

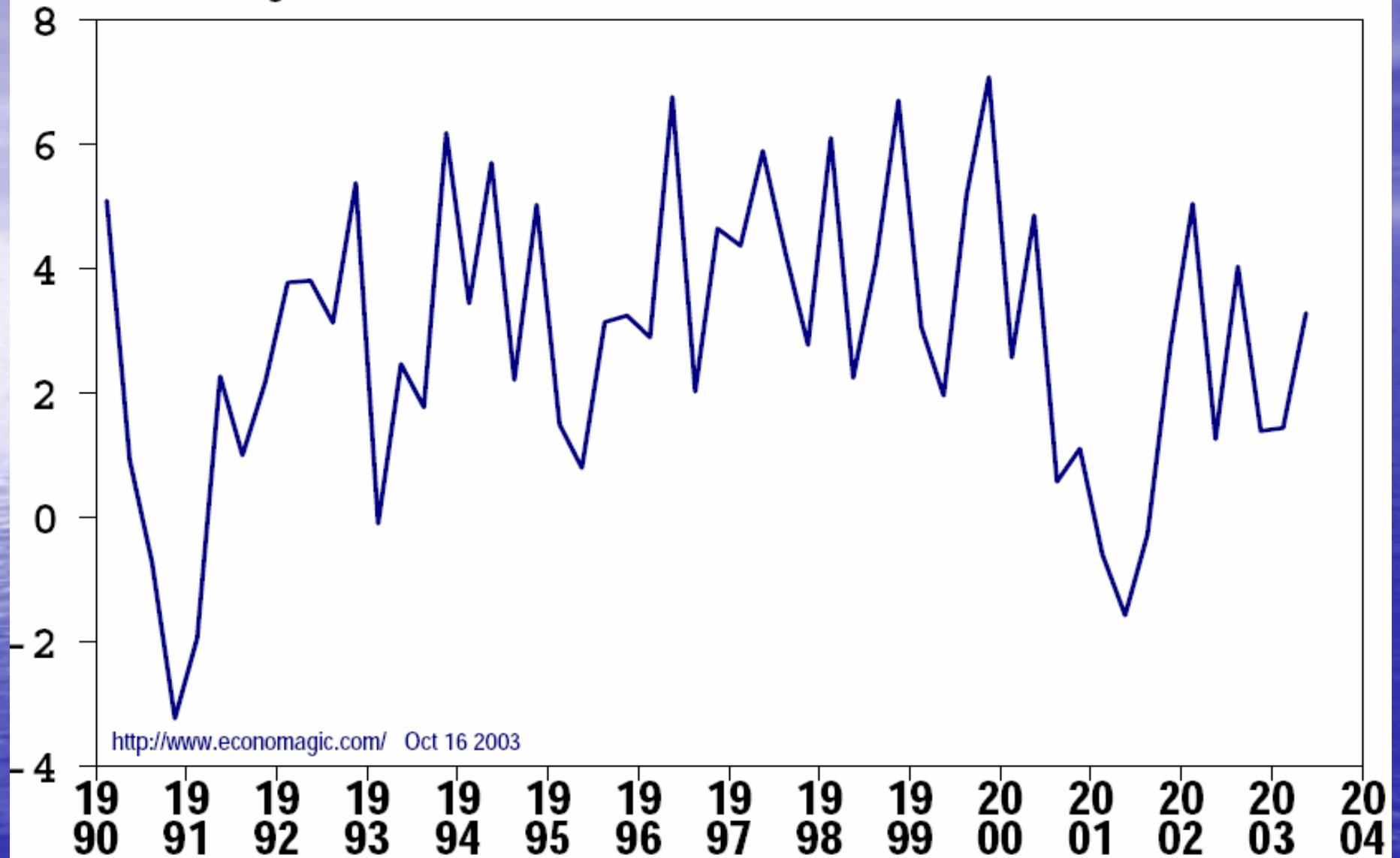
Searching for Growth in Road Maps?

*Dr. Nasser Saidi ©
@ Citigroup Wealth Management
Conference
Beirut, 16 October 2003*

