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Institutions, Economic Development and Growth: International benchmark and lessons for Arab countries

Mounia Bettah*
Mohamed Amine Lezar**

Abstract

Theoretical and empirical studies have shown that institutions are a major factor in determining the level of economic growth and development in any country. This paper attempted to study the relationship between institutional quality and economic growth and development for a sample of 9 **6**countries by applying factorial methods to the institutional profiles database. It turns out that the heterogeneity and variation in levels of growth and income in developing countries, especially Arab countries, are mainly due to differences in institutional capabilities. Some countries were highlighted, such as China and Qatar, which succeeded in the process of economic take-off, especially thanks to political stability and a high sense of national belonging, as well as South Korea, which engaged in the process of catching up with developed countries thanks to institutional development in several areas, such as tax management, infrastructure, and eliminating corruption. Finally, the paper focused on the most important institutional areas that Arab countries must develop to accelerate their level of growth and development.

المؤسسات والتنمية والنمو الاقتصادي: مقارنة دولية ودروس مستخلصة للدول العربية

منية بطاح

محمد أمين لزعر

ملخص

أظهرت الدراسات النظرية والتجريبية أن المؤسسات عامل رئيسي في تحديد مستوى النمو الاقتصادي والتنمية في أي بلد. في هذا الإطار، قامت هذه الورقة بدراسة العلاقة بين الجودة المؤسسية والنمو الاقتصادي والتنمية لعينة من 96 دولة من خلال تطبيق تقنيات تحليلات العوامل على قاعدة بيانات الملامح المؤسسية. وتبين بأن التباين وعدم التجانس في مستويات النمو والدخل في الدول النامية، ولا سيما العربية، يرجع أساسا إلى اختلاف قدراتها المؤسسية. وتم تسليط الضوء على بعض بلدان العينة، كالصين وقطر، والتي نجحت في عملية الإقلاع الاقتصادي خصوصا بفضل الاستقرار السياسي والشعور العالي بالانتماء الوطني، وكذلك كوريا الجنوبية والتي انخرطت في عملية اللحاق بركب البلدان المتقدمة بفضل التطوير المؤسسي في عدة مجالات، كإدارة الضرائب والبنية التحتية والقضاء على الفساد. وركزت الورقة في الأخير على أهم المجالات المؤسسية التي على الدول العربية تطويرها لتسريع مستويات النمو والتنمية.

*** Professor Economist. Mohammed V University, FSJES Agdal. Rabat- Morocco. Email: mounia_bettah@yahoo.fr**
**** Senior Expert. Arab Planning Institute Kuwait. Email: mlezar@api.org.kw**

1. Introduction

Institutions now seem to play a central role in economic growth and development. Theoretical and empirical studies have clearly shown that the quality of institutional governance is one of the key factors in achieving sustainable and inclusive economic growth. They also support the idea that divergences in countries' growth and development levels can be attributed, in large part, to the quality of institutions. Thus, a similar allocation in terms of geography, trade openness and natural resource endowment, does not necessarily lead to a comparable level of income. This is the case, for example, of some countries whose per capita income was low in the 1960s, but which were able to initiate an intensive process of growth and economic catch-up, enabling their standard of living to gradually converge towards high-income country standards, thanks in particular to the establishment of modern, high-performance institutions(1).

In the Arab region, several countries have implemented a series of reforms to improve institutional governance. The key question, then, is how have these reforms impacted economic growth and development in these countries? This raises the following issues: have these countries undertaken the necessary reforms and measures to create institutions that contribute to sustainable growth and development? What are the biggest challenges they face? Why do countries have similar institutions, or similar governance systems, but differ in terms of economic performance? Which institutions are the most important for growth and development strategies? What role do institutions play in economic take-off or catch-up processes such as those initiated by emerging countries like China or South Korea?

Considering the importance of these topics and questions, this study outlines, in the first section, a review of the theoretical and empirical literature on the relationship between institutional quality and economic growth. The second section describes the data used to analyze the relationship between institutional quality and economic growth for a sample

(1) Nicolas M., Ould Aoudia J. (2007). La bonne gouvernance est-elle une bonne stratégie de développement ? *Document de travail*. DGTPE, n° 11. Accessed November 28 2023, at : http://www.cepii.fr/institutions/doc/2007_11_DT_FR.pdf

of 96 countries, as well as the positioning of Arab countries, applying factorial methods to the Institutional Profiles Database (IPD) of 2009 and 2016, to shed light on the main institutions that are important in development strategies. The third and fourth sections outline some successful country experiences in economic and institutional development, using more detailed data from the IPD 2016. They present the most important institutional determinants necessary for Arab countries to achieve growth and catch up with emerging and advanced economies.

2. Literature review on the link between the quality of institutions, economic growth and development

According to North Douglas (1990), institutions are "the man-made constraints that structure human interactions, whether political, economic or social. They consist of formal constraints (rules, laws, and constitutions), informal constraints (norms of behavior, conventions and imposed codes of conduct), and the characteristics of their application". He adds, "institutions govern the behavior of individuals and organizations, structure incentives, and provide a framework for economic exchanges"[(2)].

Daron Acemoglu and James Robinson (2001), distinguished between two forms of institutions that generate different development paths: extractive and inclusive institutions. The former, supported by political institutions, are designed to enrich an elite that benefits from economic rents at the expense of the rest of the population. As for inclusive institutions, political power is distributed democratically, enabling every individual to benefit equally and fairly from growth and ensuring that property rights are respected[(3)].

The importance of institutions in achieving sustained economic growth has been stressed by a number of economists. This is the case, for

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(2) North, D. (1990). Institutions, institutional change and economic performance. *Cambridge University Press*. Last Accessed November 10 2023, at: doi :10.1017/CBO9780511808678.

(3) Acemoglu, D., Johnson, S., & Robinson, J. A. (2001). The colonial origins of comparative development: An empirical investigation. *American economic review*, 91(5), 1369-1401.

example, of Rodrik (1999), who underlines the importance of institutions[4] in explaining long-term economic performance. This role has taken on greater importance thanks to the emergence of a new school of economic literature, known as New Institutional Economics, which mainly derives from Douglass North, O. Williamson and R. Coase contributions[5], and seeks to extend the field of neoclassical economics by including institutional analysis.

Additional theoretical and empirical studies exploring the factors that explain international disparities in income levels between countries have shown that those disparities are closely linked to differences in the quality of the institutions implemented[6]. Rodrik, Subramanian and Trebbi (2002) explain that "a similar allocation in terms of geography, trade openness and natural resource endowment does not necessarily lead to a comparable level of income. The differences observed have been explained, in particular, by institutional divergences". Rodrik and Subramanian (2003), for example, demonstrate that, after neutralizing the effects of institutions in their model, geography has, at best, a weak direct effect on income, although it has notable indirect effects via the institutions by influencing their quality[7]. For their part, Acemoglu, Johnson and Robinson (2004) show that the growth gap between countries is mainly due to the difference in the guarantee of property rights in these countries[8].

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[4] Rodrik, D. (November 1999). Institutions for high quality growth: What they are and how they affect growth. In International Monetary Fund Conference on Second-Generation Reforms, Washington, DC (pp. 8-9).

[5] See the bibliography for more details.

