

**Weak Rule of Law, Political Instability and Violence
in the Greater Horn of Africa:
What Role on the Economic Development?**

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Abstract

This paper examines the association between the economic development and the levels of rule of law, political instability, and violence in the Greater Horn of Africa. Employing a descriptive-comparative methodology, the study analyzed trends of the data of the countries for the period starting from 2015 to 2019. The study found a positive association, where, on average, lower economic development was associated with weak rule of law, violence and political instability. On the contrary, improved economic development was associated with improved levels of rule of law, political stability and absence of violence.

Based on these results, the study recommends adoption of public policies that can empower institutions, including promoting the rule of law and maintaining a favorable levels of political stability and absence of violence to stimulate the economic development in the Greater Horn of Africa.

Keywords: Horn of Africa, rule of law, political instability, violence, economic development.

1. Introduction

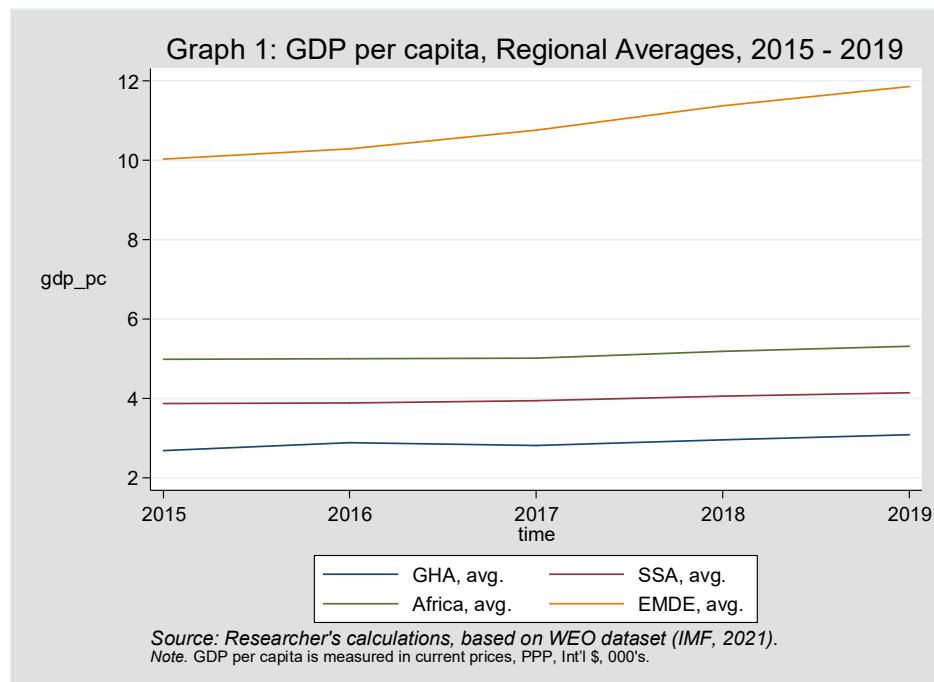
Political instabilities that channeled through violent means are likely to reduce the productivity and transactional capacity of the economy, as they impact adversely on the investment and, thereafter, the economic growth (Dalyop, 2019). Political unrests witnessing by the countries of the Greater Horn of Africa (GHA) have resulted in a violent conflicts that have negatively affected the economies of these countries, i.e., Somalia and South Sudan remains among the lowest performing economies in the world, also, Ethiopia and Sudan are in a very critical situation.

The situation of political instability is often accompanied by absence or weakness of the rule of law, which in turn stimulates corrupt practices in such a structure, and thereafter negatively affects economic performance through the impact of corruption on public spending , i.e., infrastructure, health care, and educational systems. There is also a negative impact of the absence of the rule of law on the investment environment; the flow of the capital into and out the economy and its allocation within the different sectors of the economy. Social protection is, also, seemed to be negatively affected by the absence of rule of law and political instability & violence.

A stable political environment can help build a coherent path to sustainable economic growth (Radu, 2015). In the GHA, most of its member countries are good examples of the relationship between the lower economic development and the lower indicators of rule of law and political stability and absence of violence, and this will represent the problem which this study tries to challenge.

