

A BRAVE NEW WORLD FOR YOUNG ARABS

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@ Lions Club
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AGENDA

- Political, Social, Economic & Environmental Challenges
- Structural Change & 'Fundamentals'
- An 'Arab Renaissance' ?
- Role of Technology, Innovation and Networking
- Policy Reforms & Governance
- Breaking Free to create a "Brave New World": removing Barriers to Riches and to Technology Adoption

The MENA Countries face numerous challenges

- Political, Strategic
- Demography and Labour Force
- Macro-economic environment
- Structural reforms
- Knowledge & Technology Gap
- Governance

Searching for Growth in Road Maps?

- MENA developments & outlook dominated by political & security concerns & uncertainty
 - Israeli-Palestinian Conflict
 - September 11, 2001 & aftermath
 - War on Iraq & consequences
- Road maps for economic reforms ?
 - Domestic economic reforms
 - International integration

Arab Countries Challenges I

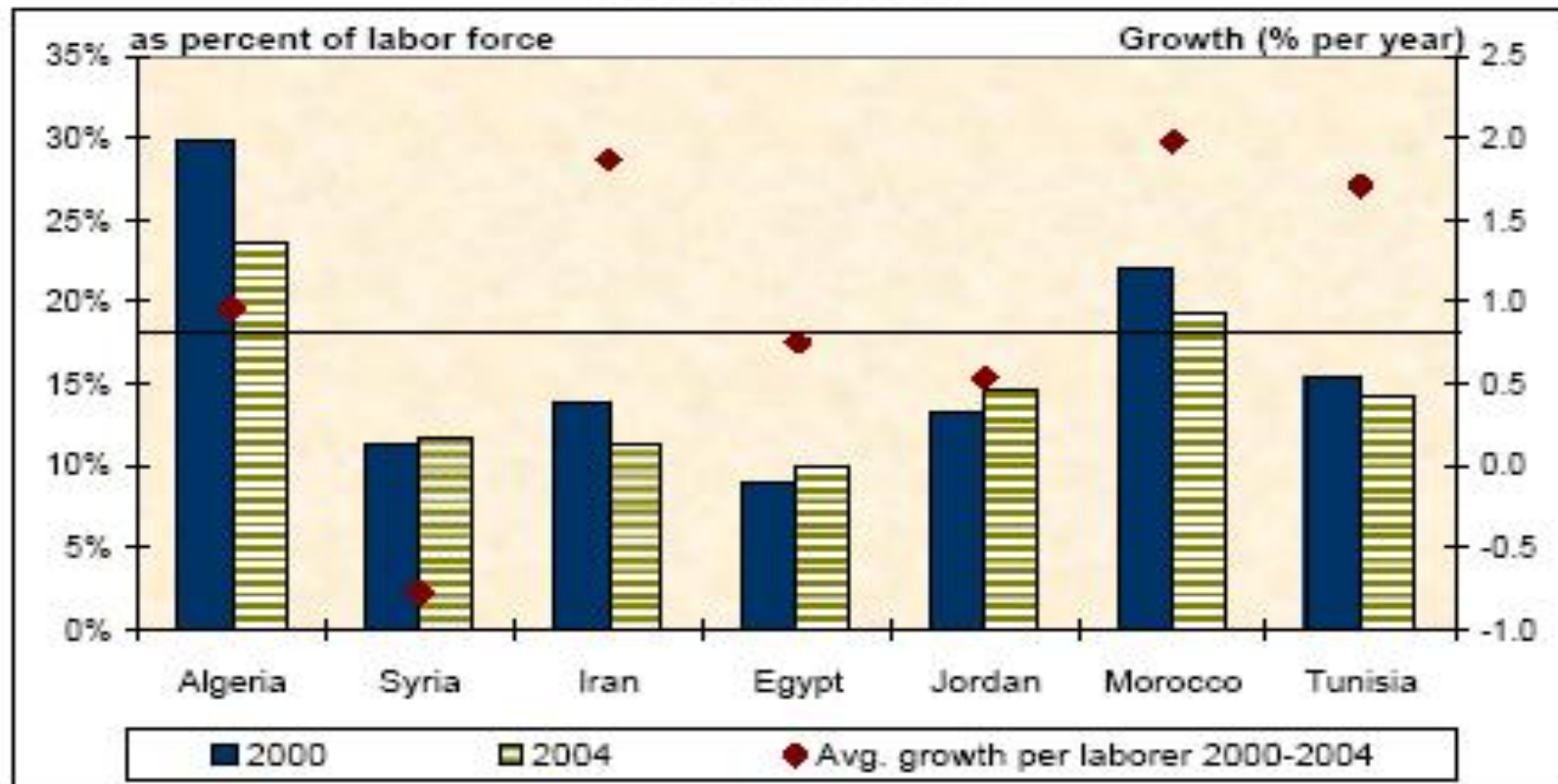
- Effects of war on Iraq must be analyzed and understood in the context of the multiple challenges facing the countries of the region
- Demographic time bomb or 'blessing'?
 - High population and labor force growth rates: need 100 million new jobs by 2020
- Stagnating or falling per-capita real incomes
- Volatile economic growth rates
- Aging, inadequate physical infrastructure: need \$20 billion annually
- Deteriorating environment

MENA's Employment Challenge

- **Creating 100 million new jobs by 2020 or doubling the current level of employment.**
- **In the next two decades the labor force will expand by 80 million new workers. The expansion of the labor force in the next two decades is equal to the cumulative increase over the period 1950-2000.**
- **Currently, the labor force is increasing by 4.2 million workers per year compared to 3.2 million in the 1990s and 2.1 in the 1980s.**
- **The current unemployment rate is around 15 percent affecting close to 20 million workers.**

Unemployment & Growth

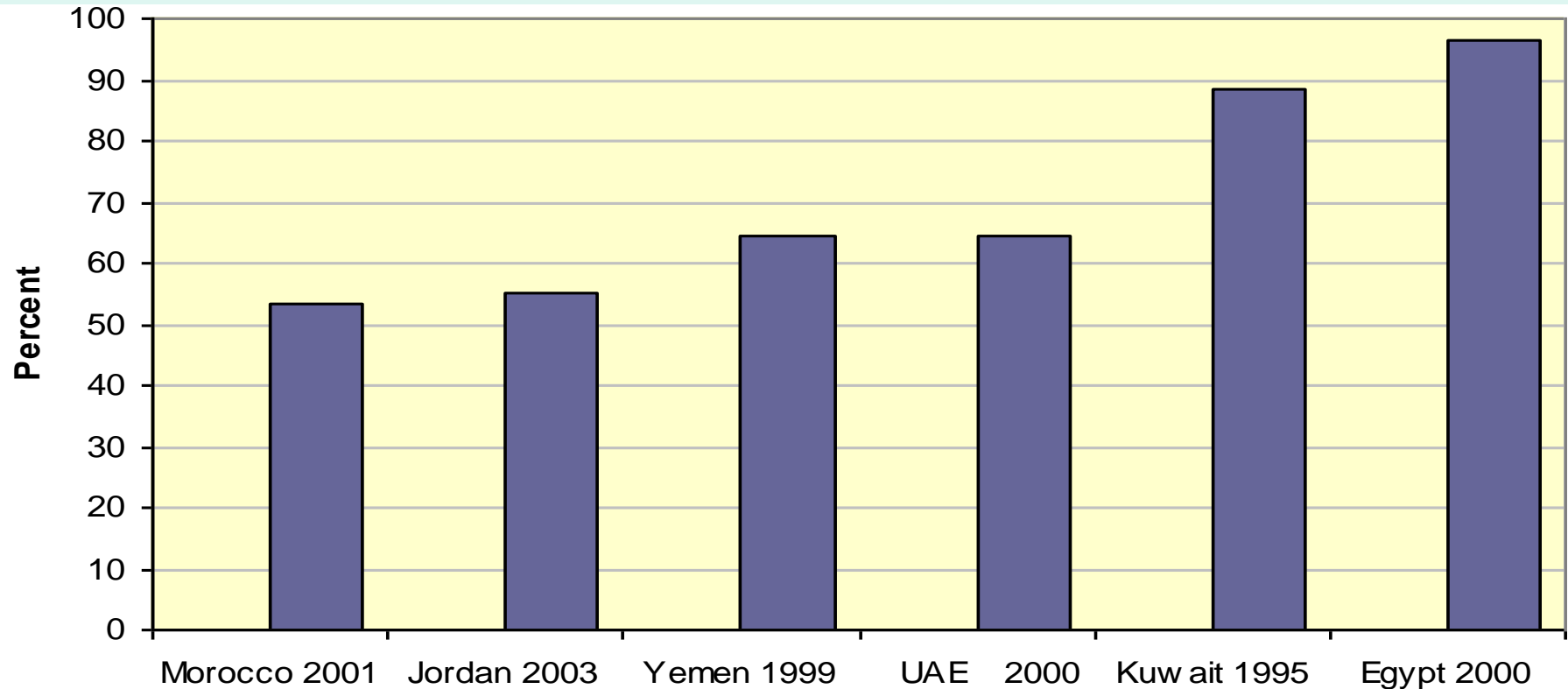
Figure 1.2 Unemployment in MENA
2000 and 2004*



Source: World Bank data.

Note: % or most recent year available post 2000.

