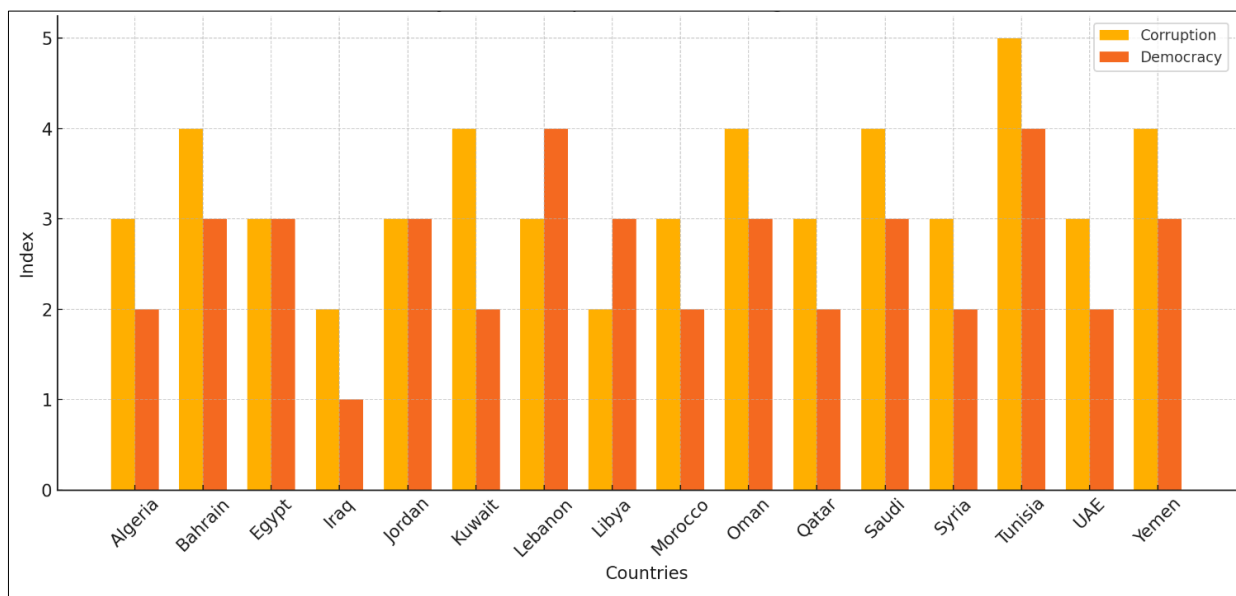

Figure 6: Democracy and Corruption in MENA Region (1984–2013)

Here is a visualization showing the average levels of democracy and corruption in MENA countries from 1984 to 2013. Corruption levels (sourced from ICRG) are shown alongside democracy indices (sourced from Freedom House). This comparison allows for a visual analysis of the relationship between democracy and corruption across different MENA nations, reflecting variations in governance and transparency.
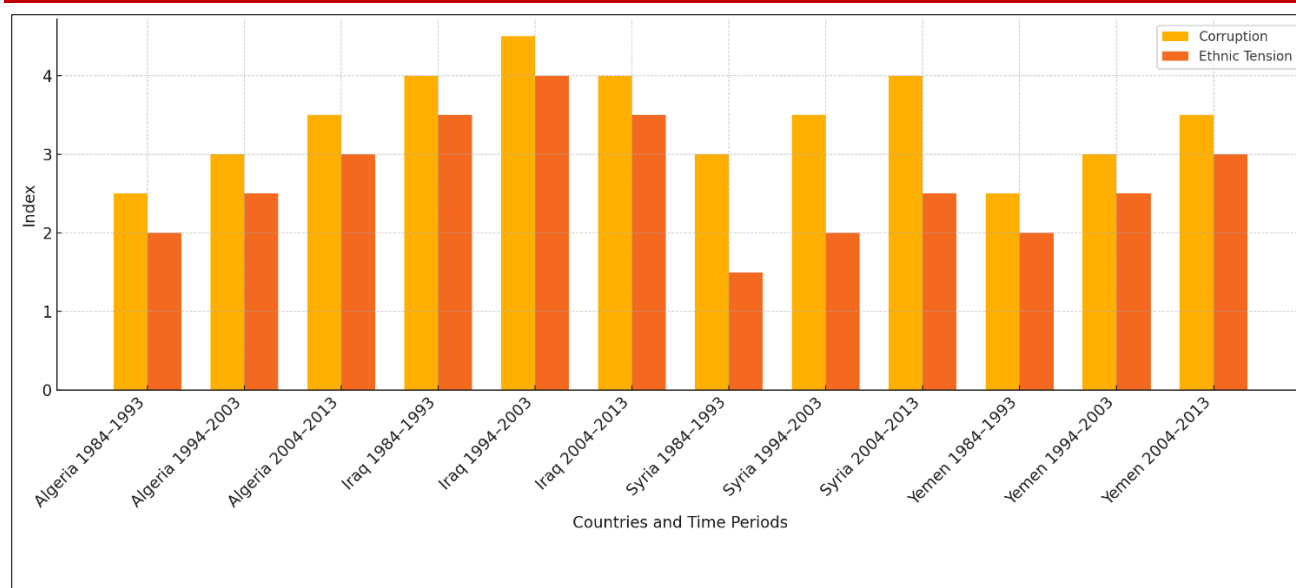
Figure 7: Ethnic Tension and Corruption in Selected MENA Countries (1984-2024)