The problem of this study arises from the state of the economic development in the GHA region. Relatively, the average gross domestic product (GDP) per capita of the GHA is less than the average of the countries of Sub-Saharan Africa (SSA) and that of the continent – Africa,

as well. Also, it's much less than that of the countries of Emerging Markets and Developing Economies (EMDE), as shown in Graph 1. This situation had negative impacts on the livelihood of the societies in the GHA region.



This study attempts to study the relationship between the economic development and both the levels of rule of law and political stability & absence of violence in the GHA. Specifically, the main questions which the paper is trying to answer are: “what is the role of these variables on the economic development in the GHA?” and “how the variance in these variables does affect the variance in the levels of economic development in these countries?” The importance of this study stems from the fact that political and legal infrastructures play a major role in stimulating economic performance and its sustainability in the long-term.

The paper argues that the weak rule of law and political instability & violence in the GHA have associated with lower economic development. There are many channels through which this negative association flows; examples may include destruction of the economic infrastructure that left by the violent conflict and the fragility of business and investment environments as a result of political unrests and security disturbances that accompany them. Studies on legal and political dynamics and, as well, their intertwining in the GHA as a single block is important for understanding the region's economic development. Thus, the contribution of this paper will be in this specific area.

In the above paragraphs, the paper presented the introduction of the study in first section, and the rest of the sections will flow. In the second section, the paper will review the economic literature on the subject of rule of law and political stability and violence. The third section will discuss the research methodology and data by which we measure the variables with a presentation of the statistical description, also this section will point some limitations of the study. In the fourth section, the paper will present analysis of the study results and their discussion. Finally, the fifth section will conclude the paper with some policy recommendations to the decision-makers in the GHA.

The Greater Horn of Africa (GHA) is broader than the geography of the traditional Horn of Africa (HoA): Djibouti, Eritrea, Ethiopia, and Somalia. Instead of that, GHA is used to extend to Kenya, South Sudan, Sudan, and Uganda.

2. Literature Review

In the literature, political stability and rule of law have been used by many researchers as a proxy for institutional quality. Acemoglu et al. (2001) argued differences in the institutions explain divergences in the

development paths, mostly due to colonial history using European's settler mortalities as instrument. The robustness of this claim has been later critiqued by Alboy (2012) due to sample data mistreatments, arguing inconsistency of the hypothesis.

The relationship between economic development and political instability found, in the literature, to be bi-directional, goes from both directions. The literature shows there are, at least, two approaches in which political instability negatively can affect economic development. The first approach, according to Perotti (1996), political instability distorts the dynamics of the market as well as the labor relations, and this directly and negatively affects the productivity of the economy. Also, both Landa and Kapstein (2001); Fosu (1992) went to this direction.

Political instabilities are of different levels and, thus, have different effects on the economic development. Jong-A-Pin (2009) claims that political instability has four different dimensions: 1) violence motivated politically, 2) civil protest at mass level, 3) political instability within the regime, and 4) political instability at the regime level. He found, only, the political instability at the regime level to have negative significant impact on the economic growth.

For the second approach, North (1981) and Barro (1991) argued that the periods in which the political environment is unstable, levels of investment in the economy decreases, mostly. This argument, also, was claimed by Fosu (1992); Alesina & Beiruti (1994); Alesina et al. (1996); Svenson (1998); and Feng (2001). The main critiques to this idea can be the fact that political choices has their economic costs and, therefore, countries with less initial economic conditions, most likely, will be difficult for them to shift to or maintain a favorable level of political stability and avoid violence. Also, poverty and limited resources motivates conflicts and violence (Braithwaite et al., 2016).

With regard to the future unpredictability during periods of instability, many economic activities are negatively affected by political instability as a result of the shocks and uncertainty that accompanies with it. Svenson (1998) sees protection of the property rights are negatively affected by the uncertainty caused by the political instability that investors are to encounter in the future.

Maintaining political stability requires effective institutions, this again reconsiders the roots and conditions of the institutions themselves. Leibowitz and Margolis (1995) claimed that today's institutions are product of their historical paths. This means, states with locked-in institutions or inefficient political infrastructure in the past will find it difficult for them to establish efficient institutions in the present and/or to maintain them.