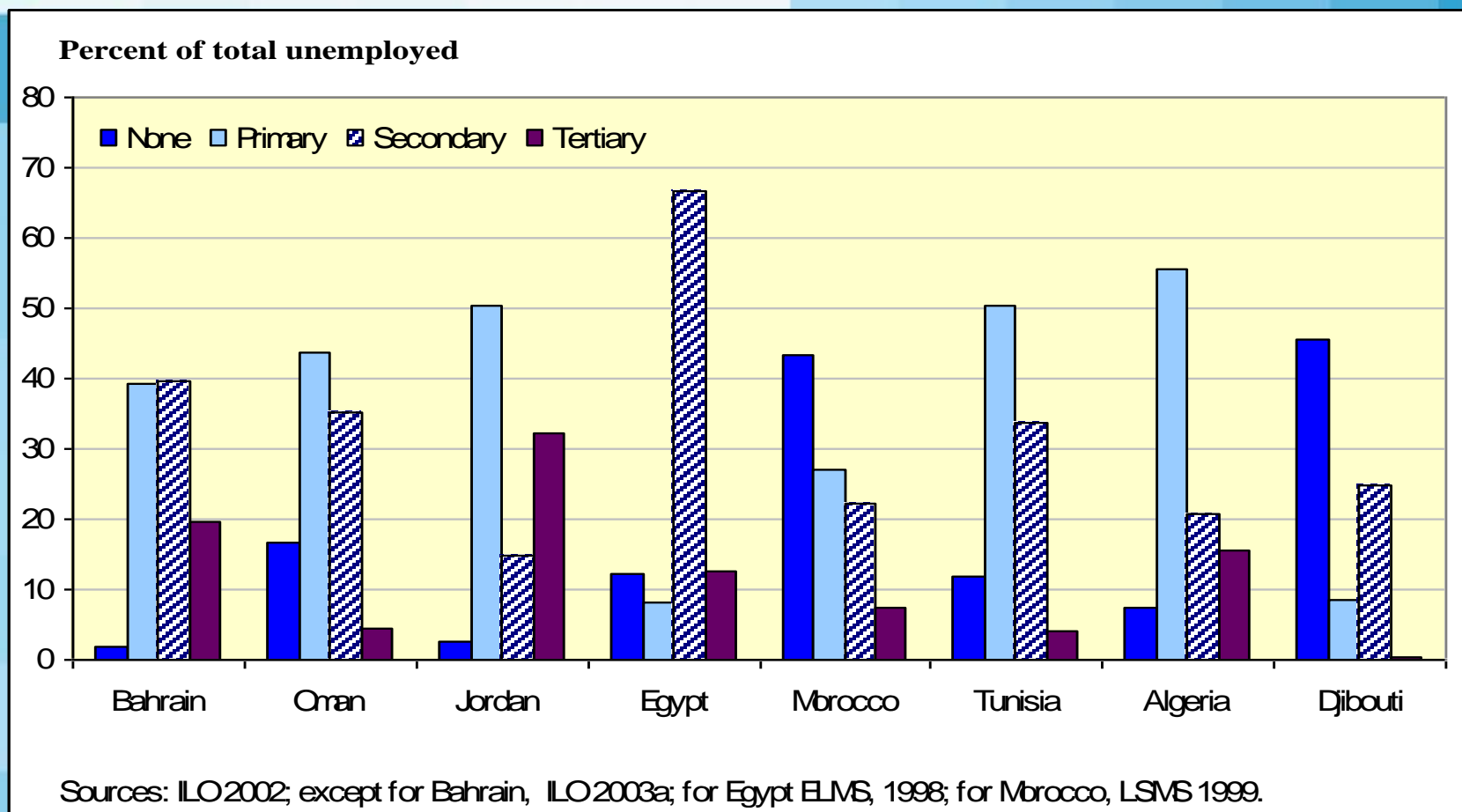
Youth are especially affected: First-time job seekers: 90% of unemployed in Egypt; 2/3 in Yemen and UAE; more than 50% in Jordan and Morocco



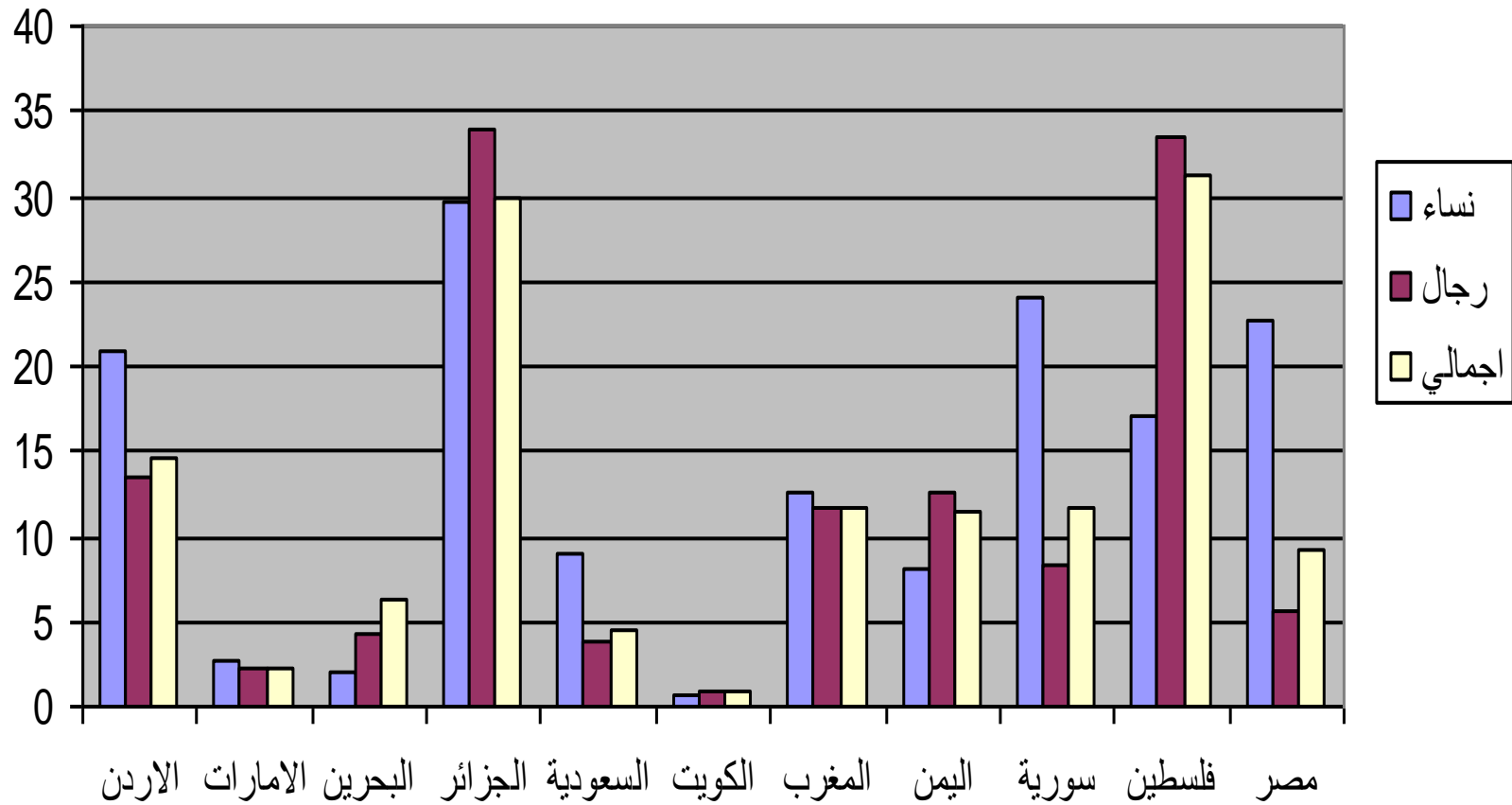
Source: ILO 2003b; except for Kuwait, Population Census 2001; For Jordan, HES, 2003.

Workers are increasingly educated ...and facing increasingly difficult job prospects

Distribution of unemployed by level of education

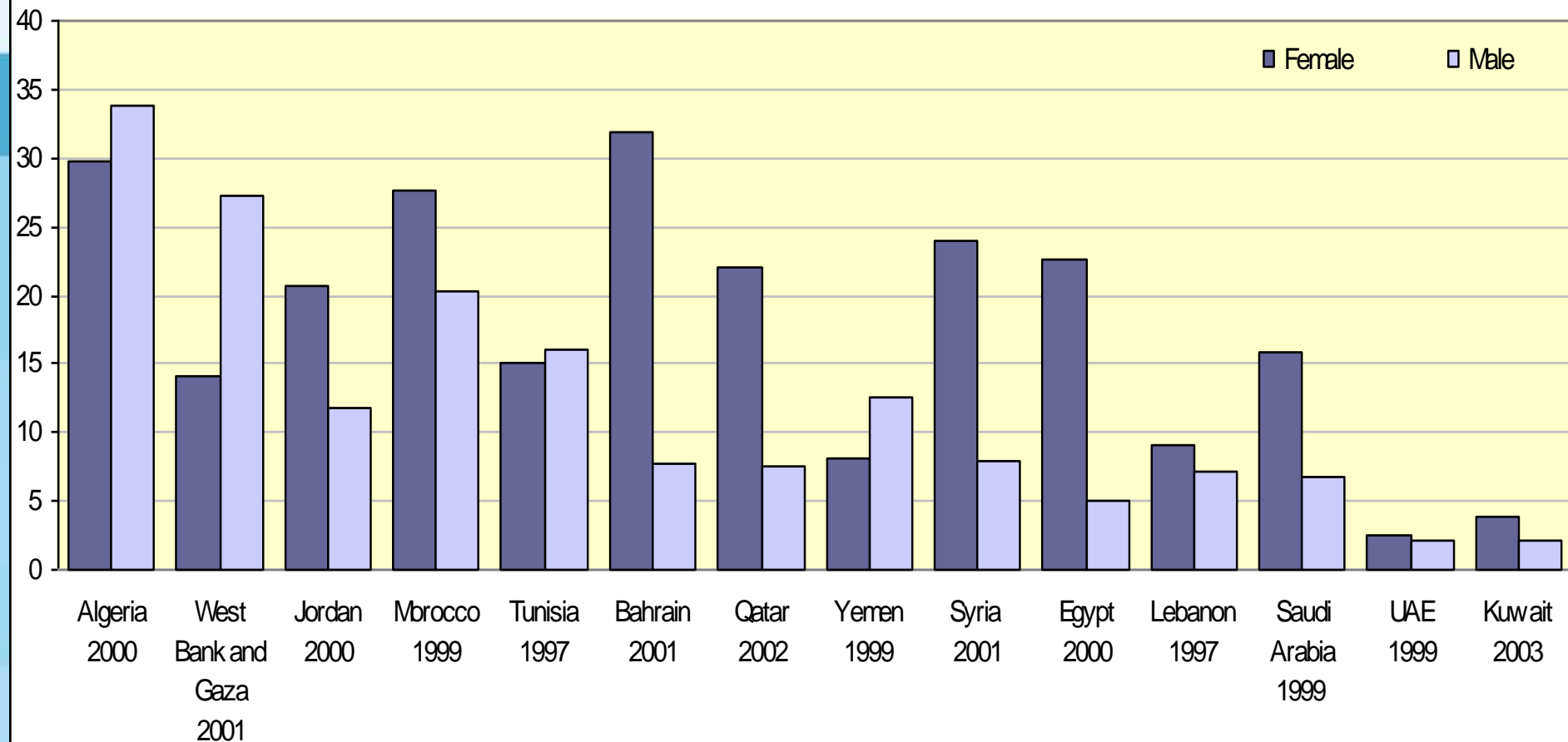


معدل البطالة 1999 - 2002 (%)