[6] Rodrik, M. D & Subramanian, M. A., Trebbi, M. F. (2002). Institutions Rule: The Primacy of Institutions over Integration and Geography in Economic Development. *Working Paper* No. 2-189. International Monetary Fund. https://www.imf.org/external/pubs/ft/wp/2002/wp02189.pdf

[7] Rodrik, D., & Subramanian, A. (2003). La primauté des institutions (ce que cela veut dire et ce que cela ne veut pas dire). *Finances et développement*, 31-34. International Monetary Fund. https://www.imf.org/external/pubs/ft/fandd/fre/2003/ 06/index.htm.

[8] Acemoglu, D., Johnson, R., & Robinson, J. A. (2004). Institutions as the fundamental cause of long-run growth (Working Paper No. 10481). Handbook of Economic Growth 1A: 386-472.

Kormendi and Meguire (1985), Scully (1988), Grier and Tullock (1989), Barro (1996) and Helliwell (1994) and Isham, Kaufman and Pritchett (1997), Barro (1991) and Londregan and Poole (1992), ... have also highlighted, across different country samples, the strong, positive relationship between institutional indicators and economic performance. Acemoglu, Johnson and Robinson; Rodrik, Subramanian and Trebbi; Asterly and Levine; Kaufmann, Kraay and Mastruzzi, emphasize that a country's level of economic development can be explained almost entirely by the quality of its institutions[(9)].

These authors have also studied various aspects of the relationship between institutions and economic development, noting a positive correlation between civil liberties, as an indicator of the institutional framework, and economic growth in most countries in their samples. Some have focused on the relationship between political freedom (Fraser Institute) and economic freedom (Freedom House), showing that the causal link runs from political freedom to economic freedom. Barro (1991) and Londregan and Poole (1992) show that instability and political violence lead to low growth. Alesina and Perotti (1996) and Svensson (1998) find that political instability has a negative effect on investment.

Indexes of corruption, bureaucratic quality and political stability[(10)] are, according to Mauro (1995), positively and significantly related to growth and investment. Using indexes estimating contract security and property rights, Knack and Keefer (1995) show a positive effect of these indicators on growth. For their part, Levine, R., & Easterly, W. (2002) show, based on the global governance index of Kaufmann, Kray, Zoido-Lobation (2002), that good governance positively and significantly affects growth.

An empirical study by Nawaz, Iqbal and Khan (2014)[(11)] to quantify the impact of institutions on economic growth in selected Asian countries

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[(9)] References are detailed in the bibliography.

[(10)] These three indices are compiled by Business International (BI).

[(11)] Nawaz S., Iqbal N., Khan M, (2014). The Impact of Institutional Quality on Economic Growth: Panel Evidence. *The Pakistan Development Review* 53:1. pp. 15–31. Last Accessed November 15 2023, at: https://www.researchgate.net/publication/298713007_The_Impact_of_Institutional_Quality_on_Economic_Growth_Panel_Evidence.

over the period 1996-2012[(12)] confirmed the significant role of institutions in long-term economic growth. However, this impact differs between these countries and depends on the level of their economic development. The importance of institutions is greater in more developed Asian countries than in less developed ones. As a comparison, an increase in the level of institutional development in sub-Saharan Africa to reach the level of developing Asia would imply an 80% rise in per capita income in sub-Saharan Africa, i.e. from around $800 to over $1400 (International Monetary Fund, 2003) [(13)].

Other studies have focused on the Middle East and North Africa (MENA) region, particularly Arab countries. For example, a study conducted by Imara and Jhonsa (2014) [(14)], using two-stage least squares regression (TSLS), estimated for 197 countries the impact of an increase in governance quality on per capita income. The results show a strong, positive and statistically significant causal relationship between quality of governance and per capita income. They also show that despite the relatively poor performance of most countries in the region in almost all six World Bank governance measures, the estimated levels of income/capita are higher than for the majority of countries in the sample. This implies that they have achieved a relatively high, but fragile[(15)], level of income due to weak levels of governance.

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(12) The study applied the Generalized Method of Moments (GMM) technique both statically and dynamically with fixed effects.

(13) International Monetary Fund (2016). Growth and Institutions. *World Economic Outlook*. April 2003. P.106. Last Accessed November 20 2023, at: https://www.imf.org/en/Publications/WEO/Issues/2016/12/31/Growth-and-Institutions.

(14) Emara, N., Jhonsa, E. (2014). Governance and economic growth: The case of Middle East and North African countries. *Journal of Development and Economic Policies*, 16(1), 47-71. Last Accessed November 25 2023, at: https://mpra.ub.uni-muenchen.de/68683/1/MPRA_paper_68683.pdf.

(15) The fragile standard of living in most of these countries led to political tensions in Tunisia, Egypt and Libya, where economic claims were one of the main motivating factors.

A follow-up study by Imara and Shiu[16] (2016) assessed the impact of governance on economic growth for 188 countries, including 21 MENA countries, using a "composite governance index (CGI)", determined on the basis of World Bank governance indicators, and constant GDP/capita data in purchasing power parity (PPP). It was found that GDP/capita increases by around 2% if the CGI improves by one unit, and would double in seven years if the CGI improves by five units. However, the effect of good governance cannot explain the higher GDP/capita in most of the oil-producing countries in the region. In other words, the majority of countries in the region have achieved fragile levels of economic growth that do not depend on good governance.

Elsewhere, a study by Abdekaziz S., Ayman (2021) using the World Bank's governance indicators analyzed the effect of institutional quality on economic growth for a sample of 23 MENA countries over the period 1996-2018. The results reveal a positive and significant effect of institutional quality on economic growth in the region's high- and middle-income countries. They also show that a good rule of law improves the business environment and makes foreign direct investment more attractive, helping to promote economic growth[17].

A study by Belkacem Al-Abbas[18] (2024) analyzing the relationship between institutions, growth and development of a sample of Arab countries in 2022, found that a one-point improvement in the quality of institutions

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[16] Emara, N., Chiu M., (2016). The Impact of Governance Environment on Economic Growth: The Case of Middle Eastern and North African Countries. *Journal of Economics Library*. Marsh. Last Accessed November 24 2023, at: http://www.kspjournals.org/index.php/JEL/article/download/662/747.

[17] Abdekaziz S., Ayman E. (2021). Institutional Quality and Economic Growth - An Empirical Analysis on MENA Region. *The Scientific Journal for Economics & Commerce*. Ain Chams University. Egypt. Volume 52_Issue 1_Pages 325-354. Last Accessed November 12 2023, at: https://jsec.journals.ekb.eg/article_227498_87915faad1b8765e10851afd87eaf3dd.pdf.

[18] بلقاسم العباس، التنمية العربية وضرورات الإصلاح المؤسسي وإصلاح القطاع العام. ملتقى صناع القرار–التنمية العربية وضرورات الإصلاح المؤسسي ومخاطر التغيرات المناخية. المعهد العربي للتخطيط. دولة الكويت. 4 يناير 2024.

would generate an increase in per capita income of around $1,714 in terms of real purchasing power parity. This increase could reach $4,554 for countries demonstrating good governance. It also shows that if the average governance index rises by around 5.48 points, per capita income in Arab countries will increase by an average of around 58% compared to its 2022 level. However, if reforms are adopted at the level of developing countries (the standard deviation is 3.0), average income will rise by around 39%.