There is a massive literature on the locked-in institutions and their persistence as well as their efficiency. Simon (1976) argues that institutions are similar to habits, whereas habits are “ways of being” that cannot be chosen. Rather, he argues that institutions/habits express an adjustment to the surrounding ecology and, only, with severe shocks, there would be shake off to replace them. Also, he rejects the rational choice model to differentiate efficient and inefficient locked-in institutions. In contrast, Khalil (2013) claims that rationality is relevant in the analysis of the persistence of habits/institutions since it affords a demarcation line to separate efficient from inefficient institutions/habits. Actually, what may seem as inefficient institutions/habits, they are efficient at second approximation, i.e., they economize on costly cognitive processes.

With regard to the economic acceleration, Alesina et al. (1996) argued that, in addition to political instability's threat to the entity of the responsible government – a fundamental catalyst of any modern economy

and a guarantor of the economic freedoms and the enforcement of the contracts – through collapse and political turmoil, political instability will limit investment flows and pose challenges to the speed of the economic growth. On the other hand, North and Weingast (1989) argued that the rule of law is important to the economic growth since it guarantees property rights, enforces contracts, and provides security and insurance against instability and anxiety about the future.

3. Methodology, Data and Limitations

To examine the relationship between the economic development and the levels of rule of law and political instability & violence in the GHA, the study will employ a descriptive-comparative design to analyze trends of the data from the countries of the GHA, namely: the Republic of Djibouti, the State of Eritrea, the Federal Democratic Republic of Ethiopia, the Republic of Kenya, the Federal Republic of Somalia, the Republic of South Sudan, Republic of the Sudan, and the Republic of Uganda. The study spans a period of five years, starting from 2015 to 2019.

The dependent variable of the study is represented by the economic development which is measured by the current prices of the GDP per capita using the purchasing power parity (PPP) in international dollars (Int'l \$). The independent variables are represented by weak rule of law and political instability & violence, and they are measured by their respective sub-indices of the Worldwide Governance Indicator (WGI) by Kaufmann et al. (2011). The study used some other secondary variables to conceptualize the mechanism of the relationship, they include: foreign direct investment (FDI), capital formation, and human capital index (HCI).

Kaufmann et al. (2011) employed Political Stability and Absence of Violence/Terrorism for “capturing perceptions of the likelihood that the

government will be destabilized or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism” (p.3). On the other hand, Kaufmann et al. (2011) used Rule of Law for “capturing perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence” (p.3).

Table 1 reports sources of the study data. The dependent variable, GDP per capita, is from the World Economic Outlook (WEO) dataset of the International Monetary Fund [IMF] (2021), the researcher transformed it into thousands (000's). The independent variables; rule of law and political stability & absence of violence, were obtained from the WGI dataset of the World Bank [WB] (2021a). WGI is an indicator that has been produced and published, mostly, on annual basis by the WB which reports six dimensions (sub-indices) of governance/ institutional quality: control of corruption, political stability and absence of violence/ terrorism, rule of law, voice and accountability, regulatory quality, government effectiveness. Data of the secondary variables are sourced from the datasets of World Development Indicators (WDI) (WB, 2021b) and HCI (WB, 2021c), respectively.

Composite Values of the sub-indices of the governance are available on two scales. Firstly, in units of normal standard, ranging from -2.5 to +2.5 with a mean equal to zero and a standard deviation equal to one. Secondly, in percentile order, ranging from 0 to 100. The lower values of sub-indices reflect poor institutional quality or governance performance while higher values reflect better results. In this study, we will employ the first scale, normal standard units for both the indicators; rule of law and political stability and absence of violence. Treatment of the data, its analysis and visualizations are all conducted using STATA Statistical Package.

Table 1: Variables Description

Variable	Symbol	Measurement	Source
GDP per capita	gdp_pc	PPP, current, Int'l \$, 000's	WEO, IMF
Weak Rule of Law	rl_est	Std. normal units, -2.5 to +2.5	WGI, WB
Political Instability & Violence	pv_est	Std. normal units, -2.5 to +2.5	WGI, WB

To compare the performance of the countries of the GHA, the study chose Sub-Saharan Africa (SSA) as a base region, due to their great similarities in common, i.e., they all belong to the African continent and share several socio-economic, and political characteristics. Furthermore, the average of Africa continent and that of the Emerging Markets and Developing Economies (EMDE) region will be depicted. The average of the GHA (GHA, avg.), based on researcher's calculations, is then compared against other regions.

The study is not arguing a causation conclusion, since it didn't used empirical approach to answer the basic research questions. Advanced quantitative methods employing econometric models are needed to conclude with robust causal effect relation. Another major limitation is the difficulties that inherent in using proxies to capture dimensions of a latent variable such as governance, it's a more complicated concept.