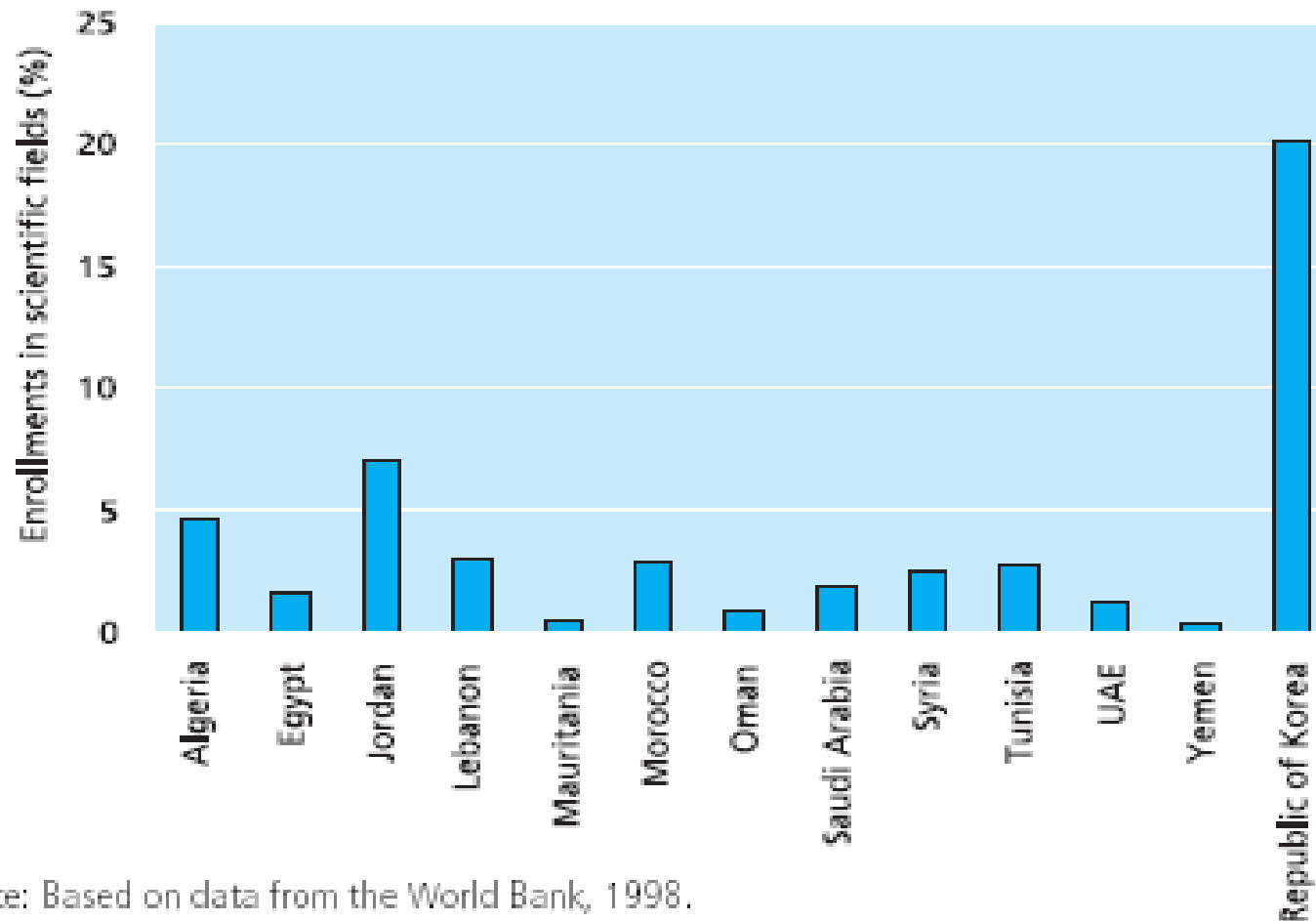
Unemployment rates for women are 30% higher than for men

Unemployment Rates by Gender in Arab Countries (percent)



Source: For Algeria, Jordan, Syria, Egypt, West Bank and Gaza, Yemen, ILO 2003b; for Tunisia, INS 2001; for Bahrain, Qatar, Saudi Arabia, Kuwait and UAE, Girgis, Hadad-Zervose, and Coulibaly 2003; for Morocco, LSMS 1999; for Yemen, NPPS 1999.

Ratio of students enrolled in scientific disciplines in higher education in selected Arab countries and Korea, 1990-1995



Source: Based on data from the World Bank, 1998.

Growth & Innovation are linked but:

TABLE 3.1

Number of patents registered in the United States from Arab and non-Arab countries during the period 1980-1999/2000

Arab Countries		Other Countries	
Country	No. of Patents	Country	No. of Patents
Bahrain	6	Korea	16,328
Egypt	77	Israel	7,652
Jordan	15	Chile	147
Kuwait	52		
Oman	5		
Saudi Arabia	171		
Syria	10		
UAE	32		
Yemen	2		

Source: Abdulkader Djeflat (March 1999) and Omar Bizri (April 2000).

TABLE 3.2

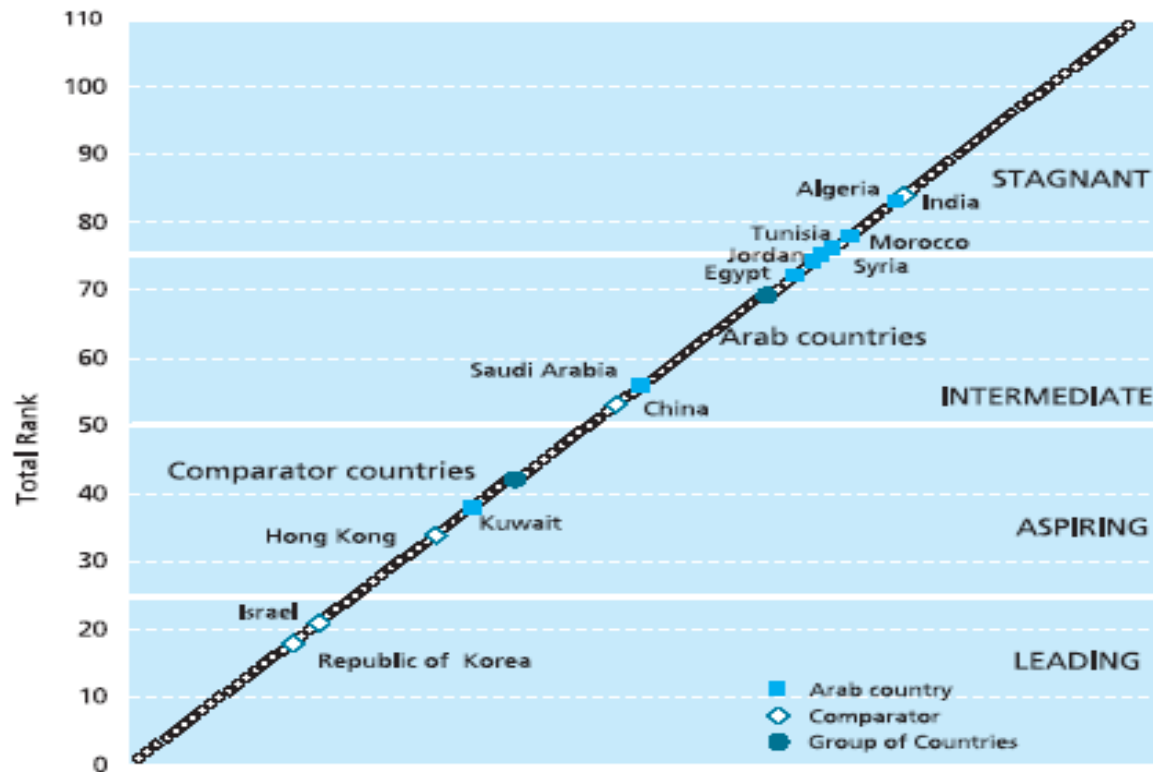
Rate of expenditure as a percentage of GNP and sources of R&D funding: Arab states compared with selected countries, 1990-1995

Region or group of countries	Average expenditure (% of GNP)	Percentage share of funding sources		
		Government	Industry	Other
United States, Japan and Sweden	3.1	20-30	55-70	4-10
Germany, France, United Kingdom, Italy, Australia and Canada	2.4	38	52	10
Greece, Portugal and Spain	0.7	54	35	11
Turkey and Mexico	0.4	65-73	14-31	5
Arab states	0.2	89	3	8

Source: Subhi Al-Qasim, 1999.

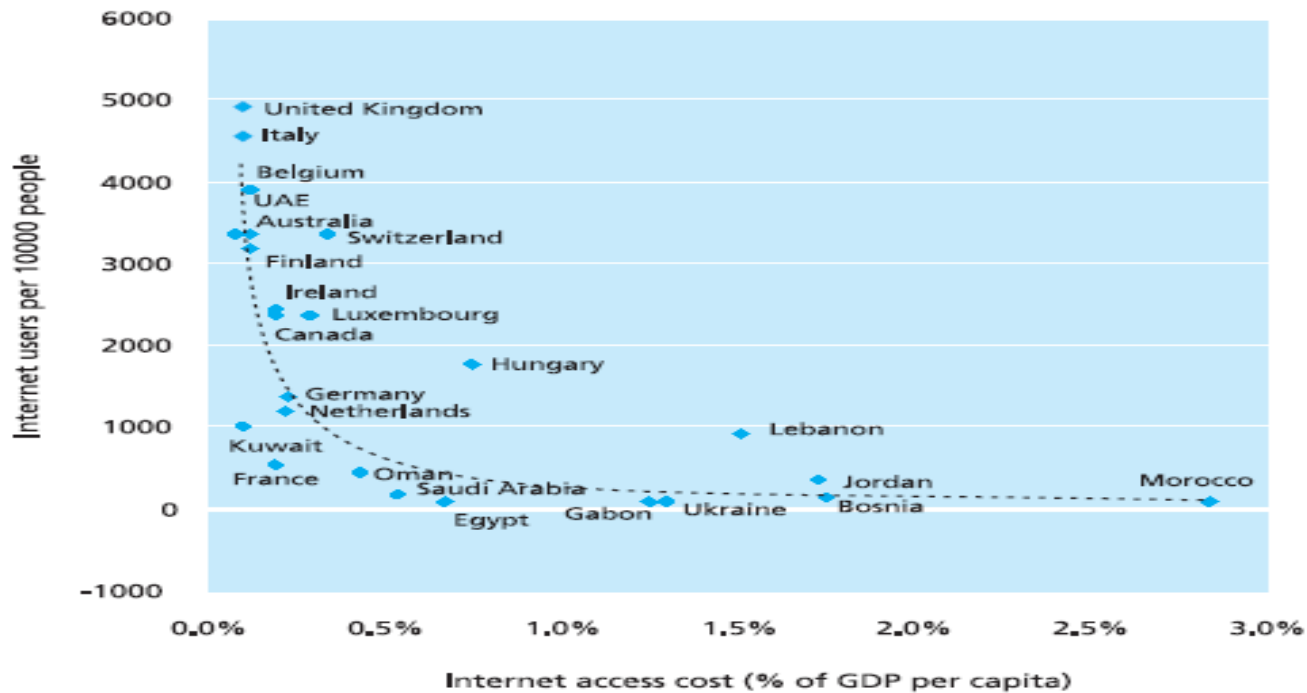
Arab countries must invest in Knowledge Capital not education

Ranking of Arab countries compared to other countries and regions on the composite indicator of knowledge capital, 2000