Overall, theoretical and empirical studies analyzing the relationship between institutional governance, development and economic growth show that high-income, fast-growing countries tend to have relatively strong institutions, whatever the measure used, such as growth rates or volatility, protection of property rights, corruption. In contrast, institutions tend to be systematically weaker in countries with low economic development[(19)]. So, the question is what are these institutions that support high levels of growth and development? This is what we intend to answer in this paper, using the institutional Profiles Data base.

3. Institutions required for a sustainable economic development and growth: an application of factorial methods to the Institutional Profiles Database

3.1 Overview of the Institutional Profiles Database

The Institutional Profiles Database (IPD) was developed by the French Ministry of Economy and Finance and the Agence Française de Développement, in partnership with the Maastricht Graduate School of Governance (MGSoG) and the Centre for Prospective Studies and International Information (CEPII)[(20)]. It provides a measure of countries' institutional characteristics by developing composite indicators based on perception data. "Based on an economic approach, IPD covers a vast field of institutions, collected through a survey of the French Ministry of Economy

[(19)] International Monetary Fund, "Growth and Institutions". Op. it. P.98.

[(20)] This work is part of a pluriannual research program entitled "Institutions, Governance and Long-Term Growth", which aims to extend studies on the role of institutions in the development process.

and Finance and AFD offices abroad. These data have been enriched by other indicators from other databases" (Meisel N., Ould Aoudia J., 2007) [21].

So far, IPD has been produced in five editions: 2001, 2006, 2009, 2012 and 2016 (see table below). The 2016 edition covers 144 countries (compared with 51 countries in 2001), representing all income levels[22] and regions of the world, and almost 99.6% of the world's population and GDP.

Table (1): Features of the five IPD versions

	IPD 2001	IPD 2006	IPD 2009	IPD 2012	IPD 2016
Number of countries covered	51	85	123	143	144
Number of variables [23]	238	238	367	330	320
Number of indicators	96	96	133/93[24]	130	127

Source: CEPII.

The IPD presents indicators classified by both sector and institutional function (table 2). The four sectors are as follows:

A) Public institutions, civil society;

B) Goods and services market;

C) Capital markets;

D) Labor market and social relations.

[21] Meisel, N. & Ould Aoudia J. (2007). Une nouvelle base de données institutionnelle : Profils Institutionnels 2006. Document du travail de la Direction Générale du Trésor et de la Politique Economique (DGTPE). 2007/09.

[22] According to the World Bank classification: low income, lower middle income, upper middle income and high income.

[23] The number of variables corresponds to the number of survey questions. They are then aggregated to obtain the indicators. Variables and indicators are not necessarily comparable from one edition to the next, as the questionnaire has evolved over time.

[24] The 2009 edition offers two variable aggregation structures, one with 133 (3-digit indicators) and the other with 93 (2-digit indicators).

The nine institutional functions are presented and defined as follows:

F1) Political institutions: functioning political institutions, public rights and freedoms, legality and legitimacy of public authorities;

F2) Security, law and order, control of violence: Security of people and property, control of domestic violence, external security;

F3) Functioning of public administrations: Transparency and efficiency of public action, control of corruption, independence and level of enforcement of justice, governance of natural resources, autonomy of organizations;

F4) Free operation of markets: Privatizations and nationalizations, price and interest rate liberalization, labor market flexibility;

F5) Coordination of stakeholders, strategic vision and innovation: Government capacity to align interests and anticipations, authorities' strategic vision, technological absorption capacity;

F6) Security of transactions and contracts: Respect for property and contract rights, handling of commercial disputes;

F7) Market regulation, social dialogue: Competition in goods, services and capital markets; regulation and supervision of the financial system; social dialogue;

F8) Openness: free movement of goods and services, capital, people and information;

F9) Social cohesion and social mobility: Social and regional stability, equal treatment (according to gender, ethnicity...) within traditions and formal institutions, solidarity (traditional, institutional), social mobility.

Table (2): Institutional Profiles Database Structure

Sector / Function	– A – Public institutions, civil society	– B – Markets for goods and services	– C – Capital market	– D – Labor market and social relations
1. Political Institutions	Civil liberties and freedoms			Trade union freedoms and pluralism
2. Security, law and order, control of violence	Security of persons and goods			
3. Functioning of public administrations	Transparency, control of corruption, judicial independence	Ease of starting a business		
4. Free operations of markets		Proportion of the private sector, privatizations, price monitoring and control	Proportion of the private sector, Central Bank independence	Labor market flexibility
5. Coordination of stakeholders, strategic vision, innovation	Ability of the State to make a decision, coordination in the public sphere, cooperation of stakeholders	Technological environment of firms	Venture capital	Vocational training
6. Security of transactions and contracts	Security of property rights and contracts, business law, insolvency law	Information on firms, information on the quality of goods, intellectual property	Bank guarantees, information on banks and listed companies	Compliance with employment law
7. Market regulations, social dialogue		Competition regulation, corporate governance	Competition regulation banking prudential rules and supervision	Social dialogue

Sector / Function	– A – Public institutions, civil society	– B – Markets for goods and services	– C – Capital market	– D – Labor market and social relations
8. Openness	Freedom of movement of persons and information	Trade liberalization	Capital liberalization	Freedom of movement of workers
9. Social cohesion and social mobility	Equal treatment, solidarity		Microfinance	Social mobility, Labor market segmentation

Source: Bertho F., (2013). Presentation of the Institutional Profiles Database 2012 (IPD 2012). *Les Cahiers de la Direction Générale du Trésor* – No. 2013-07. July. p. 8.

3.2 Public and private institutions at the international level (2009-2016): positioning of Arab countries

The selected sample covers all income levels and regions of the world: 2 North American countries, 17 Latin American and Caribbean countries, 27 European and Central Asian countries, 12 East Asian and Pacific countries, 3 South Asian countries, 14 MENA countries and 24 Sub-Saharan African countries, for a total of 96 countries. By income level, it comprises 35 high-income countries, 26 upper-middle-income countries, 23 lower-middle-income countries and 15 low-income countries.

Two Principal Component Analyses (PCA[25]) were applied to the aggregated single-digit database including 26 composite indicators: the first based on the 7 public governance indicators and the second on the 19 private governance indicators. The purpose is to summarize the countries' information according to two main factorial axes reflecting the most significant public and private institutional characteristics, in order to analyze the positioning of the projected countries on the plan made up of the first predominant factorial axes obtained from the two PCAs. Both analyses are

[25] PCA is an exploratory technique based on a linear transformation of quantitative data in order to summarize the relationships between variables using as small a set of factors as possible, without losing information. This tool for compressing and synthesizing information is very useful when dealing with large quantitative databases to be processed and interpreted. It is also highly effective for constructing aggregate indicators.

relevant, as shown by the KMO index, which is close to 1, and Bartlett's Sphericity test, with a probability equal to zero (Table 3):

Table (3): PCA tests

Public institutions indicator

KMO index and Bartlett test

Kaiser-Meyer-Olkin index of measuring the quality of sampling		,871
Sphéricity test of Bartlett	Chi-square approx.	619,584
	ddl	21
	Signification	,000

Private institutions indicator

KMO index and Bartlett test

Kaiser-Meyer-Olkin index of measuring the quality of sampling		,870
Sphéricity test of Bartlett	Chi-square approx.	1341,108
	ddl	171
	Signification	,000

SPSS outputs.