4. Results and Discussion

Table 2 shows descriptive statistics of the primary study variables; GDP per capita, rule of law and the political stability & absence of violence. On overage, countries of the GHA, achieved a GDP per capita of Int'l \$ 2886, ranging from Int'l \$ 862 to Int'l \$ 5741. For the rule of law, the

GHA countries scored an average of -1.14 standard normal units, ranging from -2.35 to -0.25. While the political instability & violence, shown an average of -1.41 standard normal units, ranging from -2.51 to -0.14.

Table 2: Descriptive Statistics

Variables	Obs.	Mean	Std. Dev.	Min.	Max.
gdp_pc	40	2.886	1.611	0.862	5.741
rl_est	40	-1.14	0.71	-2.35	-0.25
pv_est	40	-1.41	0.75	-2.51	-0.14

From the simple analysis of the descriptive statistics, it's very clear that, all the countries of the GHA shown negative scores for both the indicators of rule of law and political stability & absence of violence. This means, the GHA region, in general, in a state of weak legal structure or absence of the rule of law in some countries. As well, GHA is in a state of violence and political instability. This intertwined dilemma, structurally, affected negatively the economic development in the GHA.

Table 3 shows that the average GDP per capita for the countries of the GHA was growing slightly over the time. Countries of the GHA achieved highest average in 2019, with a GDP per capita of Int'l \$ 3078. Republic of Djibouti achieved the highest of that year with a GDP per capita of Int'l \$ 5740, while the Republic of South Sudan achieved the lowest, Int'l \$ 862. On the other hand, Djibouti scored, relatively, better levels for both indicators of rule of law and political stability & absence of violence, while South Sudan scored lowest, relatively, as will discussed later.

Table 3: GDP per capita, GHA, Yearly Averages

Time	2015	2016	2017	2018	2019
gdp_pc	2.686	2.885	2.819	2.962	3.078

Source: Researcher's calculations, based on WEO dataset (IMF, 2021).

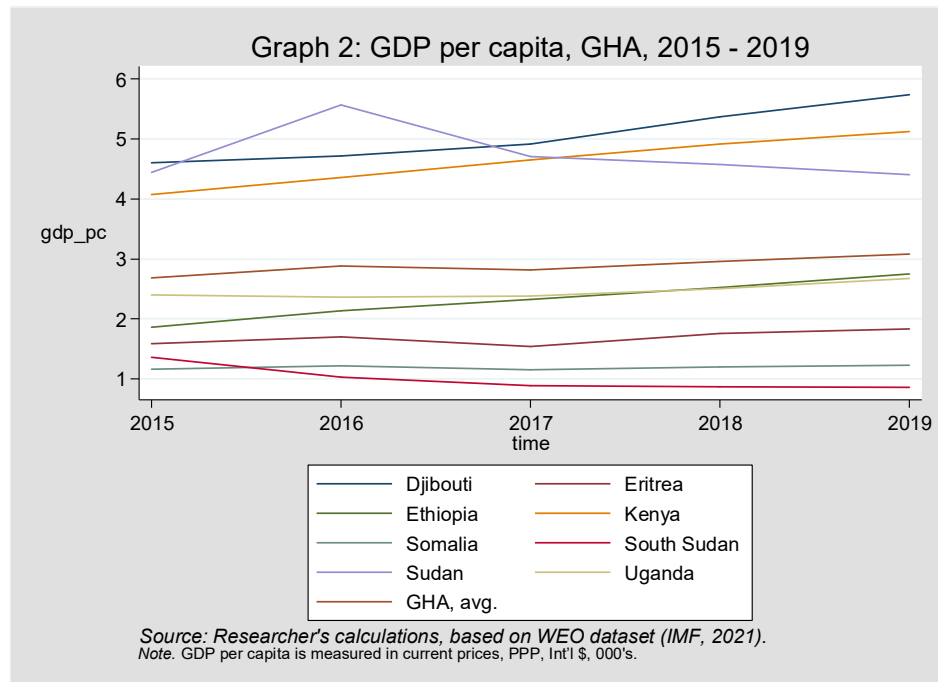
Despite the lower performance, on average, of the economies of the GHA compared to the averages of SSA, Africa, and EMDE; the results of the study shown slight increase in the GDP per capita over time in the most study countries. More interestingly, trends showed a divergence in the GDP per capita among the countries of the GHA, as depicted in Graph 2.