Barriers to Knowledge I

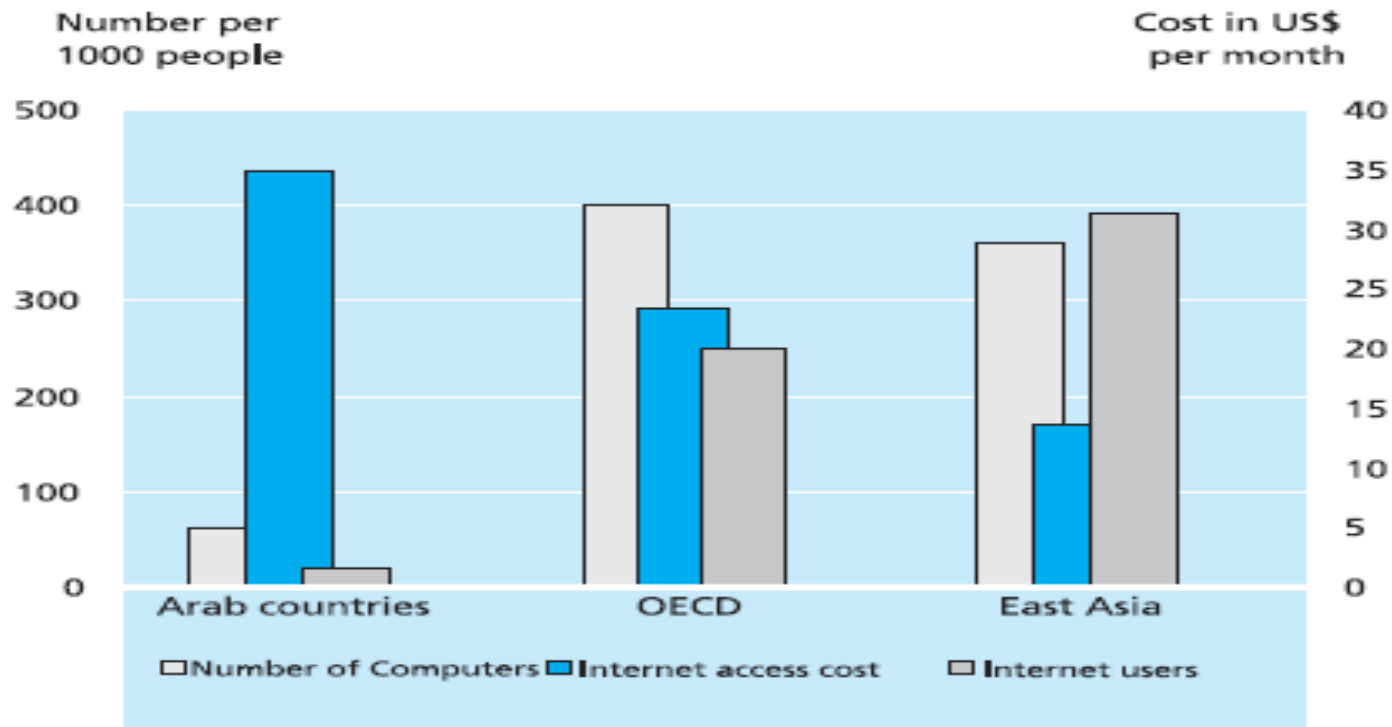
Correlation between Internet penetration and Internet costs -- Arab countries and comparators



Source: International Telecommunication Union (ITU), 2002.

Barriers to Knowledge II

PC availability and Internet costs and penetration:
Arab countries, OECD and East Asia, 2001



Source: World Economic Forum, 2002.

Arab Countries Challenges II

- Limited production and export diversification
- Limited regional and international integration in trade and investment
- Limited capital markets integration
- Large and growing 'digital divide'
- Dealing with political-security aftermath of September 11 and new barriers to trade,
- financial, investment and human flows

Globalisation is a major challenge

- **Competition between countries, both macro and micro**
 - Investment
 - Human capital
 - Technological innovations
 - Regulatory frameworks
- **Limited International Economic Integration**
 - MENA has 7.7% world population but produces only 4.3% world GDP, 0.8% of internet users
 - Limited trade integration
 - 1.8% of total FDI
 - 3.6% of aggregate Net Resource Flows
- **Challenge of competitiveness regime**
 - Intellectual property protection to boost innovation
 - Compliance with international codes, norms and standards
 - New legislation and institutions to enter WTO and to adopt reforms

**OVERALL CHALLENGES
OF GLOBALISATIONS...**

**... ARE ALSO
CHALLENGES FOR
MENA COUNTRIES**

Evidence of Non-Integration of the Arab Countries

Globalization



Trade



Labour



Capital Flows & FDI



Arab Countries Challenges III

- Failure of 'good governance' and institutional development
- Dominant role of the State in production
- Ineffective macroeconomic and financial policies
- Brain drain and capital flight

Arab Countries Challenges IV

- Vulnerabilities:
 - Conflicts and instability
 - Energy markets & prices: terms of trade shocks
 - Climatic conditions and shocks
 - Pro-cyclical fiscal policies
 - Fixed exchange rate policies
- Conflicts and instability leading to
 - Lower domestic investment & FDI
 - Slow growth of international trade & job creation
 - Brain drain

‘New Institutional Economics’ & “Good Governance”

- Empirical evidence suggests that well performing institutions, enabling legal infrastructure, regulatory regimes and enforcement, “good governance” are major contributors to economic growth & prosperity and democracy
- “Good governance” is required by both government and business in MENA
- Substantial natural resource wealth has not resulted in prosperity or economic growth
 - The region is ‘wealthy’ in natural resources, but poor in economic performance

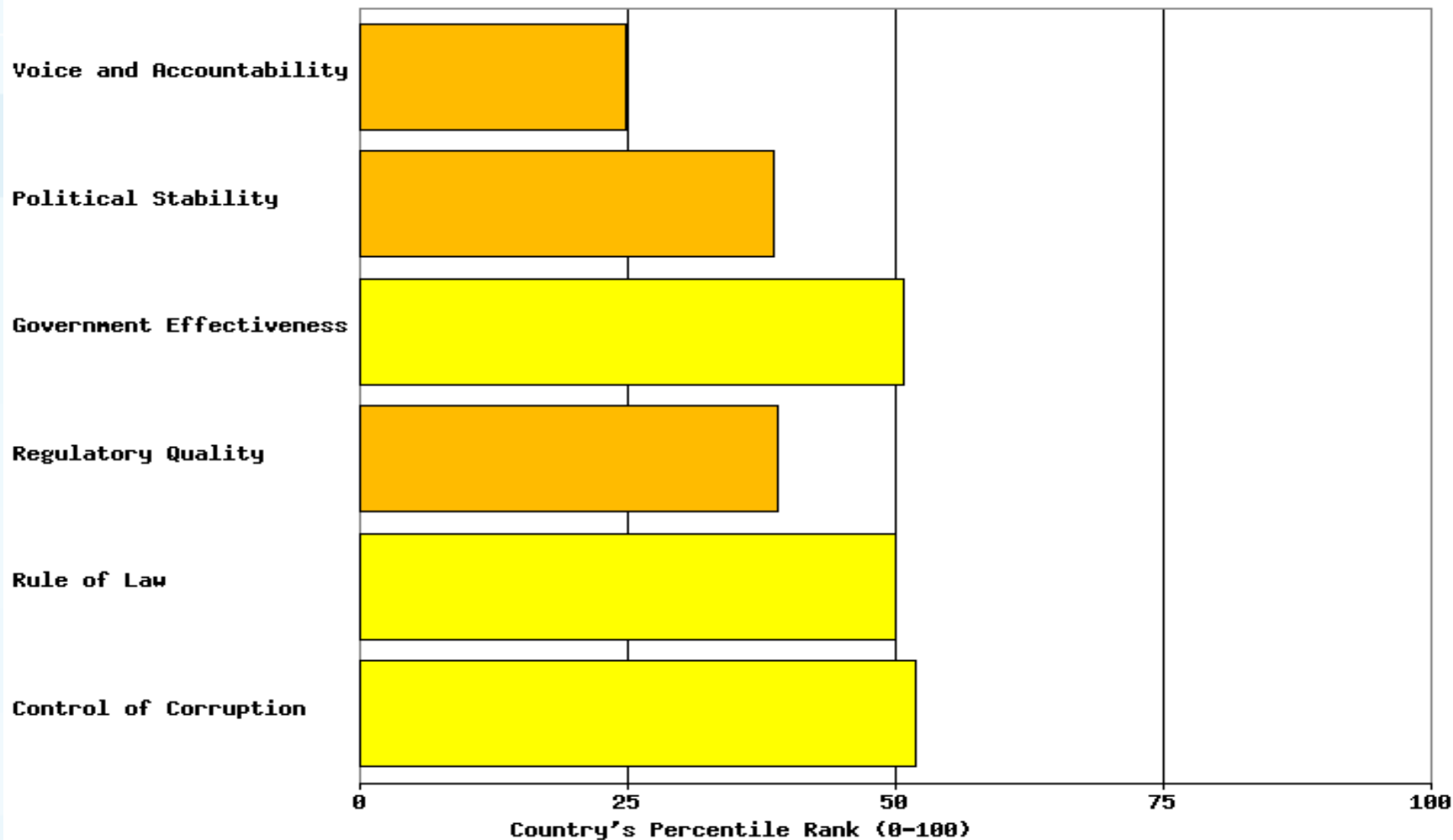
Dimensions of Good Governance (Source: World Bank)

- Voice and accountability
- Political stability; No violence or conflict
- Government effectiveness
- Regulatory quality
- Rule of law
- Control of corruption