The first public governance factor (mainly defined by (table 6) the functioning of public administrations (A3), coordination of actors, strategic vision, innovation (A5) and social cohesion and mobility (A9)) explains 67.79% of all information contained in the database (table 4). For its part, the information explained by the first private governance factor (determined mainly by indicators (table 6) linked to the security of transactions and contracts in the goods and services market (B6), labor market segmentation and social mobility (D9) market regulation and social dialogue in the goods and services market (B7)) explains 43.18% of all information (table 5).

Table (4): Total variance explained (Public governance Factor 1)

Factor	Initial eigenvalues			Sums extracted from load squares		
	Total	% of variance	% combined	Total	% of variance	% combined
1	4,746	67,797	67,797	4,746	67,797	67,797

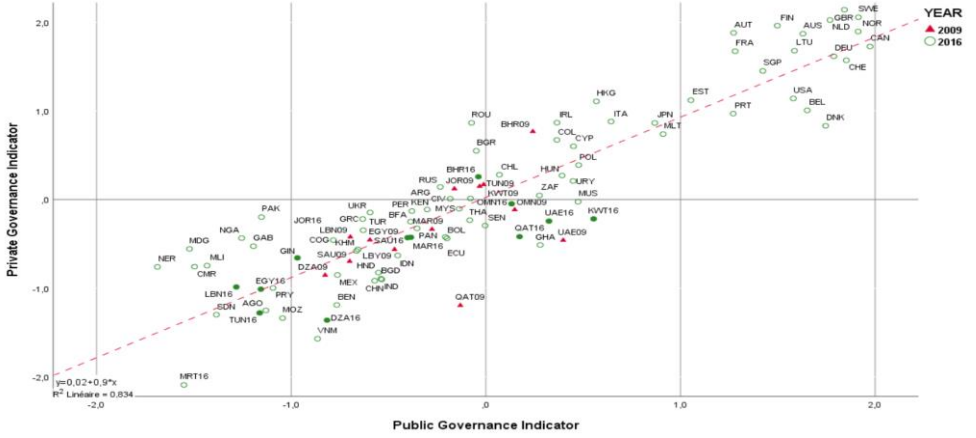
SPSS output.

Table (5): Total variance explained (Private governance Factor 1)

Factor	Initial eigenvalues			Sums extracted from load squares		
	Total	% of variance	% combined	Total	% of variance	% combined
1	8,206	43,189	43,189	8,206	43,189	43,189

SPSS output.

Chart (1) : International positioning of countries according to public and private governance indicators



SPSS output. Source: IPD 2009 and 2016, authors' calculations.

The relationship between public and private governance indicators was tested by projecting the sample of countries on a plan that juxtaposes, on the x-axis, the first factorial axis of the public governance indicators with, on the y-axis, the first factorial axis of private governance indicators (Chart 1). Overall, several conclusions can be drawn from the projection results:

- **There is a strong, positive relationship between public and private governance institutions (coefficient of determination R2 of the regression line = 83.4%).**
- The projection (Chart 1) shows four groups of countries classified according to their economic and institutional performance:
  - Towards the top right of the chart 1, countries of **group (G1)** which constitute a reference for good governance and advanced economic development are concentrated, notably the countries

of North America and Central and Eastern Europe, associating high levels of micro-governance (private) and macro-governance (public).

- In the center of the same chart, two groups of countries stand out: **The upper middle group (G2)** of countries that have successfully strengthened their public and private governance systems and are in transition to the reference group (G1). These are, mainly, certain European countries (Italy, Cyprus), Asian (Japan, Hong Kong), of MERCOSUR (Colombia, Uruguay) and Sub-Saharan Africa (South Africa, Ghana). Arab countries include Kuwait, the United Arab Emirates, Bahrain, Oman and Qatar. **The lower middle-ranking group (G3)** is made up of countries committed to an economic and institutional catch-up process, notably a few countries in Europe (Romania and Russia), Latin America (Mexico, Argentina), Asia (China, Indonesia, Thailand, and India), the Arab region (Saudi Arabia, Bahrein, Jordan, Morocco, Algeria...) and Sub-Saharan Africa (Senegal, Kenya, Congo ...). The Arab and Asian regions are breeding grounds for countries in transition that have already implemented a package of reforms, stimulus packages and correction action plans to improve their economic and institutional environment.

- Towards the bottom of the regression line stands **group (G4)** of countries with low levels of public and private governance, including a number of Arab countries (Sudan, Lebanon, Tunisia, Egypt, Mauritania, etc.), Asian countries (Pakistan) and Sub-Saharan African countries (Angola, Nigeria, Gabon, etc.). The low level of governance could be explained by the weak actions of the various stakeholders (public administration, executive, legislative and judicial power, civil society, ...).

Table (6): Composition of public and private governance factors from the two PCAs

PCA Factors	Composition of top factors ranked by importance
Public governance indicators: (A. Public institutions, civil society)	**A3:** Functioning of public administrations; **A5:** Coordination of stakeholders, strategic vision, innovation; **A9:** Social cohesion and social mobility.
Private governance indicators: Market B for goods and services; Market D for labor and social relations.	**B6:** Security of transactions and contracts; **B7 :** Market regulations, social dialogue. **D9:** Social cohesion and social mobility.

Source: Compiled by the authors from SPSS outputs

Table (7): Evolution of public and private governance scores between 2009 and 2016

(in points)

Pays	Public governance indicator	Private governance indicator
Algeria	**0,01**	**-0,51**
Egypt	**-0,56**	**-0,56**
Jordan	**-0,81**	**-0,78**
Koweït	**0,59**	**-0,37**
Morocco	**-0,11**	**-0,09**
Oman	**-0,02**	**0,07**
Tunisia	**-1,12**	**-1,45**
Bahreïn	**-0,28**	**-0,51**
United Arab Emirates	**-0,07**	**0,22**
Lebanon	**-0,58**	**-0,56**
Libya	**-2,36**	**-1,99**
Qatar	**0,30**	**0,78**
Saudi Arabia	**0,30**	**0,27**

Source: Authors' calculations (SPSS)

Dynamic analysis (table 7) between 2009 and 2016, according to 1 Digit IPD, of the position of Arab countries shows that Qatar (+0.3; +0.8) and Saudi Arabia (+0.3; +0.3) have made positive progress in both micro and macro-governance. Countries such as Kuwait (+0.6; -0.4) and Algeria (+0.01; -0.5) improved their position, especially in terms of public

governance indicators. Others, such as Oman (-0.02; +0.07) and the United Arab Emirates (-0.07; +0.2) showed progress, particularly in private governance (table 6).

At this level, we are interested in identifying the most relevant public and private governance institutions that characterize the different country profiles. To this end, we will conduct a more detailed analysis in the following section, using 3-digit data from the IPD 2016.

3.3 Which institutional indicators matter for sustainable growth and development? In-depth analysis of governance indicators (IPD 2016)

In this section, the analysis will focus on 117, 3-digit indicators for the same sample, in order to identify the most relevant institutions that characterize the different country profiles. The application of PCA seems relevant, as shown by the KMO index (0.723) and Bartlett's Sphericity test (with significance equal to 0). Two main factorial axes were selected, capturing nearly 51% of the information.