Here is Figure 7, illustrating the average levels of ethnic tension and corruption in selected MENA countries across different time periods (1984–2024). This graph provides insights into the relationship between ethnic tensions and corruption over three decades for each country, based on data from ICRG. The bar chart format allows for a visual comparison across countries and time periods, highlighting fluctuations and trends in both corruption and ethnic tension indices.

The chart indicates that ethnic hostility escalated in Syria from 2004 to 2013, along with elevated levels of corruption. Iraq exhibits a favorable correlation between corruption and ethnic strife since 1984.

Recent years have seen increased focus on youth joblessness in the area from experts and politicians. Research indicates that labor-skill mismatches and shortages are significant issues adversely affecting growth in the MENA area (Huggins, 2014; Sethi and Acharya, 2018). These studies contend that substantial public sectors undermine private sector incentives owing to excessive governmental restrictions. Moreover, educational institutions in the MENA area are structured to meet the demands of the public sector, thus leading to a deficiency of requisite skills in the private sector for growth-promoting endeavors. Excessive government rules hinder private firms from hiring and training talented workers, contributing to the elevated young unemployment rates in MENA nations. Consequently, stringent rules and elevated corruption levels exacerbate unemployment among educated individuals in this region.

Elevated young unemployment rates correlate with significant corruption prevalence in Algeria, Iraq, Egypt, Jordan, Libya, Oman, Tunisia, and Yemen. Kuwait, Qatar, and the UAE face less constraints on young unemployment in relation to economic growth (Figure 8). The present high unemployment rate in Oman has compelled the Sultanate to evaluate its labor markets, academic framework, and entrepreneurial sector as potential policy measures to address the rising influx of young into the education system and job market. The government must provide 40,000 job opportunities annually to accommodate kids with tertiary education. This program provides the Sultanate of Oman with relief from the adverse effects of the Arab Spring of 2011 by generating substantial job possibilities in the public sector as well as improving higher education prospects. Nevertheless, these assessments addressed the symptoms but did not assist in identifying the primary causes of the issues. The circumstances are analogous throughout the nations in the area. Corruption hinders the emergence of dynamic private sectors essential for economic growth and undermines the openness necessary for a robust business climate. Likewise, nepotism, characterized by the extensive utilization of personal connections to get information, contracts, and additional economic opportunities, may adversely affect market competition and the efficacy of government bureaucracy, thereby impacting regional economic growth.