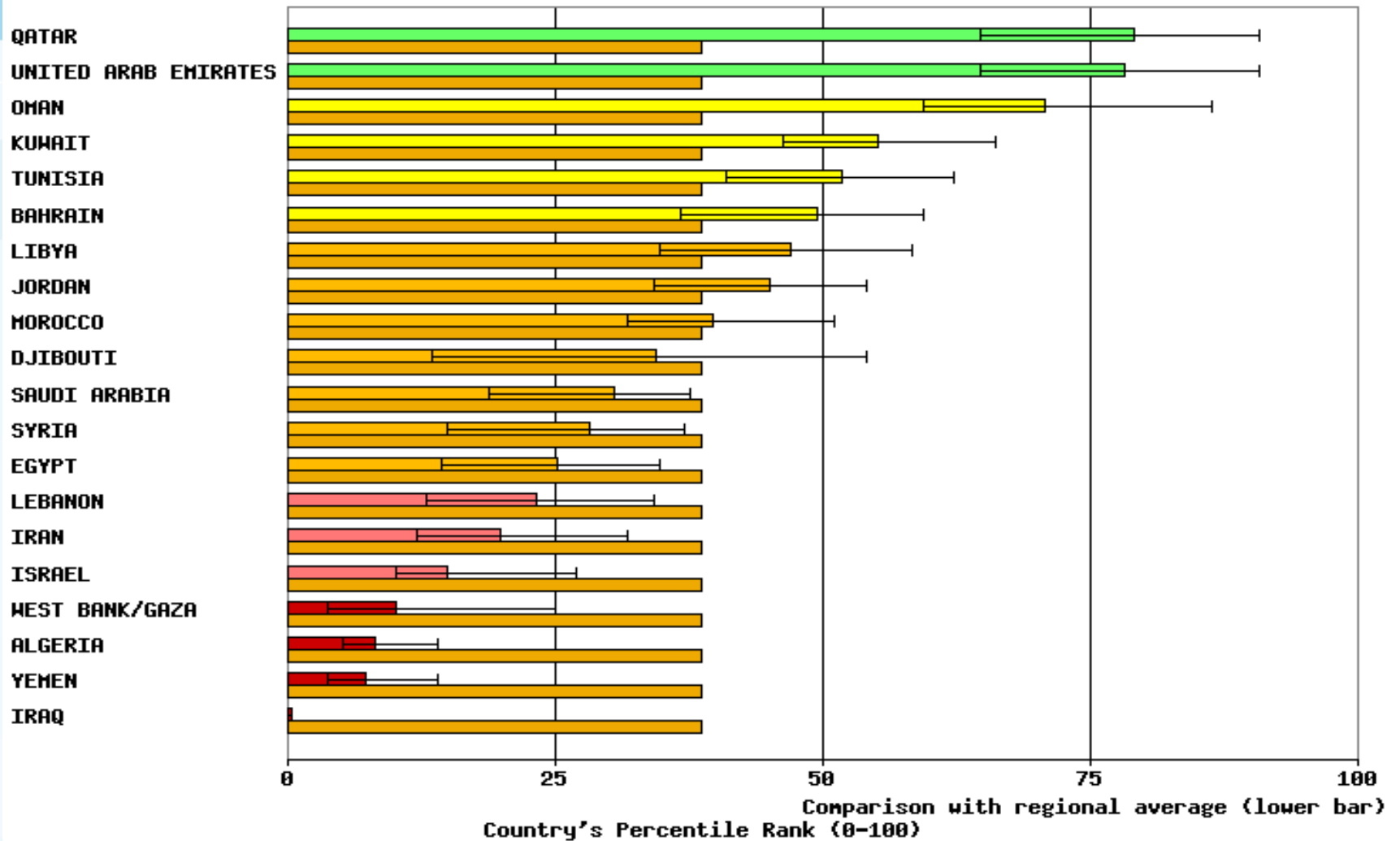
GOVERNANCE INDICATORS MENA 2004

Middle East & North Africa – Regional Average (2004)



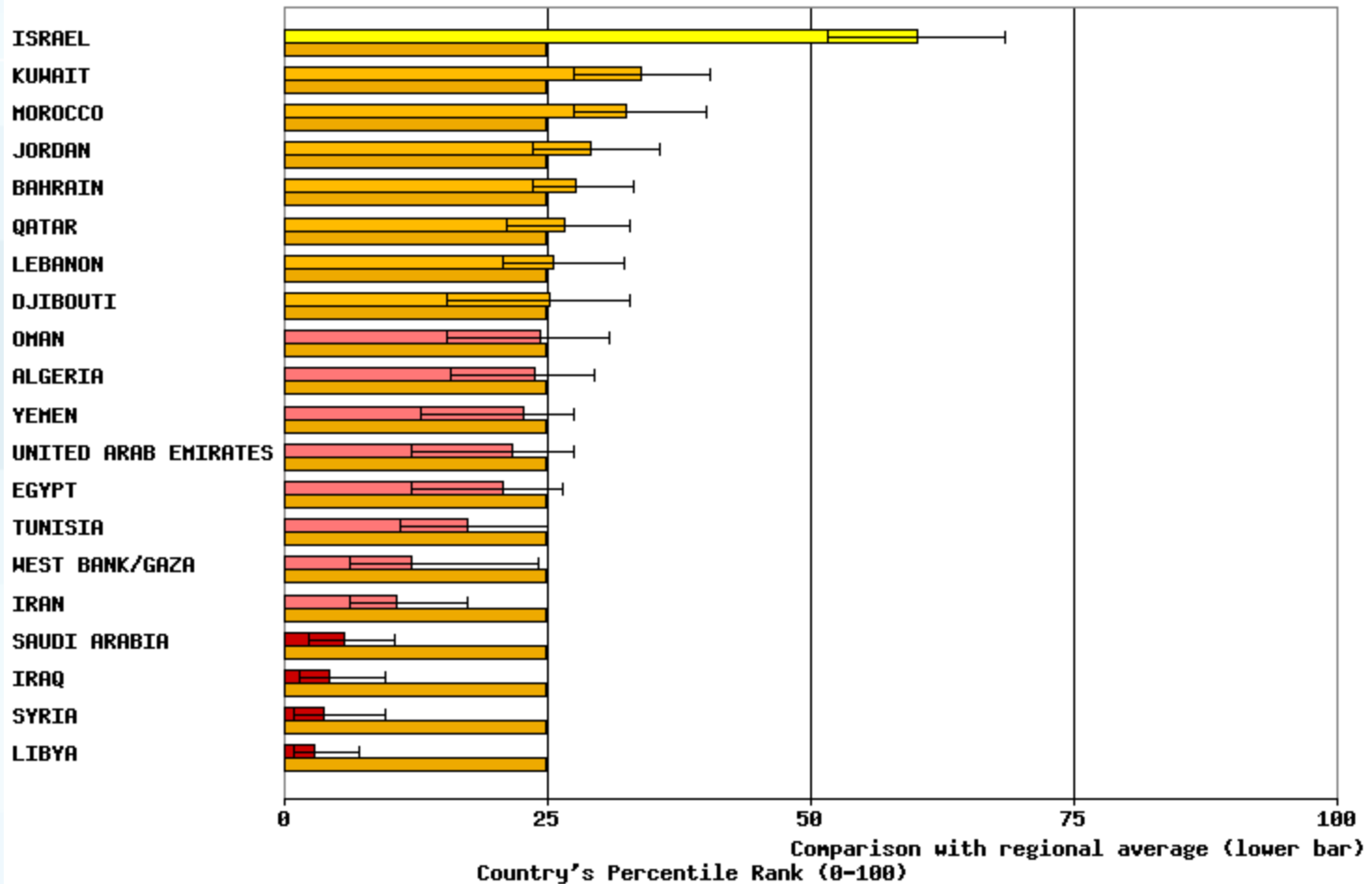
Source: D. Kaufmann, A. Kraay, and M. Mastruzzi 2005: Governance Matters IV: Governance Indicators for 1996-2004 (<http://www.worldbank.org/ubi/governance/pubs/govmatters4.html>)

Political Stability (Middle East & North Africa region, 2004)



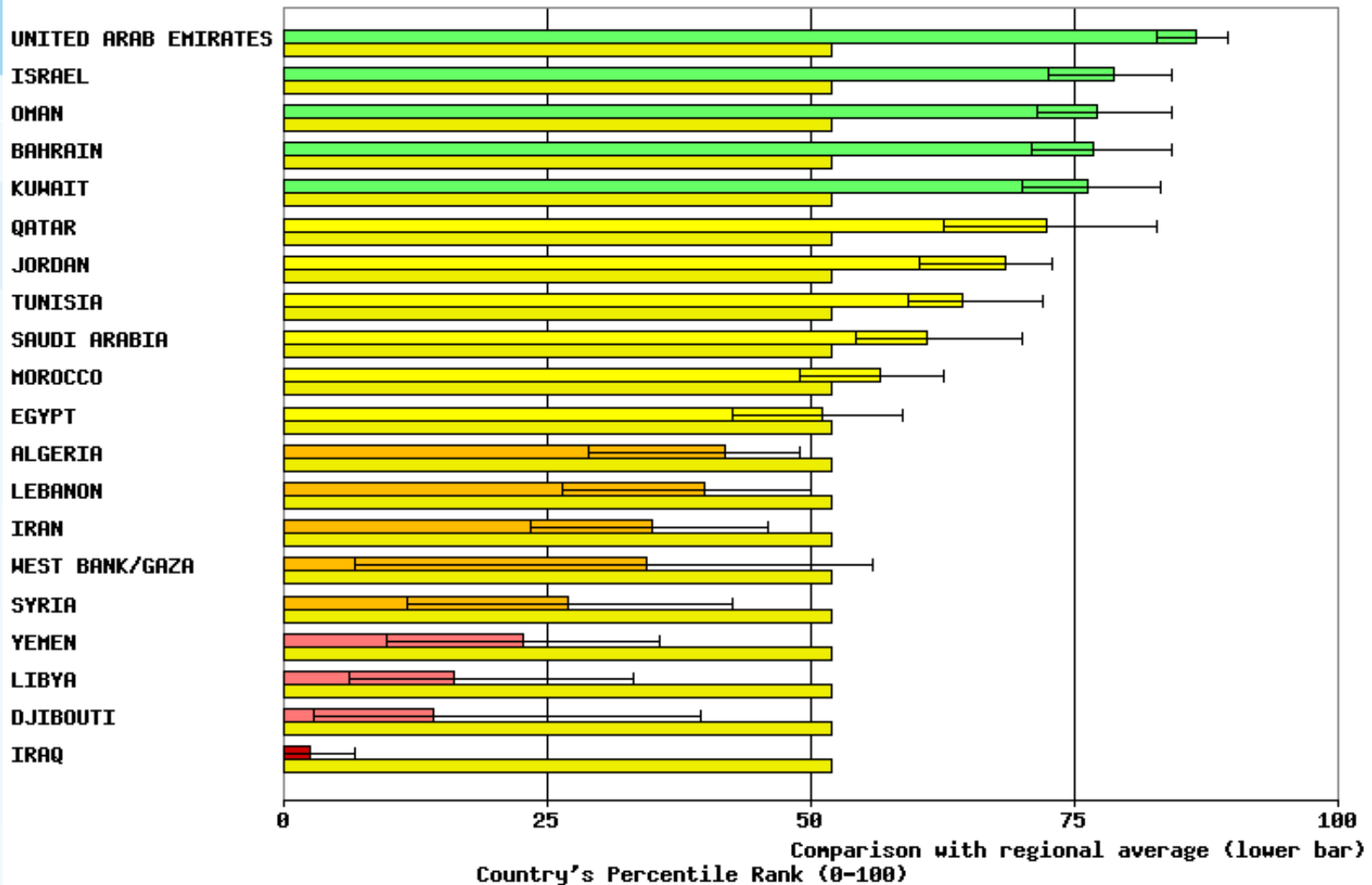
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Voice and Accountability (Middle East & North Africa region, 2004)