Table (8): Total variance explained

Factors	Initial eigenvalues			Sums extracted from load squares		
	Total	% of variance	% combined	Total	% of variance	% combined
1	36,152	42,037	42,037	36,152	42,037	42,037
2	7,622	8,862	50,900	7,622	8,862	50,900

Source: SPSS output

The first (horizontal) x-axis, which explains 42,03% of the total variance (table 8), is determined by institutional indicators relating to the formalization of rules (efficiency of public administration and justice, social cohesion and mobility, and security of transactions and contracts) (table 9). The positioning of the most developed countries, in Europe and Asia as well as North America, is highly correlated with the first axis (Chart 2), indicating a positive relationship between the quality of institutions and the economic performance of these countries.

Table (9): Horizontal x-axis explanatory items classified by market and importance (IPD 2016)

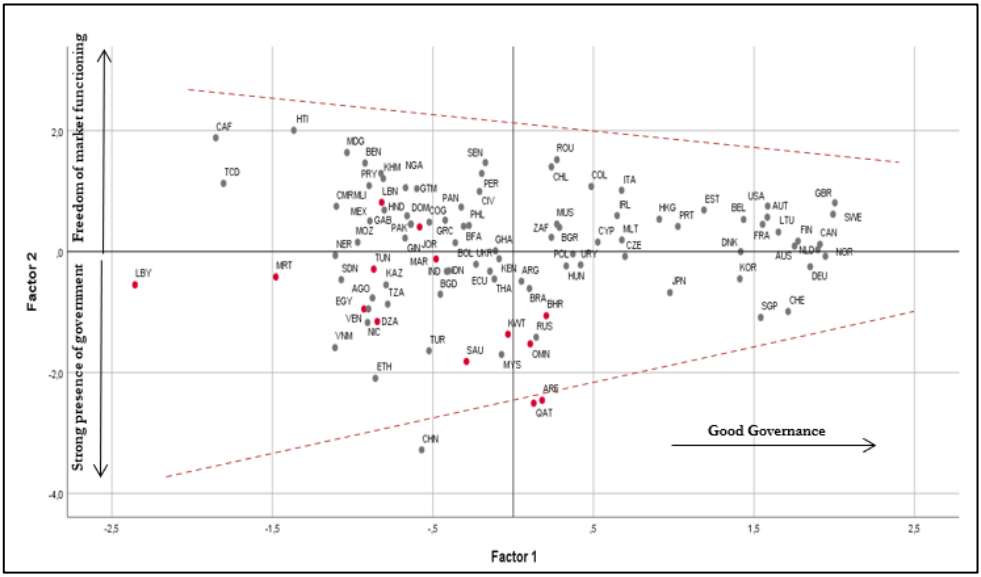
Items labels		Scores on axis 1
Market A. Public institutions, civil society		
A305	Functioning of the justice system	**0,901**
A302	Level of corruption	**0,875**
A507	Quality of the public policy making process	**0,850**
A602	Trade justice	**0,844**
A300	Reliability of official economic information	**0,821**
A509	Adaptation and innovation	**0,643**
A303	Efficiency of the tax administration	**0,797**
A904	Equal treatment by the State	**0,796**
A906	Institutional solidarity	**0,769**
A604	Termination of contracts by the State	**-0,636**
B. Markets for goods and services		
B602	Respect for intellectual property	**0,835**
B601	Standardisation of information on the quality of goods and services	**0,828**
C. Capital market		
C900	Significance of microfinance	**-0,612**
D. Labor market and social relations		
D900	Quality of public services (provided by the public sector)	**0,829**
D903	Barriers to upward social mobility	**0,796**
D402	Significance of informal work	**0,793**
D902	Significance of child labor	**0,78**

Source: Compiled by the authors from SPSS outputs

The projection of countries (Chart 2) on the horizontal x-axis shows the gap between the institutional profiles of developed and least developed countries. These countries, on the left side of the axis, have rather heterogeneous profiles, characterized by low compliance with regulations compared to other countries in the sample, and where the level of corruption, barriers to social advancement and informal work are significant. However, these countries are characterized by the importance of microfinance, whether informal or institutional.

The vertical y-axis, which captures 8,8% of the total information, is determined by the institutional variables related to the degree of government interventionism and freedom of functioning of markets (table 10). It seems, however, to characterize the least developed countries, which have heterogeneous profiles[(26)].

Chart (2) : Projection of countries according to the first two factors of the principal component analysis (PCA)



Source: IPD 2016, Authors' calculations (SPSS).

(26) This explains the funnel shape of the country projection, which illustrates a high degree of homogeneity of institutional profiles among developed countries, compared with the sample, which is highly heterogeneous on both the first and second axes.

Table (10): Vertical y-axis explanatory items classified by market and importance (IPD 2016)

Items labels		Scores on axis 2
Market A. Public institutions, civil society		
A309	Freedom to establish and operate organizations	**0,704**
B. Markets for goods and services		
B400v	Significance of public companies to the economy	**0,64**
B401	Significance of the public sector in the delivery of public services	**0,613**
B703v	Scale of public ownership	**-0,605**
C. Capital market		
C400v	Weight of State-owned banks	**0,566**

Source: Compiled by the authors from SPSS outputs

The vertical y-axis contrasts two sets of countries: Towards the bottom of this axis, the countries marked by the importance of State's action in political and social economic regulations are projected, mainly China, Turkey, Russia and, on the Arab side, Oman, Qatar, the United Arab Emirates, etc. However, these economies are characterized by strong public support for innovation and public and private R&D. Towards the top of the axis, there are countries that guarantee the freedom of creation and functioning of organizations with respect to political powers and the freedom of functioning of markets[(27)] in which the State's presence is relatively weak. These countries are, mainly Romania, Senegal, Gabon, Haiti, Madagascar, Benin and, on the Arab side, Lebanon and Jordan.

According to Rodrik (2013), "the most prosperous economies have not been those with the least state intervention. China and India, two of the most prosperous emerging countries, have a high level of state involvement. Indeed, extreme forms of intervention, such as central planning, stifle private activity and are therefore detrimental to growth. However, in countries that have adopted an intermediate model between central planning

[(27)] These economies are characterized by a low market share of public banks in the banking sector.

and the « laissez-faire », i.e. most countries, a reduction in state intervention does not necessarily appear to be conducive to growth»[(28)].

At this level, the question is: why do countries with similar levels of governance have very different economic performances?

3.4 Discriminant analysis of governance factors by level of development

To answer the previous question and explain these differences in income level between countries, a discriminant factor analysis (DFA) has been carried out, which will first identify the institutional indicators that most specify each group of countries sorted, beforehand, by income level, minimizing the intra-group variance (within each group) and maximizing the inter-group variance.

The statistical tests relating to this analysis confirm the relevance of the results obtained (Table 11). Indeed, the Box test statistic is high, and the Fisher test probability tends towards 0. In addition, the low value of Wilks' Lambda and its probability tending towards 0 testify to the relevance of the analysis.