Republics of Djibouti and Kenya achieved GDP per capita better than the averages of both the GHA and SSA regions, while others, i.e., Somalia and South Sudan, performed levels way lower than the averages of the GHA and SSA. On the other hand, the results shown for all the countries, lower indicators of rule of law and political stability & absence of violence in the GHA region. This may explain, to a large extent, the hindered economic development in these countries; specifically the question of “why the economic development in these countries is underperforming, compared to the averages of SSA, Africa, and EMDE?”

The association of low economic development, indicated by GDP per capita, with lower levels of rule of law and political stability and absence of violence, indicated by WGI’s sub-indices of rule of law and political stability & absence of violence, seems in line with the economic theories, as discussed by the studies in the literature review section. The mechanism of this effect flows through the fact that political stability and rule of law stimulates a number of macroeconomic variables that significantly affect the level of production in the economy, such as the stability of the exchange and interest rates, FDI, capital formation, and the HCI.

Table 4 reflects the mechanism of the relationship by depicting channels through which- among other factors - the impact of rule of law and political stability & absence of violence flows to the economic development. The table compares FDI (2019), capital formation (2015) and HCI (2020) of four countries in the GHA. The study found that the

pattern of these variables comes in the same pattern as the indicators of rule of law and political stability & absence of violence. This may explain, to a large extent, an important part of the divergence of the economic development in these countries.



The results of the study indicate that the Republic of Kenya obtained the largest share of FDI inflows, amounting to USD 1.33 billion, according to WDI dataset of the WB (2021b), followed by the Republic of Uganda with USD 1.27 billion, then the Federal Republic of Somalia with USD 0.45 billion, and then the Republic of South Sudan with an estimated FDI outflow of about 232 million US dollars, meaning FDI was migrating (capital flight) from South Sudan.

With regard to capital formation, the study shown the reiteration of the first pattern, where, relatively, the Republic of Kenya came first with USD 13.7 billion, followed by the Republic of Uganda with USD 7.651

billion, while the Republic of South Sudan came at the last of the ranking with USD 0.69 billion, according to WDI dataset of the WB (2021b).

Finally, the HCI, also, followed the same pattern as the previous ones. The Republic of Kenya came first with an HCI of 0.55, followed by the Republic of Uganda with an HCI of 0.38, while the Republic of South Sudan ranked at the last with an HCI of 0.31, according to HCI dataset of the WB (2021c).

Table 4: Selected Socio-economic Indicators, Selected Countries

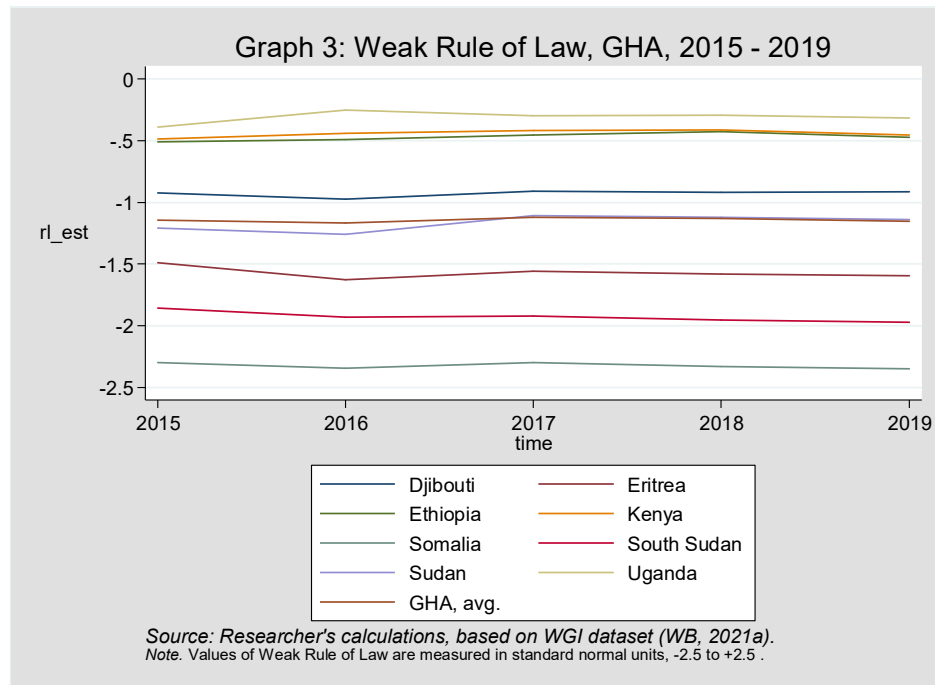
Variables /Country	Kenya	Uganda	Somalia	South Sudan
FDI Flow (\$ bn, 2019)	1.33	1.27	0.45	- 0.232
Capital Formation (\$ bn, 2015)	13.74	7.651	--	0.69
Human Capital Index (0-1, 2020)	0.55	0.38	--	0.31