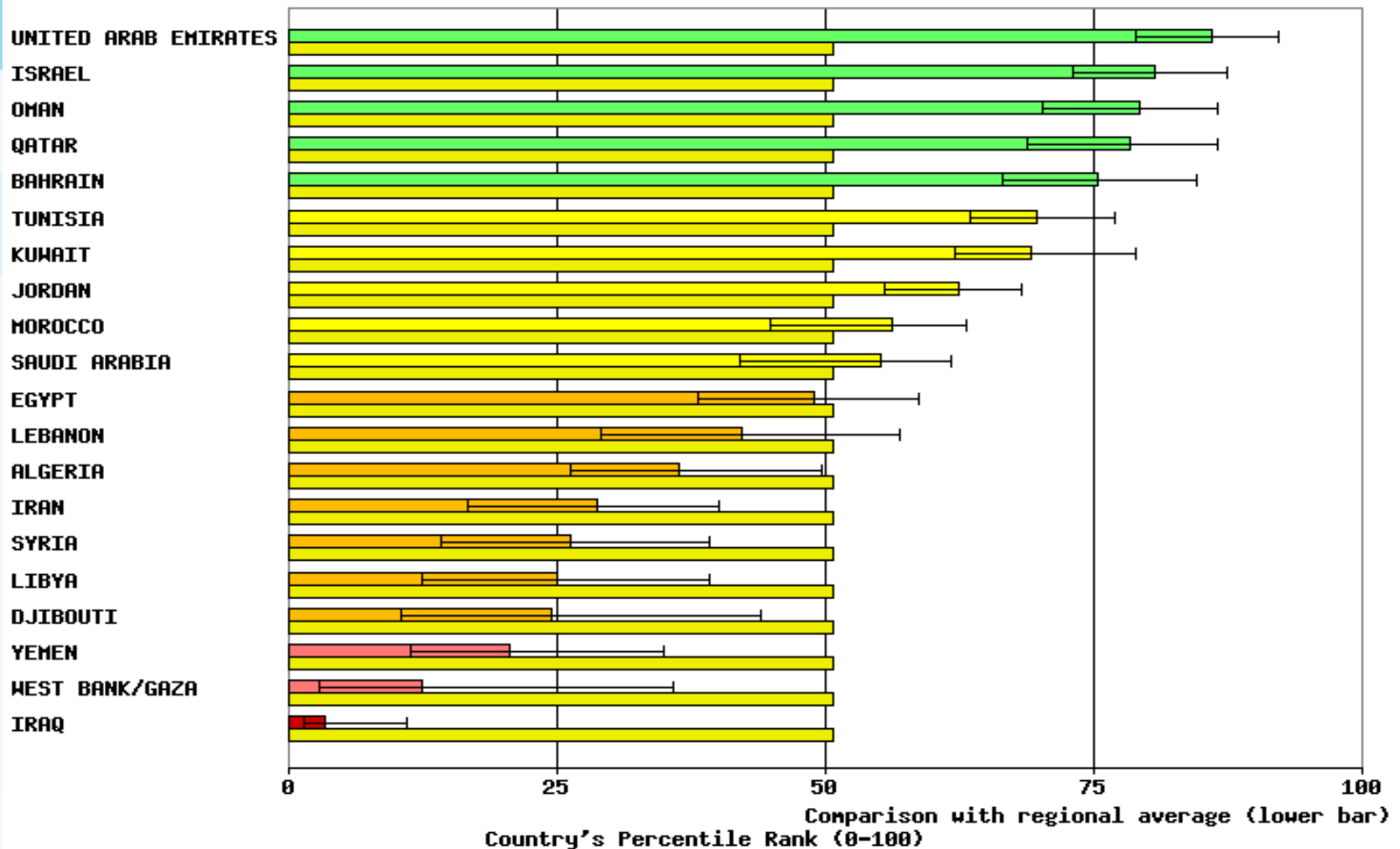
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 (<http://www.worldbank.org/ubi/governance/pubs/govmatters4.html>)

Control of Corruption (Middle East & North Africa region, 2004)



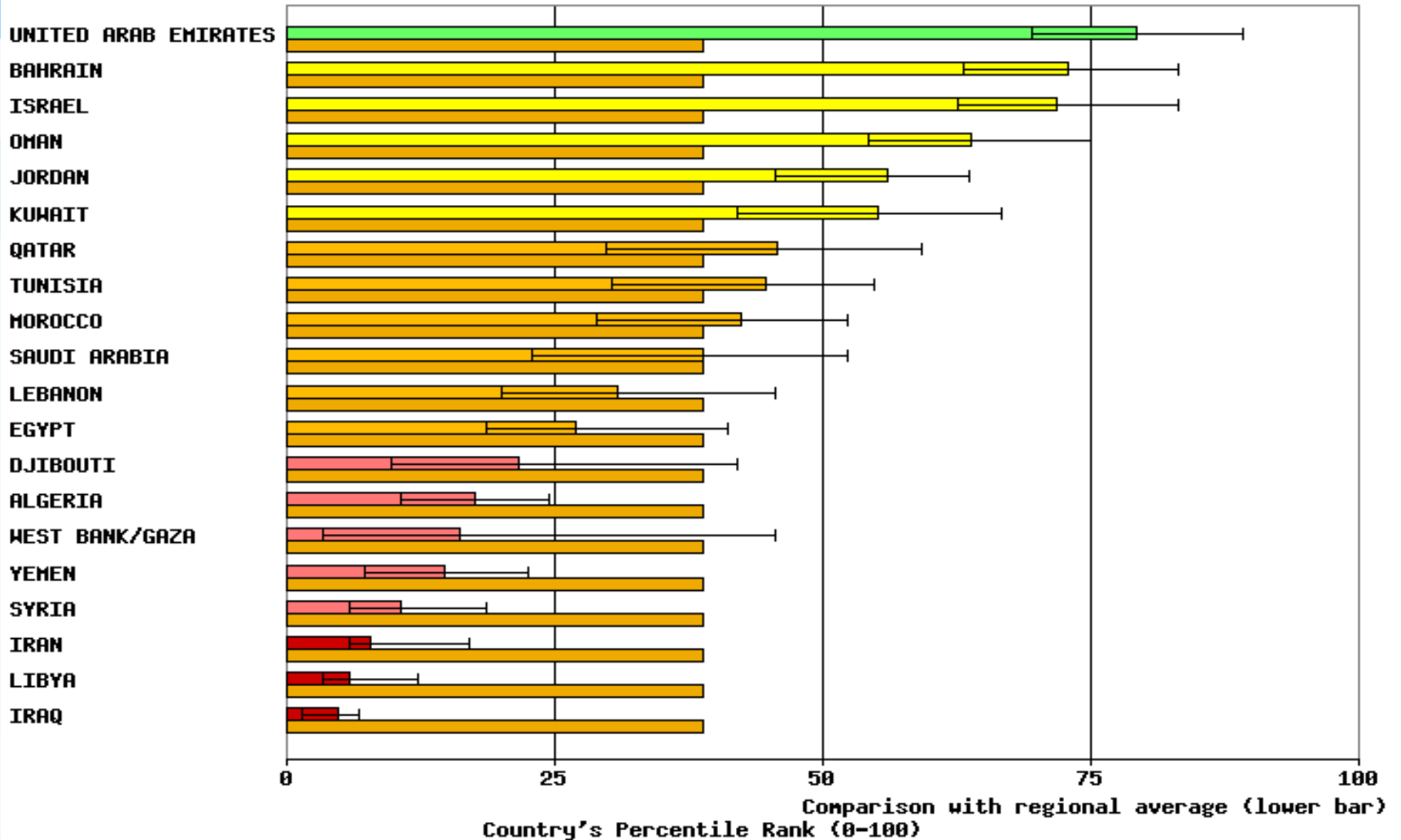
Source: D. Kaufmann, A. Kraay, and M. Mastruzzi 2005: Governance Matters IV: Governance Indicators for 1996-2004 (<http://www.worldbank.org/ubi/governance/pubs/govmatters4.html>)

Government Effectiveness (Middle East & North Africa region, 2004)



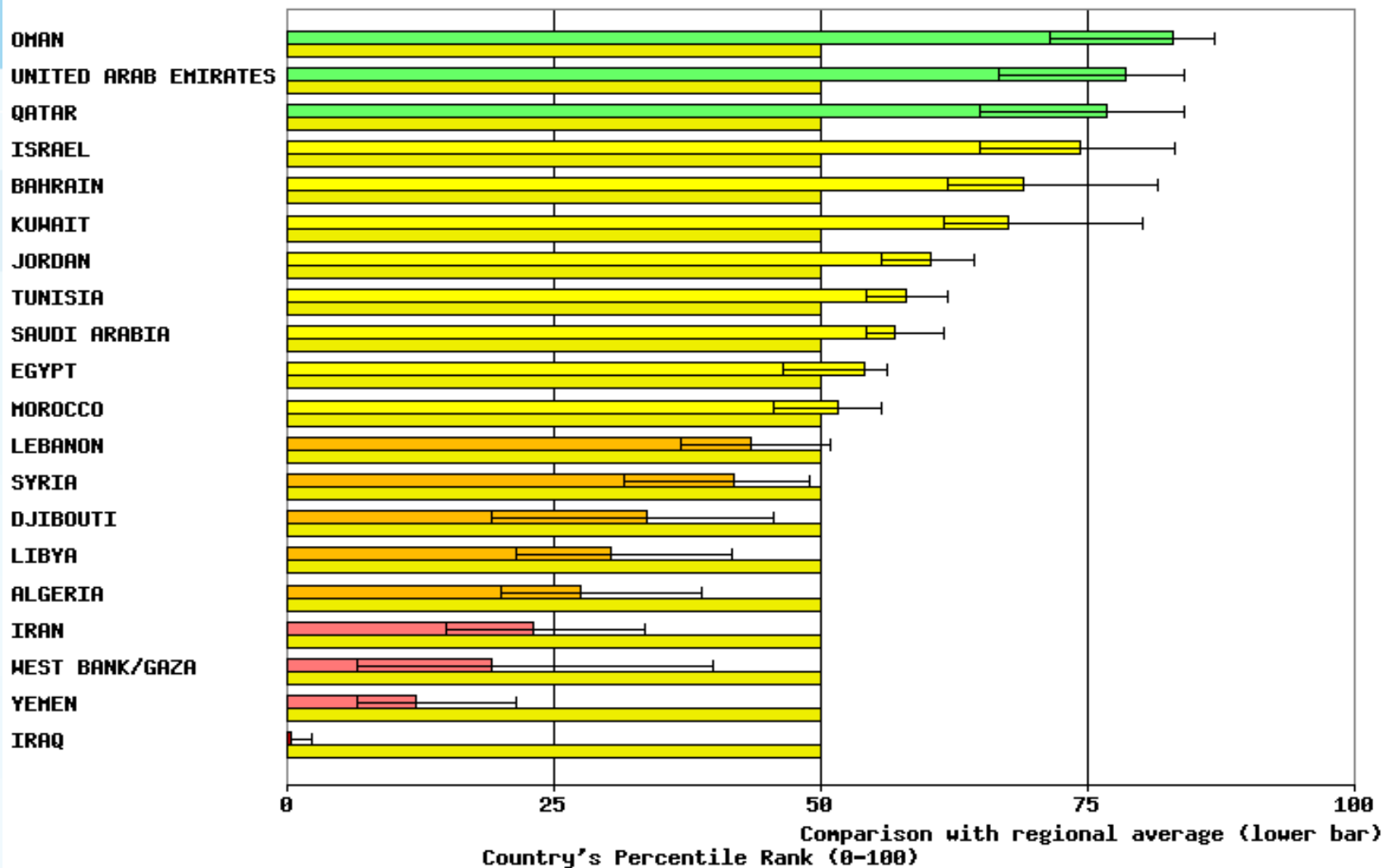
Source: D. Kaufmann, A. Kraay, and M. Mastruzzi 2005: Governance Matters IV: Governance Indicators for 1996-2004
 (<http://www.worldbank.org/ubi/governance/pubs/goumatters4.html>)