Table (11): Box test and Lambda of Wilks (DFA)

Box test (DFA)

Box Test		97,732
F	Approx.	2,027
ddl1		42
ddl2		6351,797
Sig.		,000

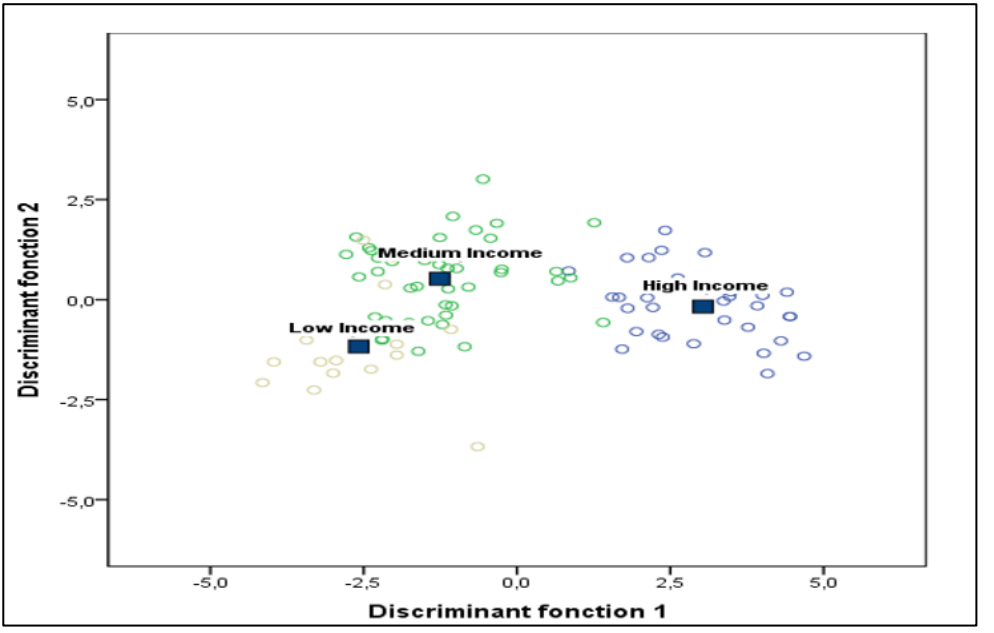
Lambda of Wilks

Functions Tests	Lambda of Wilks	Chi-square	ddl	Sig.
From 1 to 2	,126	181,274	12	,000
2	,727	27,911	5	,000

Source : IPD 2016, SPSS outputs

[(28)] Rodrik, D. (2013). The past. Present and Future of Economic Growth. *Global Citizen Foundation Working Paper*. Last Accessed December 14 2023, at: https://drodrik.scholar.harvard.edu/files/dani-rodrik/files/gcf_rodrik-working-paper-1_-6-24-13.pdf

Chart (3): Discriminant function



Two discriminating functions are thus identified, showing different groups of countries. The identification of the variables that define those functions is based on the analysis of the structure matrix, which displays the correlation coefficients between the introduced institutional variables and these discriminant functions (table 12). Thus, the first function is strongly correlated with indicators relating to the territorial coverage of public services, the level of corruption, the significance of informal work, the standardization of information on the quality of goods and services and the efficiency of the tax administration, whereas the second function is correlated with the "national feeling" indicator, which indicates whether the sense of national belonging is strong within a country.

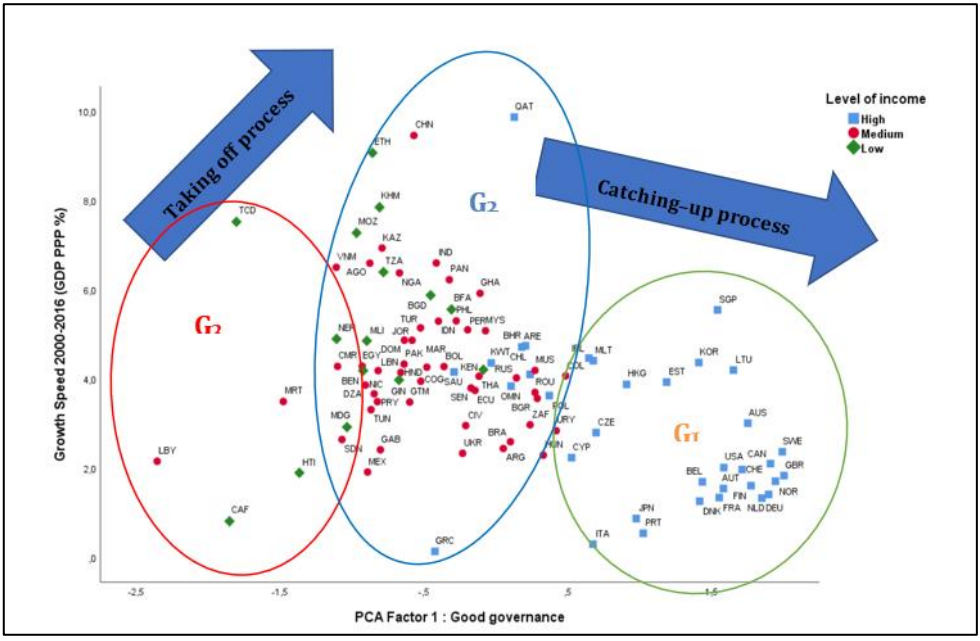
Table (12): Structure matrix

Institutional variables/items	**Fonctions**	
	1	**2**
A905: Territorial coverage of public services	0,70*	0,23
A302 : Level of corruption	0,66*	-0,20
D402: Significance of informal work	0,55*	-0,40
B601: Standardisation of information on the quality of goods and services	0,50*	0,45
A303: Efficiency of the tax administration	0,33*	0,02
D401 : Mobility of workers	0,19*	0,18
A900v : National feeling	0,13	0,60*
Combined intragroup correlations between discriminant variables and canonical standardized function variables are ordered by the absolute size of the correlations within the function. * Largest absolute correlation between each variable and the discriminant function.		

Source: IPD 2016, by the authors (SPSS).

These indicators discriminate between three groups of countries (high, middle and low income, see chart 3), showing that the group of developed countries records high scores on both discriminant functions, in contrast to the third group of low-income countries, notably those in Sub-Saharan Africa, which is characterized by low scores on both discriminant functions. The second group of countries with heterogeneous income levels is rather marked by an intermediate level linked to both discriminating functions. However, some countries show high scores on the second function, reflecting a strong sense of national belonging, notably Qatar, China and Ethiopia.

Chart (4): Good governance, medium/long-term growth and convergence



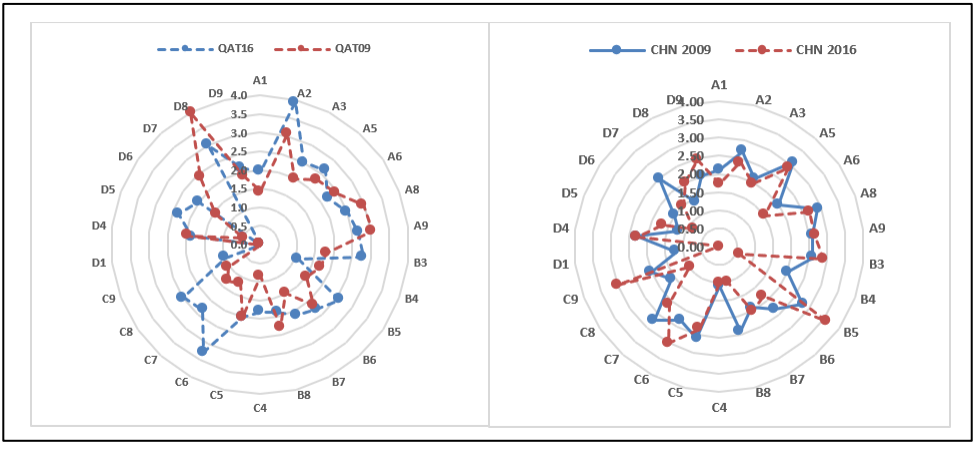
Source: IPD 2016, by the authors (SPSS).