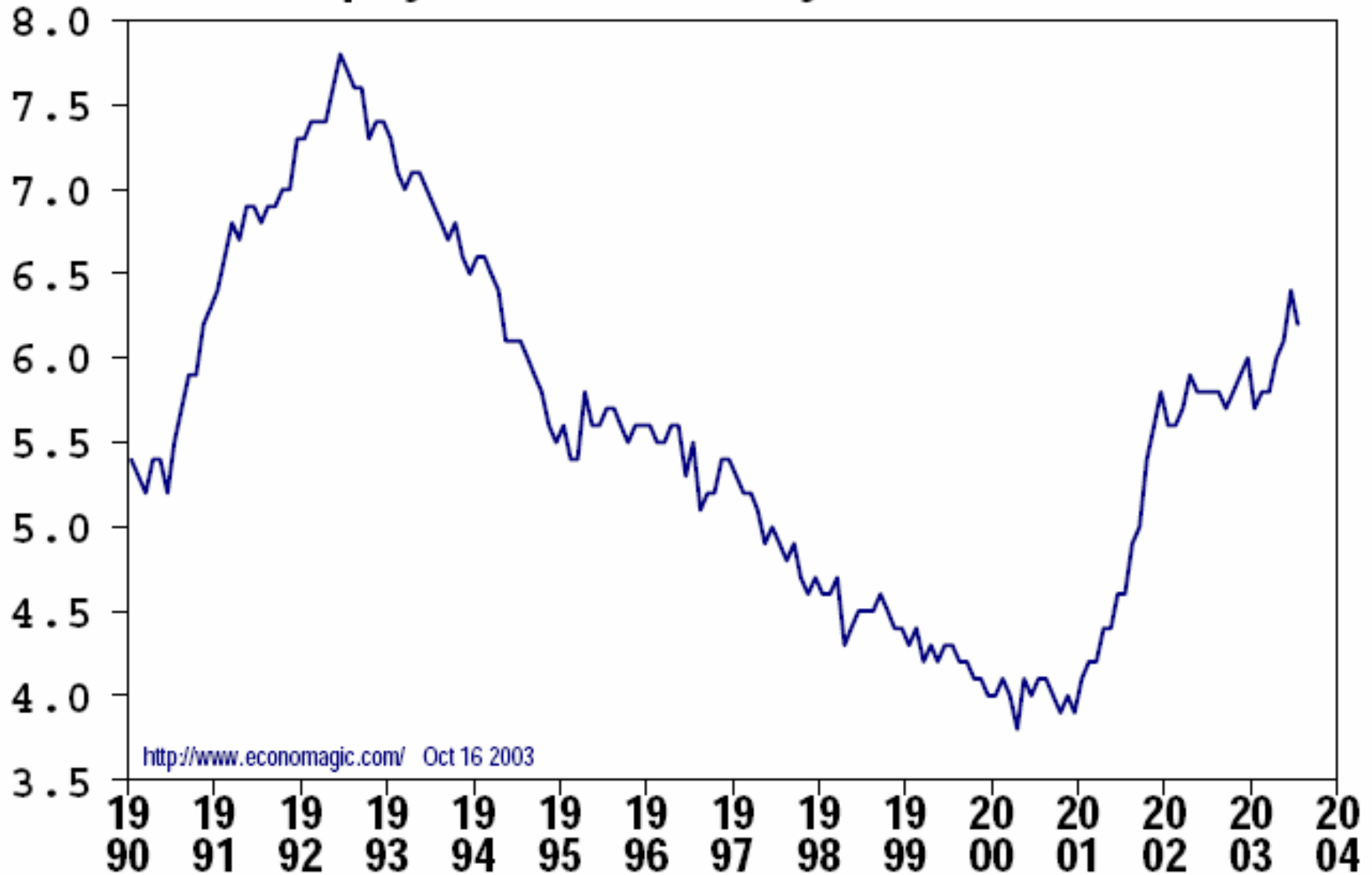
Searching for Growth in Road Maps? : Agenda

- Growth prospects: Global, Emerging Asia, Middle East & North Africa
- Challenges facing the MENA countries
- Governance & Policies for Reform
- Action Plans and Better 'Road Maps'