Regulatory Quality (Middle East & North Africa region, 2004)



Source: D. Kaufmann, A. Kraay, and M. Mastruzzi 2005: Governance Matters IV: Governance Indicators for 1996-2004 (<http://www.worldbank.org/ubi/governance/pubs/govmatters4.html>)

Rule of Law (Middle East & North Africa region, 2004)



Source: D. Kaufmann, A. Kraay, and M. Mastruzzi 2005: Governance Matters IV: Governance Indicators for 1996-2004 (<http://www.worldbank.org/ubi/governance/pubs/govmatters4.html>)

نظرة عامة - الجدول رقم 2: التقدم في الإصلاح الهيكلي، 2000-2004

إصلاح إدارة الحكم	إصلاح قطاع أنشطة الأعمال		الإصلاح التجاري		البلد	
	الحالة الراهنة	تقدم الإصلاح	الحالة الراهنة	تقدم الإصلاح		
61	32	54	26	66	5	الجزائر
30	42	..	..	..	..	البحرين
17	30	..	..	..	..	جيبوتي
24	28	11	29	100	60	مصر
14	36	37	63	76	4	إيران
61	44	43	57	86	20	الأردن
14	42	16	77	..	..	الكويت
1	32	9	33	87	81	لبنان
10	3	..	..	..	..	ليبيا
42	40	62	62	49	0	المغرب
56	37	58	60	..	..	سلطنة عُمان
57	31	..	..	..	..	قطر
35	26	47	52	88	76	المملكة العربية السعودية
..	21	2	17	..	..	الجمهورية العربية السورية
6	35	74	79	49	1	تونس
3	36	4	32	..	..	الإمارات العربية المتحدة
..	23	..	..	..	..	الضفة الغربية وغزة
79	24	24	42	..	..	اليمن
32	30	34	48	71	35	دول منطقة الشرق الأوسط وشمال أفريقيا
47	34	36	27	21	29	أفريقيا جنوب الصحراء
49	41	40	47	49	55	شرق آسيا والمحيط الهادئ
54	51	61	52	64	72	أوروبا وآسيا الوسطى
46	56	45	39	56	49	أمريكا اللاتينية
65	88	73	89	67	93	منظمة التعاون والتنمية في الميدان الاقتصادي (OECD)
55	35	48	49	43	25	جنوب آسيا
47	45	47	44	63	38	الشريحة الدنيا من الدول المتوسطة الدخل (LMIC)
50	49	50	50	50	50	(باستثناء دول منطقة الشرق الأوسط وشمال أفريقيا)
						على مستوى العالم

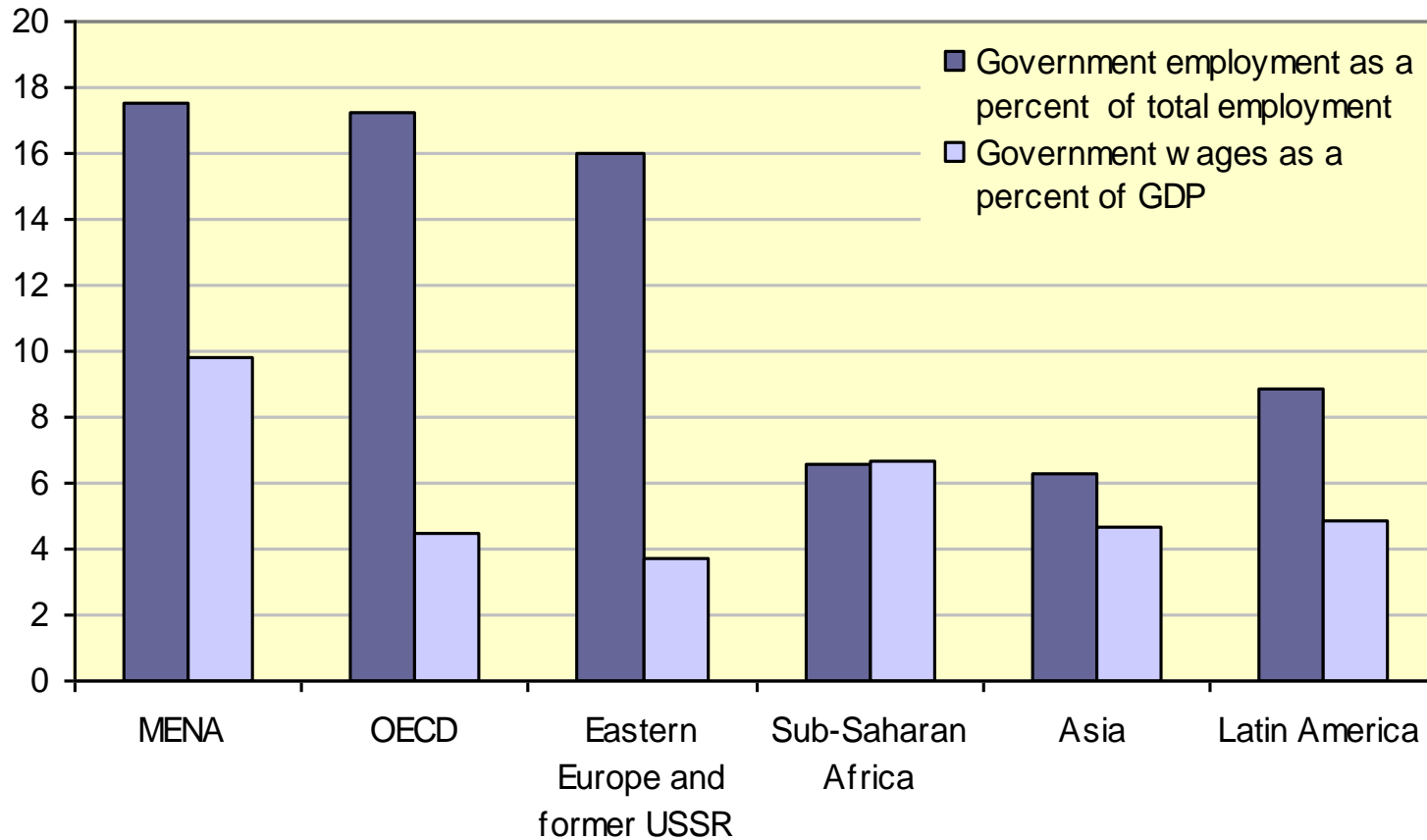
MENA Governance Issues

- Governance issues along with wars, violence and insecurity have been retarding factors
- ***“At the root of MENA’s growth gap is its governance gap. Indeed, simulations find that if MENA had matched the average quality of administration in the public sector for a group of good-performing Southeast Asian countries (Indonesia, Malaysia, the Philippines, Singapore, and Thailand), its growth rates would have been higher by about one percentage point a year. The development gap is reflected in this growth gap: if the region had grown as fast as Hungary, Malaysia, and other top performers over the past decade and a half, average incomes would be twice what they are today—twice!”***
 - WB Better Governance for Development in MENA, September 2003

Public Sector has been a drag on growth & Modernisation in the MENA countries

- Large public sectors
- Highly centralised governments
- Complex regulatory structures & regulations, 'red tape', are negatively impacting private sector activity
- Absence of institutional reform & modernization
- Limited attention to promoting voice and competition

Figure 4
The Size of Government Around the World in 1990s (percent)



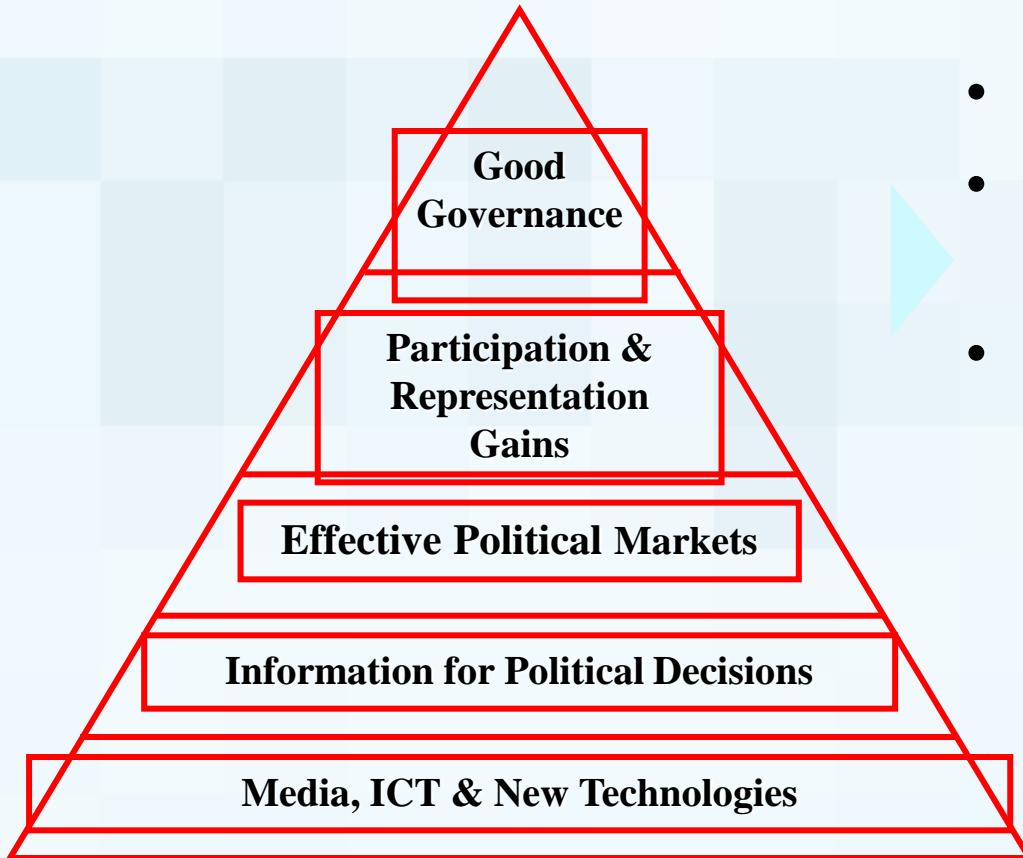
Source: Schiavo-Campo, de Tommaso, and Mukherjee 2003.