This classification shows that improving indicators relating to the second discriminating function enables countries to engage in an economic taking-off process (among emerging countries such as Qatar and China). On the other hand, strengthening indicators relating to the first discriminating function ensures that countries are engaged in a process of economic and institutional catch-up towards the developed countries that have reached economic maturity and are continuing to improve their governance systems by formalizing economic, political and social regulation. As a result, we can notice from chart 4, that countries are considered in an economic take-off process, by moving from group 3 to group 2, and in an economic catch-up process, by moving from group 2 to group 1.

4. Institutional determinants for economic take-off: the experience of China and Qatar

Among the G2 countries, China and Qatar are among those that have successfully completed their economic take-off process (sustainable acceleration of economic growth), justifying a strong sense of national belonging and exemplary solidarity.

Chart (5): Progress of Qatar and China institutional indicators according to 1-digit IPD



Source: IPD 2016, by the authors.

4.1 China: best practice for solidarity and economic performance

Assuming that development cannot be based on ethnic divisions and stereotypes, and that solidarity and a sense of national belonging are important factors in any development, China, despite the existence of more than fifty ethnic groups, has built up remarkable national solidarity, mainly thanks to Mao Zedong, to defend the interests of the people rather than any ethnic group.

It's also due to the many successful reforms (military, cultural, ideological and political revolutions) that today China is a global economic power. It has achieved one of the highest growth rates in the world. The population has demonstrated a significant improvement in its standard of

living, which is estimated to be 10 times higher than it was ten years ago. The country has also made great progress in several areas: diplomatic, military, infrastructure, technology, and so on. It has worked to maintain both a communist policy and to develop an increasingly liberal economy. The question is, with such economic and social success, why does China rank so low in terms of institutional quality and governance?

Indeed, as the PCA analysis shows, the strong interventionism of the public (communist) authorities defends the interests of a capitalist class over other classes, resulting in some of the highest levels of inequality in the world. This social tension, combined with an alliance between money and politics, has led to a high level of corruption. This situation prevents the population from having any real legal, political or administrative recourse, and thus leads to a governance crisis. According to the sociologist Sun Liping, "China is a society in rupture", which is becoming harder to govern. Corruption at the local level is leading to governance problems at the central level. While the Communist Party remains, apparently, at the heart of the decision-making process in China, many measures taken by the authorities remain ineffective in practice" (Lantz, 2006)[(29)].

4.2 Qatar: A model of political stability and economic efficiency in the Arab world

Over the past few decades, Qatar has made significant progress in several areas, especially the economic sphere. According to the latest Global Competitiveness Report released by the World Economic Forum and the IMD World Competitiveness Yearbook published by the Institute of Management Development (IMD) [(30)], Qatar is the second most competitive economy in the Arab world. It has recorded rapid economic growth to become one of the richest countries in the world, with per capita real GDP reaching US$ 87661 in 2022. The country has undertaken various reforms to reduce its dependency on oil and gas, to diversify its economy (tourism,

[(29)] Lantz, F. (2006). Chine : les faiblesses d'une puissance. *Alternatives Economiques*, (3), 82.

[(30)] Institute of Management Development, 2023, “IMD World Competitiveness Yearbook”. Last Accessed January 5 2024, at: https://worldcompetitiveness.imd.org.

sport, etc.), to improve education and healthcare, and to promote sustainable development. Projects such as National Vision 2030 have been launched to achieve these ambitious goals and stimulate long-term economic growth(31).

Institutional quality is a key aspect of Qatar's ongoing development. Political stability is a crucial factor and contributes to the country's economic growth. Reforms and initiatives have been undertaken to modernize the legal system, increase citizen participation and introduce political reforms. In "The Global Competitiveness Report", the World Economic Forum(32) ranks the country 35th out of 141 countries for "The importance of institutions". This result is due to various efforts, in particular measures to reduce the burden of government regulation (6th), and to improve the efficiency of the legal framework in the evolution of regulations (7th).

The country has also implemented measures to improve the judicial system (23rd in terms of judicial independence), transparency and anticorruption measures (31st), such as the creation of institutions like the National Anti-Corruption Authority, the protection of property rights (18th), etc. These measures created a propitious business environment and an attractive investment climate, boosting investor confidence and thus encouraging economic growth and development. In fact, according to an opinion survey among business leaders, who were asked to select from a list of 15 indicators that they considered key factors in economic attractiveness, in addition to the economy's infrastructure and dynamism, responses focused on the stability and predictability of policies (51.1% of respondents), the competence of the government (42.0%), a competitive tax system (33.6%), a business-friendly environment (32.1%) and a strong judicial environment (31.3%)(33).

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(31) الأمانة العامة للتخطيط التنموي، رؤية قطر الوطنية 2030، تموز/يوليو 2006.
https://www.psa.gov.qa/ar/qnv1/Documents/QNV2030_Arabic_v2.pdf

(32) World Economic Forum (2019). The Global Competitiveness Report. Last Accessed January 8 2024, at:
https://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf.

(33) Qatar country Profile, Institute of Management Development (2023). IMD World Competitiveness Yearbook. Last Accessed January 6 2024, at: https://imd.widen.net/view/pdf/zgoe2ebyb9/QA.pdf

5. Institutional factors required for economic catch-up

According to the results of the factorial discriminant analysis, moving from G2 to the G1 « reference group » requires:

- Increasing territorial coverage of public services, i.e. public schools, basic healthcare services, drinking water, electricity and sanitation networks, transport infrastructure and maintenance of solid waste services disposal;
- Fighting corruption in all forms, such as "petty" corruption between citizens and the administrations, political corruption (vote buying, illegal campaign financing, bribes ...), corruption between public authorities and local businesses and corruption between public authorities and foreign businesses;
- Eradicating informal work in urban and rural areas;
- Improving standardization of information on the quality of goods and services, through the provision of information on the implementation of a system of national or international norms and standards (ISO, Codex ...);
- Enhancing the efficiency of the tax administration by limiting fraud in tax collection in non-exempt sectors of the economy, etc;
- Improving the efficiency of employee mobility mechanisms, in particular outplacement, requalification and professional mobility.

Box 1: South Korea: a remarkable institutional and economic development model

South Korea, as the PCA analysis shows, is one of the countries that has successfully completed the process of economic take-off, characterized by a good level of institutions. The country is one of the world's fastest-growing economies, thanks to a strategic vision that has led to rapid industrialization, continuous improvements in productivity, the power of its major groups (Samsung, LG, Hyundai, SK), as well as R&D efforts and massive investment in education.

From a real GDP per capita of less than US$200 in the 1960s, similar to the least developed countries in Africa and Asia, it now exceeds US$35,000, approaching the level of European Union countries (US$37,432 on average), and by far superior to the Arab world (US$12,743)(1). Since the 1960s, South Korea's economic development has been based on a dirigiste approach. The state plays a strategic role in identifying the most promising sectors for the future and, through its close ties with the business community, implementing its economic and sectoral policies. Generally speaking, the success of the South Korean model is due in particular to:

- **Strong investment in human resources**, which since 2012 has led to one of the highest literacy rates in the world, and 3rd place in the TIMSS global ranking of student performance in math and science(2). The education system is decentralized and school attendance is compulsory. The budget allocated to national education represents 4.9% of GDP, and a significant proportion of schooling is provided by the private sector (reaching 80% at the university level).
- **South Korea's population and culture are key factors in the country's socio-economic development.** The South Korean people have a socio-cultural environment favorable to development, and have the benefit of belonging to an ancient civilization that values education and the primacy of the group over the individual. They have a strong sense of national identity and a high level of cultural homogeneity and are not divided into clans and ethnic groups.
- **The development model is based on close connections between government and business**, as confirmed by measures such as directed financing, import restrictions, and financing of strategic sectors. Similarly, the state has promoted the import of raw materials and technologies at the expense of consumer goods, and encouraged savings and investment over consumption.