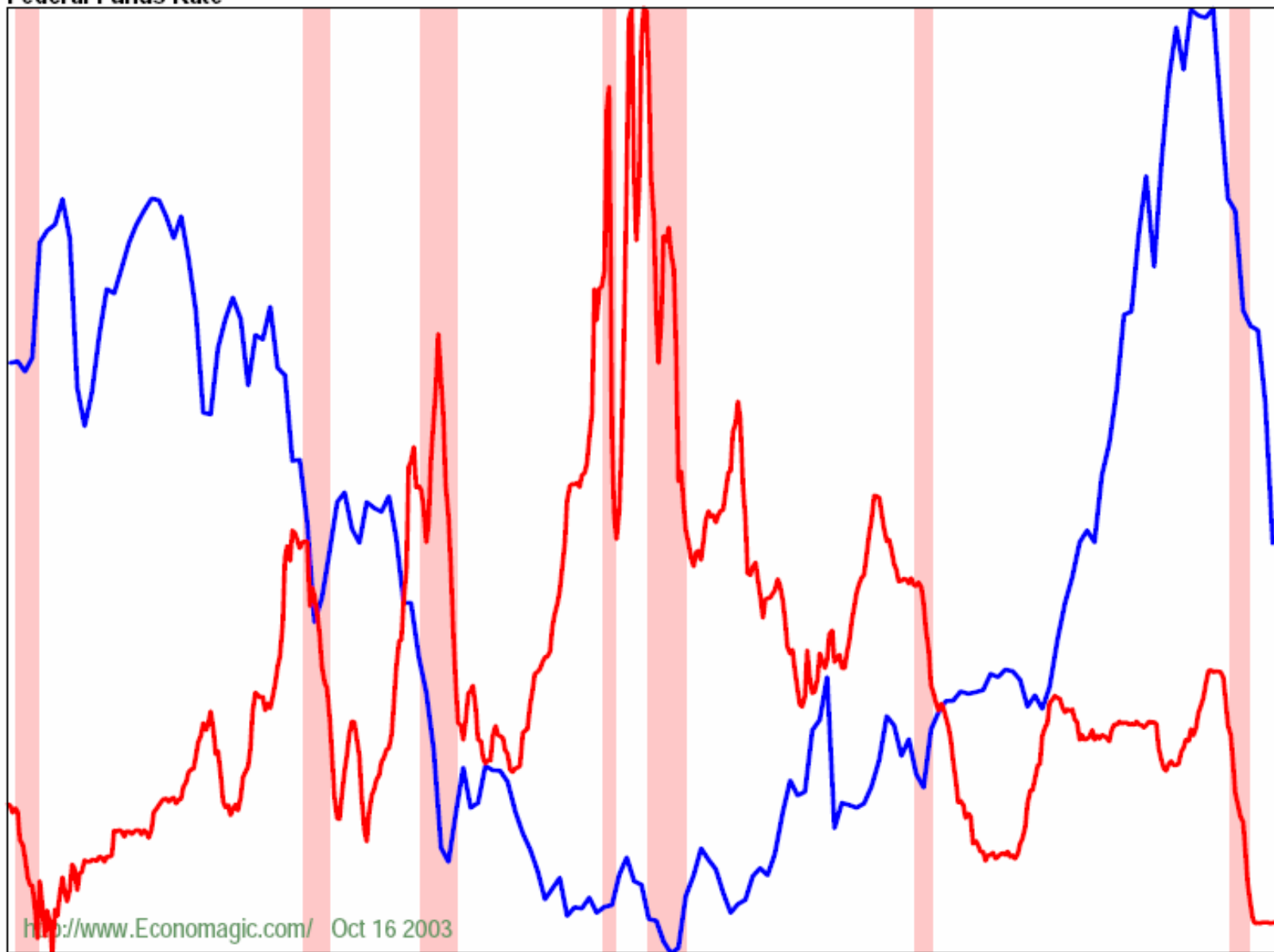
Quarterly Growth in real GDP at annual rates, Percent