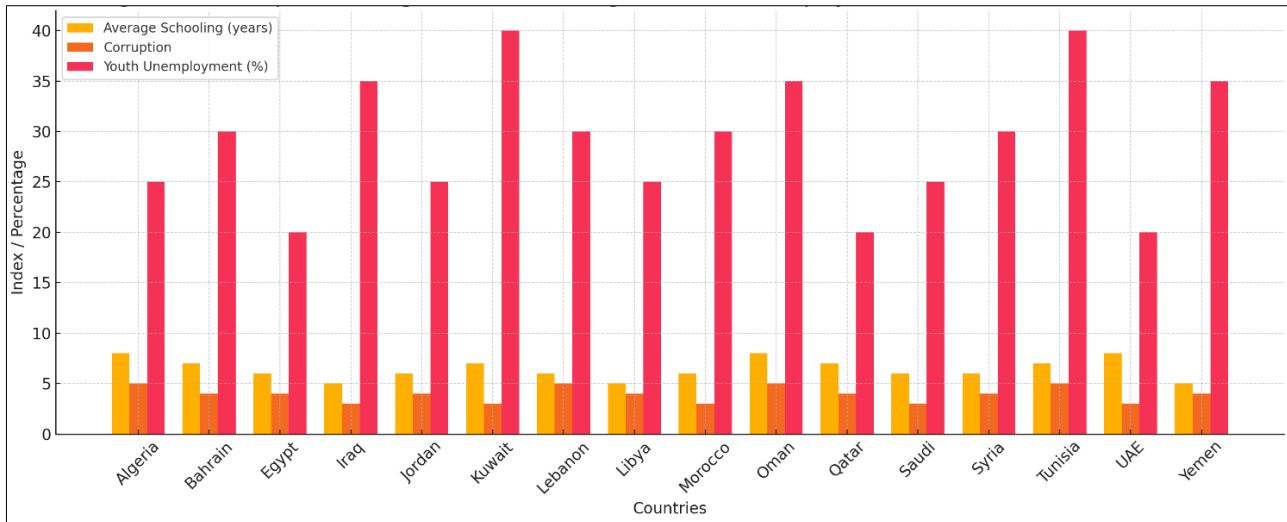
Figure 8: Corruption, Average Years of Schooling, and Youth Unemployment in MENA Countries (1984–2024)

Here is Figure 8, showing the relationship between corruption, average years of schooling, and youth unemployment in selected MENA countries from 1984 to 2024. This chart provides an overview of key socioeconomic indicators, with data sources including ICRG for the corruption index, the Quality of Government Standard dataset for average years of schooling, and World Bank-WDI for youth unemployment rates. The multi-bar format allows for comparison across these dimensions, highlighting disparities and trends across the MENA region.

CONCLUSION

Corruption in the MENA region remains a critical issue, stifling economic growth, discouraging investment, and widening social inequalities. While resource-rich nations in the region have achieved economic growth, the high levels of corruption compromise governance and accountability. The relationship between corruption and economic development in the MENA region exhibits nonlinearity; at lower income levels, increasing prosperity may initially elevate corruption due to heightened rent-seeking behavior. However, beyond a certain threshold, economic growth can reduce corruption, as seen in countries with stronger institutional frameworks and governance practices. The analysis emphasizes the need for comprehensive anti-corruption policies that address both direct and indirect causes of corruption. These should include strengthening judicial independence, ensuring transparency, promoting economic freedom, and restructuring public sector wage policies.

Youth unemployment, political instability, and socioeconomic factors compound corruption in the MENA region, demonstrating the necessity of integrated policy approaches that address these underlying issues. Countries like Qatar and the UAE, which have higher economic freedom and governance efficiency, show better corruption control, while conflict-affected nations like Yemen and Libya experience persistent corruption and economic stagnation. Institutional reforms, combined with economic diversification strategies and public accountability measures, are essential for fostering sustainable growth in the region. Ultimately, the findings reinforce that curbing corruption in MENA requires not only economic liberalization but also a commitment to political reforms, transparency, and effective governance practices.

Notes:
1. Statista (Labor market in the GCC - statistics & facts | Statista)
2. International Labour (MENA GET Youth Brief 2024.pdf) Organization
3. Bertelsmann Stiftung (BTI_2024_regional_report_MENA.pdf)
4. BTI Project (BTI 2024)
5. (statista.com)
6. (ilo.org) Labor market in the GCC - statistics & facts | Statista
7. (bertelsmann-stiftung.de)
8. (bti-project.org)
9. Enterprise Surveys(Enterprise Surveys Indicators Data - World Bank Group)
10. Enterprise Surveys (https://www.enterprisesurveys.org/en/enterprisesurveys)

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