Challenges facing successful implementation of e-government in MENA

- E-leadership
 - *Is the leadership and strategic thinking ready?*
- Access, connectivity, and network readiness
 - *Is the technological infrastructure ready?*
- E-business climate
 - *Is the institutional infrastructure ready?*
- E-human capital
 - *Is the population e-aware and e-literate?*
- Trust, information security, and privacy
 - *Is the legal infrastructure ready?*
 - *Are secure systems and procedures available?*

Building democracy through technology

Democracy



- More transparency
- More government accountability
- More participatory democracy

ICT New Tech facilitate the transition from passive information access to active participation and voice

Table A.1. Greatest Engineering Achievements of the Twentieth Century

1. Electrification	11. Highways
2. Automobile	12. Spacecraft
3. Airplane	13. Internet
4. Water Supply	14. Imaging
5. Electronics	15. Household Appliances
6. Radio and TV	16. Health Technologies
7. Agricultural Mechanization	17. Petroleum Technologies
8. Computers	18. Laser and Fiber Optics
9. Telephones	19. Nuclear Technologies
10. Air Conditioning & Refrigeration	20. High-performance Materials

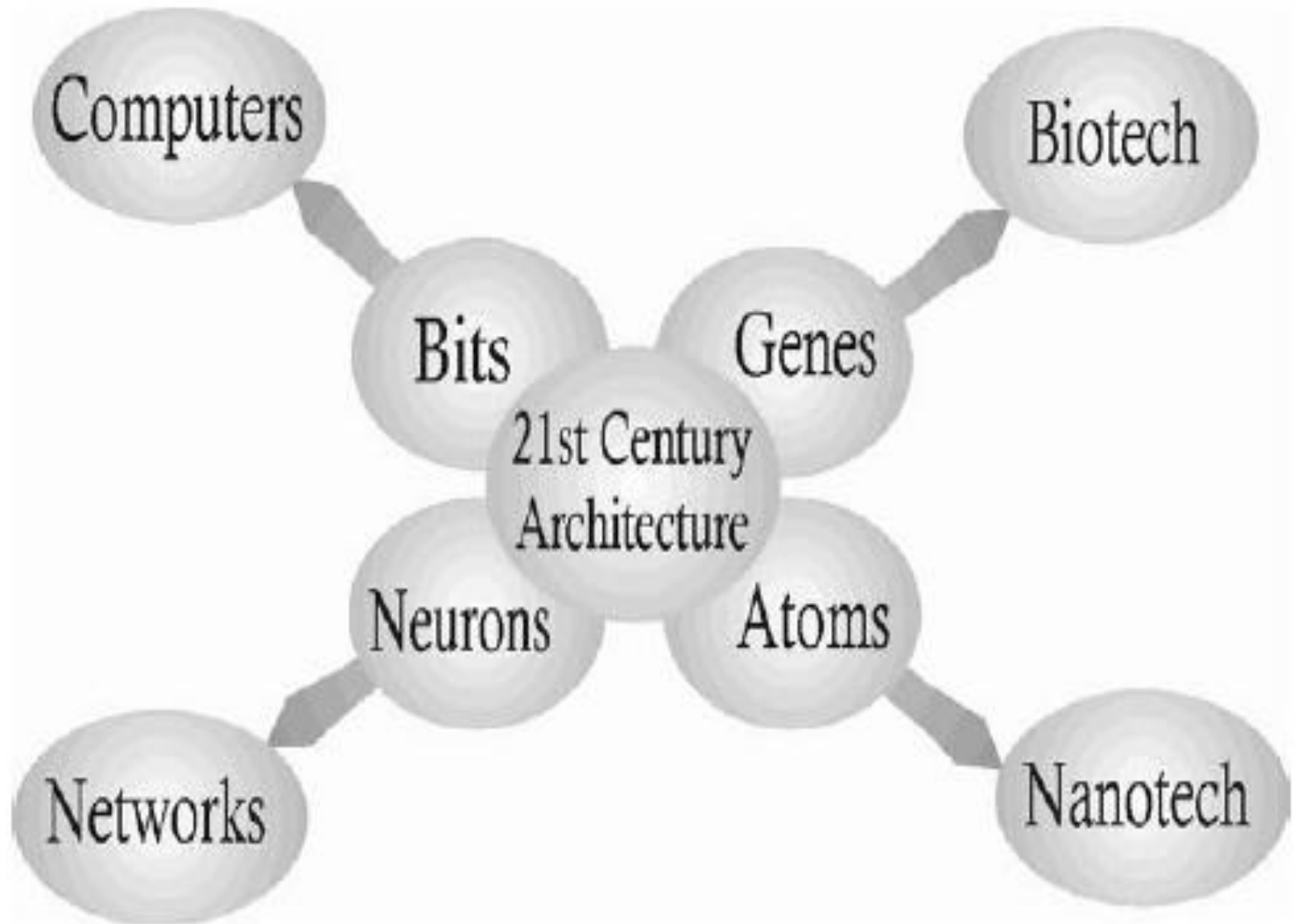
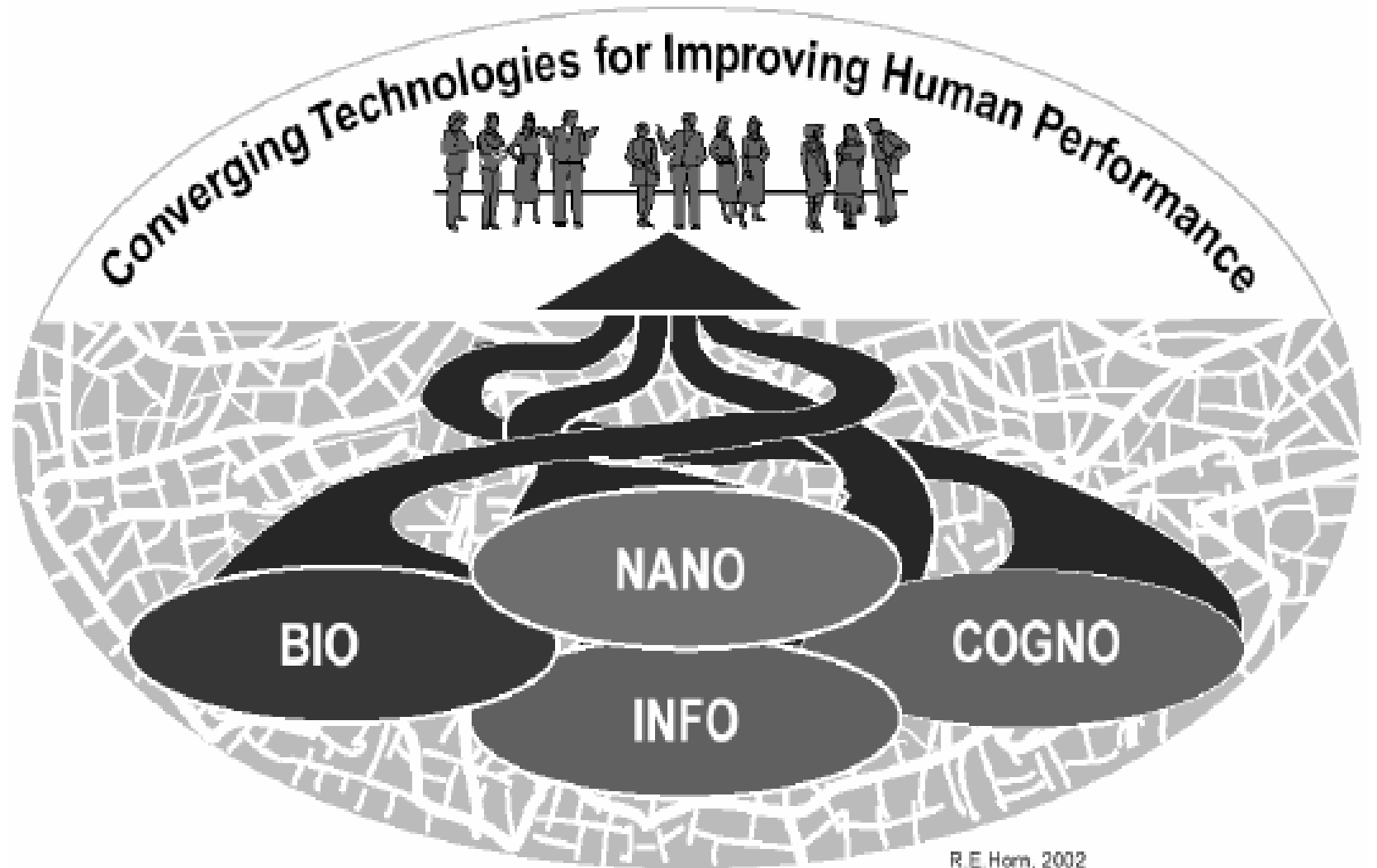


Figure A.13. 21st century architecture.

'New' Humans



Technology Convergence

- NanoTechnology, BioTechnology, IT & Cognitive Science \Rightarrow improve Human performance

If the *Cognitive Scientists* can think it
the *Nano* people can build it
the *Bio* people can implement it, and
the *IT* people can monitor and control it

Arab Renaissance Agenda

- Act to reduce Conflicts & Violence:
 - **Resolve Israeli-Palestinian & Israeli Arab conflicts**
 - **Bring peace and stability to Iraq**
- Focus on Public and Private Corporate Governance
- New Development Model:
 - **From public sector dominated to private sector dominated**, by reducing the barriers to private activity while creating regulatory frameworks to ensure that private and social interests are mutually reinforcing.
 - **From closed to more open**, by facilitating the Regional & International Integration into global goods, services, and factor markets while putting in place safeguards for financial stability and social protection.
 - **From oil dominated and volatile to more stable and diversified**, by making fundamental changes in institutions managing oil resources and their intermediation to economic agents.
 - Important roles of civil society and elites: build for our future generations
 - **'Bank the demographic dividend'**: education, infrastructure, housing, ICT, water
 - **Invest in Knowledge & Technology**
- Economic Development and job creation require a **comprehensive approach to reform** although the priorities and sequencing of policy reforms will vary across countries.

Arab Economic Integration: Awakening to Remove Barriers to Prosperity

- **'Silver lining' of September 11 and war on Afghanistan & Iraq: impetus to regional integration; tourism, services, business, investment**
- **AEI is basis for renewed economic growth, job creation and investment**
- **AEI is basis for multilateral opening up to avoid hub-spoke effects and for a 'policy commitment mechanism'**

Awakening: building blocks

- **Renegotiate the GAFTA, encompass services and establish an Arab Regional Integration Agreement (ARIA): Political leadership for 'deep integration'**
- **Undertake massive investments in trans-national, regional integrated infrastructure & *Info*structure with private sector participation**
- **Finance economic & social policies to achieve income convergence**
- **Prioritize the development of the capital markets to set the basis for their integration.**
- **Integrated Arab payment system**
- **Establish a set of institutions to enable and support ARIA including a Regional Investment & Development Bank or Facility**

Positive Agenda for Action [I]

- ***Implement Political, Economic & Financial reforms :Public sector reform & governance***
- ***Develop the Capital Markets to finance infrastructure, Housing, ICT, Privatization***
- ***Private sector development and job creation; private sector participation in infrastructure & public utilities***
- ***Achieve Arab regional economic integration and increased integration with Asia and the Rest of the World***

Positive Agenda for Action II

- ***Invest in Human Capital: education & skills to face the challenges of international competition & integration***
- ***Prepare & Implement Strategy to enter information age: e-Economy and e-Society & New technologies***
- ***Address the 'Gender divide': increase economic activity & fight against discrimination of women***

What You Can Do:

- You are part of an elite, you are stakeholders & agents for change: you must build the future and provoke an Awakening
- Be active in all areas: Politics, Business and Technology.
- Create Foundations, Institutes, NGOs, Associations..
- Focus on Knowledge & Technology as a Tool for Reform & Transition

A Brave New World for Young Arabs

Thank you

Q & A

Nasser Saidi