U.S. Unemployment Rate; Monthly SA, Percent



— SP500/Nominal GDP (2000 basis)
— Federal Funds Rate



19 20 20
60 62 64 66 68 70 72 74 76 78 80 82 84 86 88 90 92 94 96 98 00 02

Global & Asia, & MENA Economic Prospects

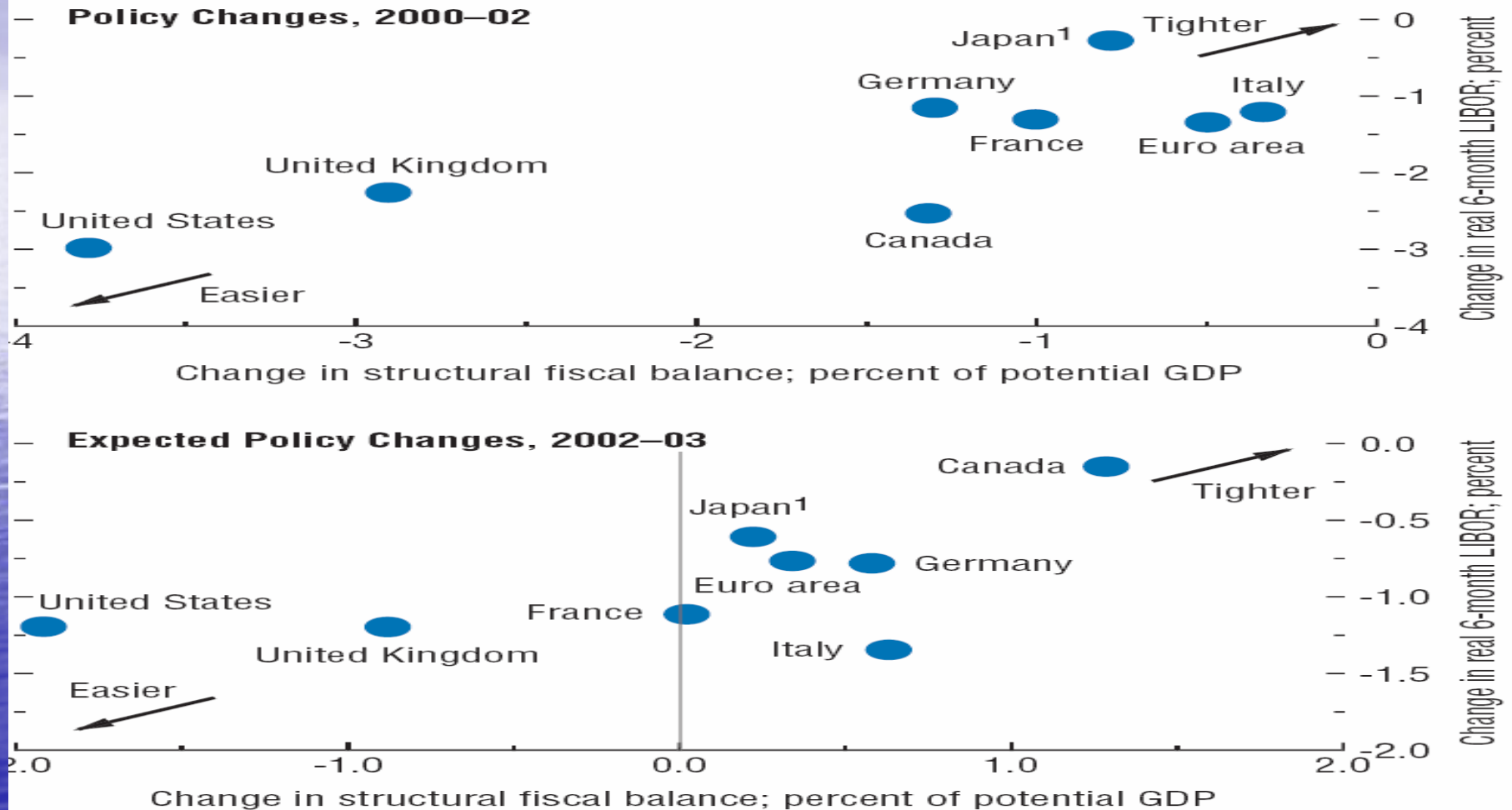
(See IMF WEO 2003, M. Mussa, IIS Sept 2003)

- World economy recovering: 2 ½% first half 2003 to 3 ½% -4% in 2nd half
- Recovery led by US rebound: up to 4% in 3rd quarter. US accounts for about 30% of world GDP:
 - Monetary easing
 - Automatic fiscal stabilizers
 - Tax & spending measures

Figure 1.3. Fiscal and Monetary Easing in the Major Advanced Countries

(Percent)

Monetary and fiscal policies remain significantly more expansionary in the United States and the United Kingdom than in the euro area and Japan.