Source: WDI dataset (WB, 2021b); HCI dataset (WB, 2021c).

The obvious difference in the flows of FDI, capital formation, and HCI in these countries can be explained by the differences in their levels of rule of law and political stability & absence of violence. Republics of Kenya and Uganda are witnessing better stability levels, relatively compared to Republics of Somalia and South Sudan.

Graph 3 illustrates trends of the rule of law in the GHA. These trends, in general, show lower levels of rule of law which indicates a state of weakness of or disobedience to rule of law, where all the countries of the GHA scored negative values during the study period, 2015 to 2019. Republics of Uganda and Kenya have shown, relatively, better levels of rule of law with a little improvement over time, while Republics of South Sudan and Somalia have shown severe disobedience to the rule of law

with a worsening over time. Republic of Djibouti and the State of Eritrea scored the average value of the region's rule of law with no change to Djibouti and worsening to Eritrea over the study period, 2015 to 2019.



According to Musila (2018), formal judiciary capacity limitations, i.e., working conditions and courts number, remains major constraints of the legal system in South Sudan. While in Somalia, besides the provisional nature of the constitution and all other challenges, dual court system; combining- practically-civil and traditional court systems, is a common issue that is questioning the trust on the formal judicial system.

Quasi-parallel judicial systems, in the absence of necessary reforms and capacities, may promote conflicting interpretations and create a room for misconducts that will rise transaction costs as a result of the exacerbated uncertainty risk. Judicial systems in Somalia showed their failure to deliver competitive incentives to the economy calling for reforms.

According to Maru (2008), a single court system has the advantage to enable a better legal infrastructure for promoting economic development by attracting foreign direct investment.

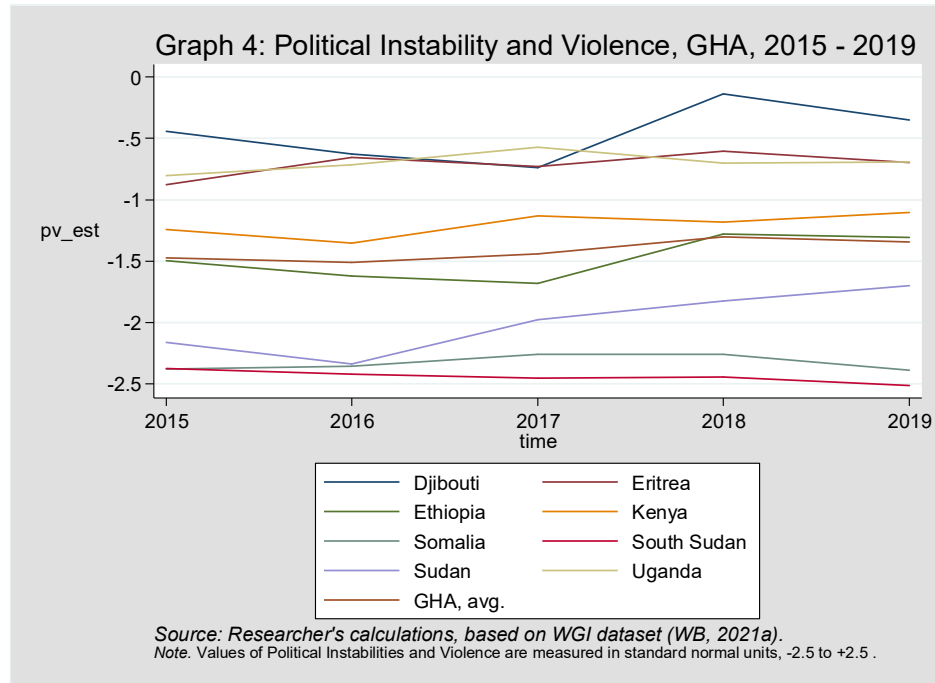
The situation of the weak or disobedience to the rule of law has led the GHA region to fragile systems posing risks of uncertainty and distortions to their economies. Many countries in the GHA region are characterized by the most distorted business and investment environments in the globe.