- **Prioritizing R&D:** South Korea comes at the at the top of the list of OECD countries that devote the largest share of their GDP to R&D, with a budget of 4.9% of GDP in 2021, ahead of countries such as Japan (3.3%), Finland and Sweden (3.2%), Denmark (3.1%), Austria (3.0%) and Taiwan (3%)[3].
- **An original and unique industrial strategy:** considered among the newly industrialized countries, South Korea has built a growth model based on exports. The government has forced companies to export and compete with developed economies. It sets medium-term objectives, finances a number of strategic sectors and protects emerging industries. South Korea is also characterized by the preponderance of large conglomerates called "Chaebols", which cover an extremely wide range of business sectors. The major world-famous conglomerates are Samsung, Hyundai, LG Group, Group SK, Posco, GS Group and Lotte.

(1) Source: World Development Indicators. World Bank. Last Accessed January 1st 2024, at: https://databank.worldbank.org/source/world-development-indicators.
(2) TIMSS & PIRLS International Study Center, Trends in International Mathematics and Science Study (TIMSS 2019). Last Accessed January 5 2024, at: https://timssandpirls.bc.edu/timss2019/
(3) Source: World Development Indicators. World Bank.

These indicators, which characterize the developed countries, relate mainly to functions (3), (4), (6) and (9), which correspond respectively to the functioning of public administrations, the freedom to operate markets, the security of transactions and contracts, and social cohesion and mobility. The G1 group includes European countries (Sweden, UK, Norway, Germany, Netherlands, Finland, France, etc.), North American countries (Canada and USA), Australia and Asian countries (especially South Korea and Singapore).

The successful experience of these countries in economic and institutional development deserves to be closely studied, in order to draw the necessary lessons and insights. As an example, the keys to South Korea's economic and institutional success, which led to the country's successful catch-up process and transition to the high-income group, are presented (Box 1). This practice is particularly interesting for developing countries, especially those in the Arab world, to learn from it in a number of areas,

enabling them to improve their governance and institutions as well as ~~to~~ accelerate their economic growth and consequently escape the middle-income trap.

6. Conclusion

Both theoretical and empirical studies have shown that the importance of institutions is a key factor in determining a country's level of economic growth and development. This study has identified the importance of institutions for economic development, as well as the institutional reforms that Arab countries should take into account to accelerate economic growth. The IPD for a sample of 96 countries was analyzed, revealing a number of findings:

- A strong and positive relationship between public and private governance.
- A strong correlation between good governance, defined by the degree of formalization of the rules, and economic development in the selected countries.
- Developed countries are united around formalized systems of good governance (efficiency of public administration and justice, social cohesion and mobility, and security of transactions and contracts).
- Developing countries, including Arab ones, are marked by heterogeneous profiles classified into two groups: The first group of countries with strong state intervention in economic, political and social regulation, and high public support for innovation and R&D. The second group includes countries with a low level of state intervention, where the freedom of organizations to create and operate, and the freedom of markets to operate, are preserved.
- The heterogeneity in the income levels of developing countries, particularly Arab ones, is essentially explained by their institutional capacities. Some countries, such as China and Qatar, have successfully launched their economic take-off processes, while others, such as South Korea, have successfully engaged in a catch-up process towards developed countries.

- According to discriminant factor analysis, a stronger sense of national belonging allows countries to engage in an economic take-off process, as in the case of China and Qatar.
- The consolidation of factors linked to territorial coverage of public services, eradication of corruption and informal employment, standardization of information on the quality of goods and services, efficient tax administration and facilitated employee mobility, ensure that countries are committed to a process of economic and institutional catch-up towards the G1 reference group of developed countries (such as South Korea). These countries, which have reached a certain economic maturity, are improving their governance systems through the formalization of economic, political and social regulation rules.
- Many Arab countries have opportunities to develop their institutions and achieve sustainable growth and development. Yet challenges remain, in particular high population growth, high levels of unemployment, lack of transparency and citizen participation, corruption, political instability in several countries, ... Overcoming these challenges requires major efforts if Arab countries are willing to engage in an economic take-off path, break out of the middle-income trap and accelerate their catch-up process towards developed countries.

Ultimately, it's worth mentioning that one of the limitations of this work is that the IPD database has not been updated since 2016. It would be interesting to analyze recent developments in terms of institutional quality and their effects on the economic performance of the countries in our sample, especially the Arabs ones.

Appendix

Sample country list

Code ISO-3	Country	Code ISO-3	Country	Code ISO-3	Country	Code ISO-3	Country
AFG	Afghanistan	DNK	Denmark	LBN	Lebanon	ROU	Romania
DZA	Algeria	EGY	Egypt, Arab Rep.	LBY	Libya	RUS	Russian Federation
AGO	Angola	EST	Estonia	LUX	Luxembourg	SAU	Saudi Arabia
ARG	Argentina	ETH	Ethiopia	MKD	Macedonia	SEN	Senegal
AUS	Australia	FIN	Finland	MDG	Madagascar	SGP	Singapore
AUT	Austria	FRA	France	MYS	Malaysia	ZAF	South Africa
BHR	Bahrain	GAB	Gabon	MLI	Mali	ESP	Spain
BGD	Bangladesh	DEU	Germany	MLT	Malta	LKA	Sri Lanka
BEL	Belgium	GHA	Ghana	MRT	Mauritania	SDN	Sudan
BEN	Benin	GRC	Greece	MUS	Mauritius	SWE	Sweden
BOL	Bolivia	GIN	Guinea	MEX	Mexico	CHE	Switzerland
BRA	Brazil	HKG	Hong Kong	MAR	Morocco	TZA	Tanzania
BGR	Bulgaria	HUN	Hungary	MOZ	Mozambique	THA	Thailand
BFA	Burkina Faso	IND	India	NLD	Netherlands	TGO	Togo
CMR	Cameroon	IDN	Indonesia	NER	Niger	TUN	Tunisia
CAN	Canada	IRN	Iran, Islamic Rep.	NGA	Nigeria	TUR	Turkey
CAF	Central African Republic	IRQ	Iraq	NOR	Norway	ARE	United Arab Emirates
CHL	Chile	IRL	Ireland	OMN	Oman	GBR	United Kingdom
CHN	China	ITA	Italy	PAK	Pakistan	USA	United States
COL	Colombia	JPN	Japan	PAN	Panama	URY	Uruguay
COG	Congo, Rep.	JOR	Jordan	PRY	Paraguay	VEN	Venezuela, RB
CIV	Cote d'Ivoire	KEN	Kenya	PER	Peru		
HRV	Croatia	KOR	Korea, Rep.	POL	Poland		
CUB	Cuba	KWT	Kuwait	PRT	Portugal		
CYP	Cyprus	LVA	Latvia	QAT	Qatar		

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