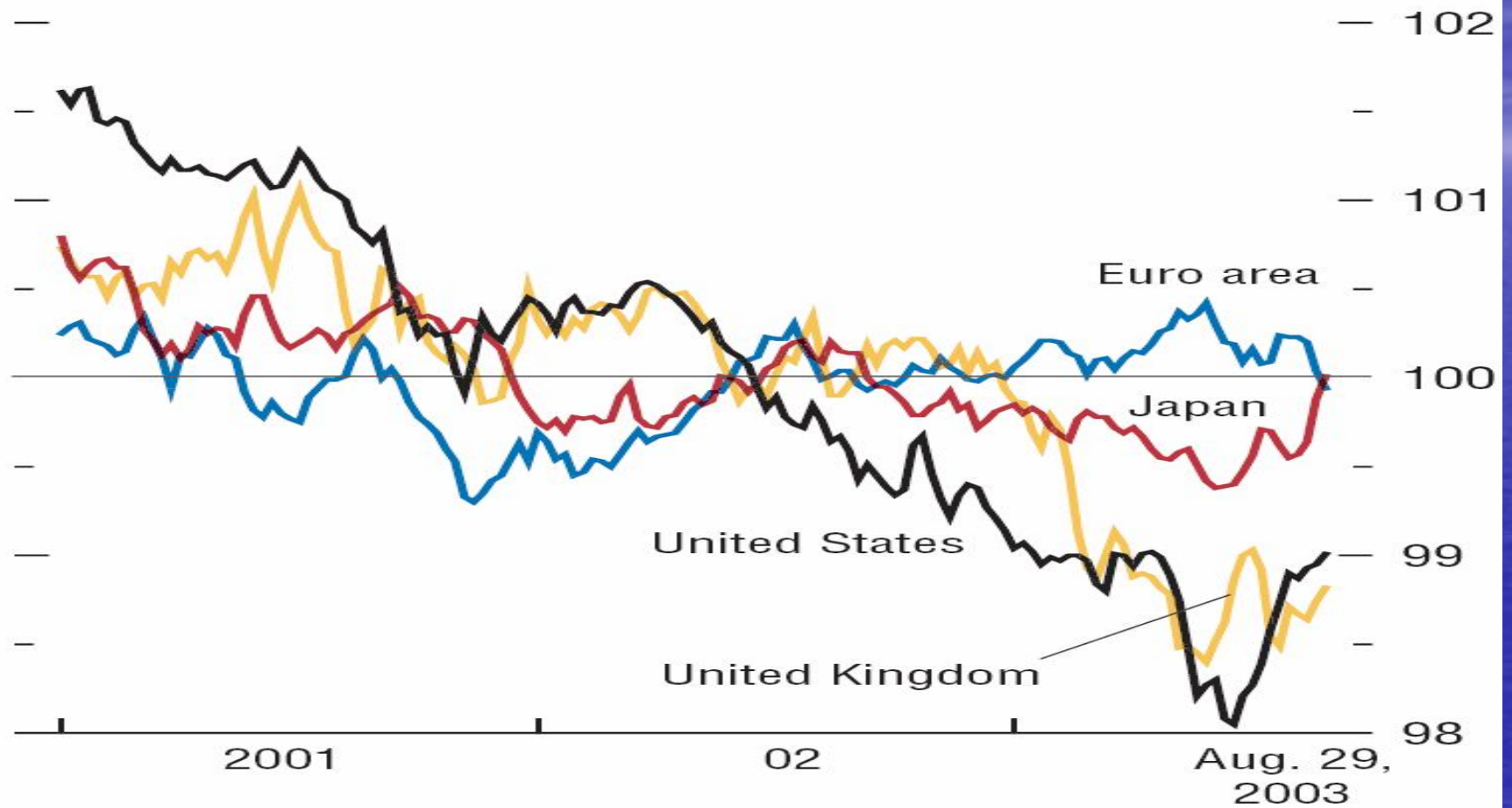


Source: IMF staff estimates.

¹For Japan, excludes bank support.

Monetary Conditions Index¹

(January 2, 2001 to August 29, 2003 = 100)



Sources: Bloomberg Financial Markets, LP; Global Insight, Inc.; and IMF staff calculations.

¹Weighted average of nominal short-term and long-term interest rates and the nominal effective exchange rate.

Global Growth Prospects: Assessment as of September 8, 2003 (annual percentage real GDP growth rates)

Country or region	Year over year			Q4 to Q4		
	2002	2003	2004	2002	2003	2004
Industrial countries	1¾	1½	3	2½	2	3
United States	2½	2½	4	3	3½	3¾
Japan	¼	1½	2	2½	2	2
Western Europe	1	¾	2	1½	¾	2¼
United Kingdom	2	1¾	2¼	2¼	1½	2½
Euro area	¾	½	1¾	1¼	½	2¼
Germany	¼	0	1½	¾	¼	1¾
France	1¼	¾	1¾	1½	½	2¼
Italy	½	½	1¾	1	½	2¼
Developing and transition countries	4	3¾	5½	4	4	5½
Asia	6½	5½	7			
China	8	7¼	7¾			
India	5½	6	6½			
Others	4¾	3	6			
Latin America	-1½	1	4			
Argentina	-11	5	5			
Brazil	1½	1	4			
Mexico	1	1¼	4½			
Central and Eastern Europe	4¾	4¼	4½			
Middle East	1½	0	3			
Africa	3	2½	3½			
World (WEO weights)	2¾	2½	4¼	3¼	3	4¼

Risks

- Upside risks: mutually reinforcing expansion through trade, investment and capital market linkages, exceeding expectations
- Downside:
 - Global equity markets and business and consumer sentiment have recovered. Induce via higher corporate investment and private consumption—as well as forecast—stronger global economic growth
 - World oil prices
 - Declining stimulus from expansionary monetary & fiscal policies
 - Continued strong growth contingent on an upturn in employment growth—which should materialize if output growth remains near 4 percent
 - But slowdown in residential construction, as well a dampening effect on consumer spending growth related to mortgage re-financings
 - Adjustment to decline in US\$ and Current Account deficit

Risks & Asset Markets

- Equity markets reversal if improved business & consumer sentiment not validated by economic performance
- Potential for higher interest rates
 - Resurgence of long-term rates
- Weaker dollar to reduce current account deficit; pressure on China, Japan for revaluation

Regions: Japan, Emerging Asia

- Emerging Asia should show a sharp growth upturn as several countries overcome SARS-related slowdowns and other temporary (mainly rain & climate related) problems that retarded economic activity last winter and spring.
- Although not robust, Japan's positive growth performance during the first and second quarters likely to continue