The weak rule of law, also, negatively affected the capital formation and the FDI. The GHA received one of the lowest of FDI inflow in the continent and the globe, as well. As shown in Table 4, the Federal Republic of Somalia received in 2019 an FDI of only USD 450 million, while this number was negative in the Republic of South Sudan, showing that FDI was migrating from South Sudan due to the poor legal infrastructure, among other factors.

Graph 4 illustrates trends of the political stability and absence of violence in the GHA. Fluctuations of these trends, in general, show the state of instability and the presence of violence in the GHA. All countries of the GHA region scored negative values for the whole study period, 2015 to 2019. Republics of Djibouti and Uganda shown, relatively, better levels of political stability and absence of violence, about -0.5 std. normal units, with a little improvement over time, while Republics of South Sudan and Somalia shown severe instability and violence, about -2.5 std. normal units, with a little improvement over time for Somalia and a decline for South Sudan; while Republic of Kenya scored the region's average of the instability and violence with a little improvements over time.

Republics of Ethiopia and Sudan showed critical scores, relatively; ruining Ethiopia's years of economic progressing and more worsening to sanctions burdened economy of Sudan. On the other hand, tourism sector

of Ethiopia's economy found by Kebede (2019) to be suffered, on overall, from the instability and the violence in the country. This has negative implications on other sectors, mainly travel.



Interestingly, Francois et al. (2015) argued power in Africa is shared enough ethnically by the ruling coalitions, mainly to avoid likelihood of threats from revolutions and coups. This argument can be questioned in the GHA, which is characterized by dynamic threats of politically motivated instabilities and conflicts. Political instabilities & violence negatively affected the infrastructure of the violence affected countries in the GHA, where most of these countries' infrastructure are heavily damaged or destroyed by the violent turbulences which result from the political instabilities.

On the other hand, political instability and violence in the GHA region have resulted in poor HCI performance, i.e., school enrolments in the

violence and instability affected countries of the GHA are among the lowest globally. Brain migration is common phenomenon in the GHA, as well. This, in turn, adversely affected negatively the economic productivity where the countries of the GHA, as shown in Graph 1, performed averagely GDP per capita lower than SSA, Africa, and EMDE regions.

5. Conclusion and Policy Recommendations

The paper studied the relationship between the economic development and the rule of law, political stability, and absence of violence in the GHA. Using a descriptive-comparative design, the study analyzed trends of data from the countries of the GHA for a period of five years, 2015 to 2019.

Political instabilities and violence are, likely, accompanied by weakness or absence of the rule of law, which stimulates corrupt practices in such a structure. This intertwined dilemma, thereafter, negatively affects economic development through the impact of corruption on the public spending and business environments.

The study found, in general, the GHA region achieved an economic development, measured by the average GDP per capita, lower than that of the SSA, Africa, and EMDE regions. This lower average economic development in the GHA associated with negative scores, for all the countries, for both the indicators of rule of law and political stability & absence of violence. More interestingly, the study found divergence in the economic development trends within the economies of the GHA.

To explain this divergence, the study found positive correlation between trends of the economic development and the indicators of rule of law and political stability & absence of violence. Some countries in the GHA

shown, for the studied period, an improved level of economic development associated with better levels of rule of law and political stability & absence of violence, relatively. In contrast, other countries had shown a deteriorated level for all the indicators, relatively. Among other channels, the study assumed that the mechanism of this association goes through the FDI flows, capital formation, and the HCI, where their levels varied according to the levels of the rule of law, political stability and absence of violence.

Based on the study results, to stimulate the economic development in the GHA, the study recommends adoption of public policies that can empower institutions, promote the rule of law and maintain favorable levels of political stability. Some policies in this regard may involve: including citizens in the decision-making process through effective representations, separation of authorities in a way that allows for checks and balances, and encouraging political and economic rights to avoid instabilities and violence. Raising responsible civic awareness and effective engagement can, also, promote a culture of transparency and accountability.

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