Forecasts and (forecast changes) for emerging Asia

	2003 (year over year)	2004 (year over year)
All emerging Asia	5½ (-½)	7 (+¾)
China	7¼ (-¼)	7¾ (+¾)
India	6 (+½)	6½ (+1)
Others	3 (-1½)	6 (+1½)

MENA Prospects

- Regional insecurity, uncertainty & political instability \ lower confidence, higher risk, lower domestic & foreign investment and international capital flows, reduced regional labor flows
- Negative effects compensated by higher oil prices in oil-producers
- Expect 1/2% growth for 2003, rebound to 3% in 2004

Economic Costs & Consequences for Arab Countries of Conflicts

- Oil exporters: higher oil revenues, but dampened investment & tourism, ↑ military spending: Kuwait, Saudi Arabia, UAE
- Oil importers: lower growth prospects, lower trade, lower investment & tourism, lower remittance flows: Jordan, Egypt, Syria, Lebanon

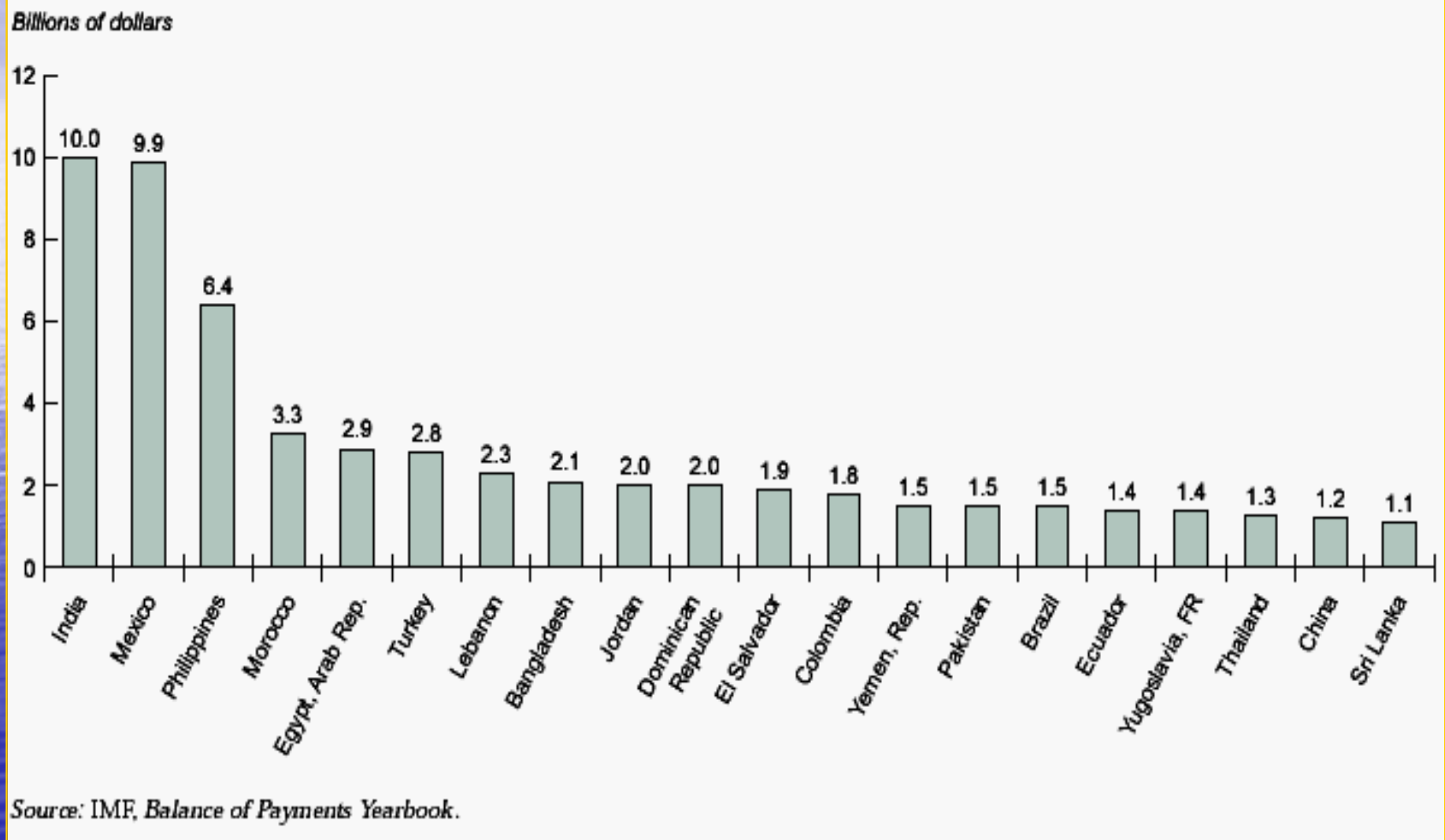
Economic Costs & Consequences for Arab Countries of Conflicts

- Risk factors:
 - Future course of oil prices
 - Future of OPEC
 - Regional geo-strategic & political instability
 - Reform agendas
- High dependence on remittances and unilateral transfers
- Overall effect: lower growth over 2003-2005 by 1%-2%

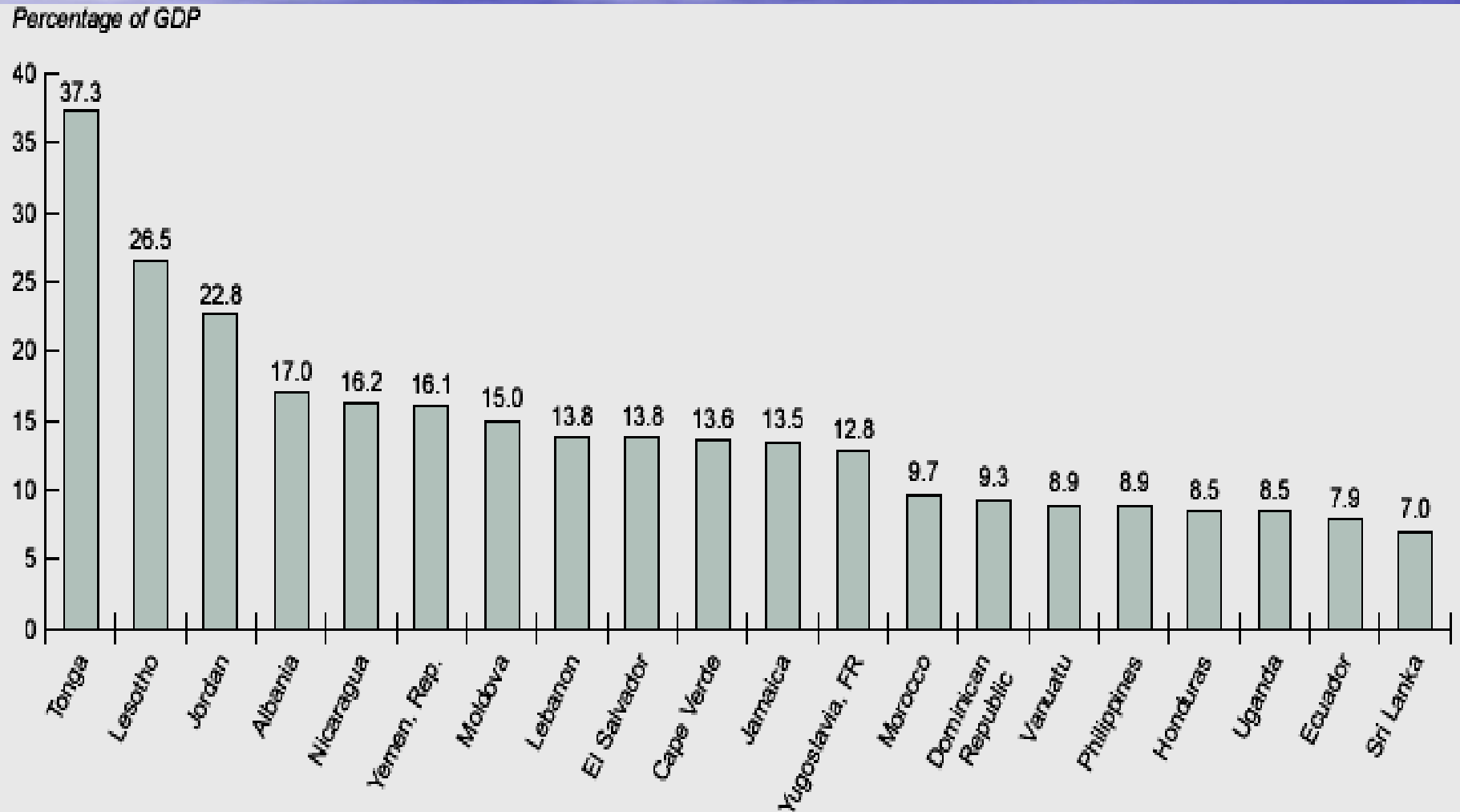
Worker's remittances received by developing countries, 1995-2002

	1995	1996	1997	1998	1999	2000	2001	2002
All developing countries	48.1	52.6	62.7	59.5	64.6	64.5	72.3	80
Middle East and North Africa	8.6	9.1	9.4	10.3	10.5	10.9	13.1	14
Arab Republic of Egypt	3.2	3.1	3.7	3.4	3.2	2.9	2.9	-
Jordan	1.2	1.5	1.7	1.5	1.7	1.8	2	-
Lebanon	-	-	-	1.2	1.4	1.6	2.3	-
Morocco	2	2.2	1.9	2	1.9	2.2	3.3	-

Top 20 Developing Country Recipients of Worker Remittances 2001



Top 20 Developing Country Recipients of Worker Remittances 2001 % GDP



Source: IMF, Balance of Payments Yearbook.

MENA Countries face numerous challenges

- Political, strategic
- Demography and labour force
- Macro-economic environment
- Governance
- Structural reforms

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
 - 1.6% of total FDI - \$2,645 million in 2001
 - 3.6% of aggregate Net Resource Flows in 2001
- **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**

MENA Governance Issues

- Substantial natural resource wealth has not resulted in prosperity or economic growth
 - The region is 'wealthy' in natural resources, but poor in economic performance: 75% of world oil reserves but stagnation in per capita income
- Wars, violence and insecurity have been retarding factors along with Governance issues

Dimensions of Good Governance

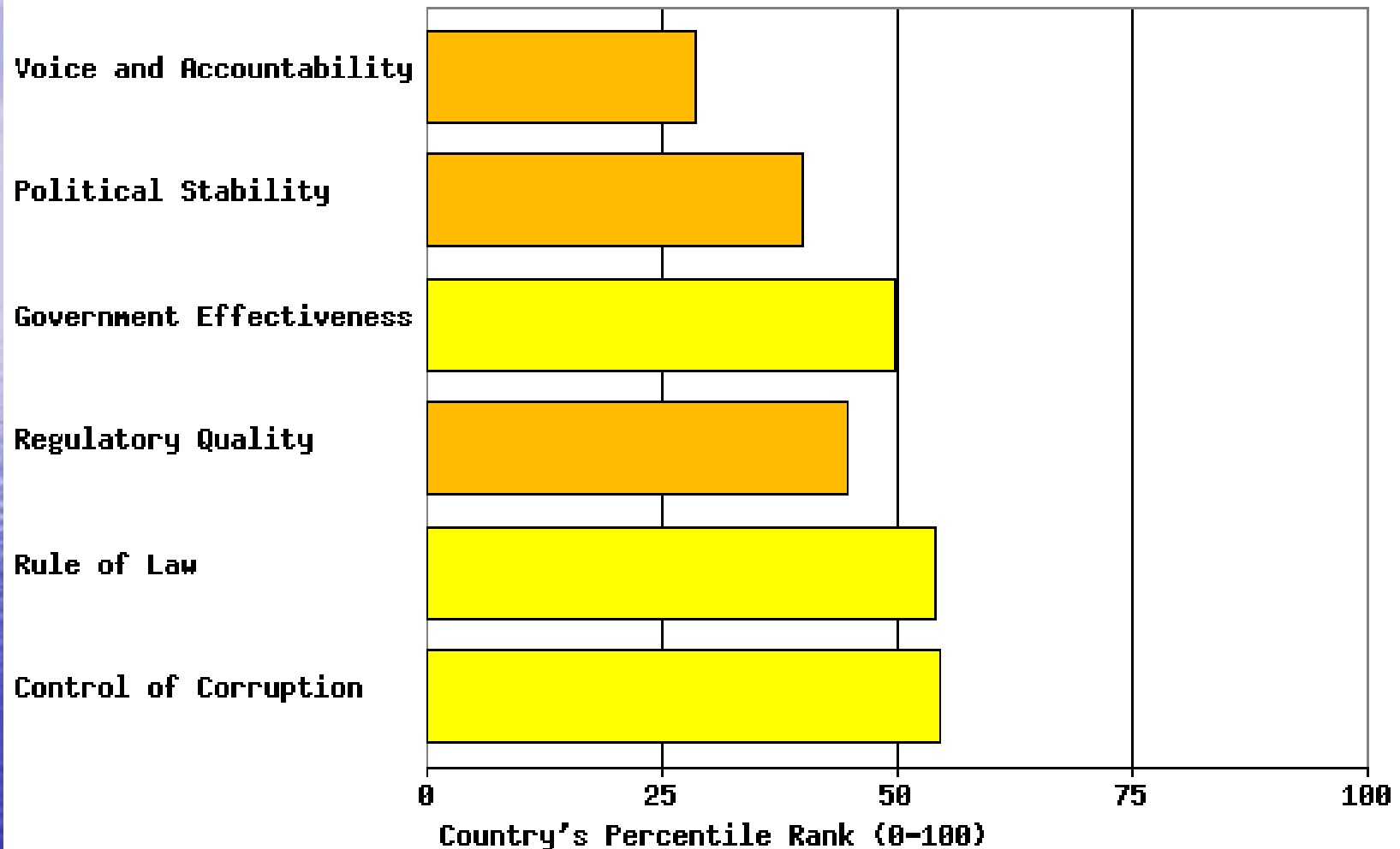
(Source: World Bank, 2003)

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



MENA Governance Indicators

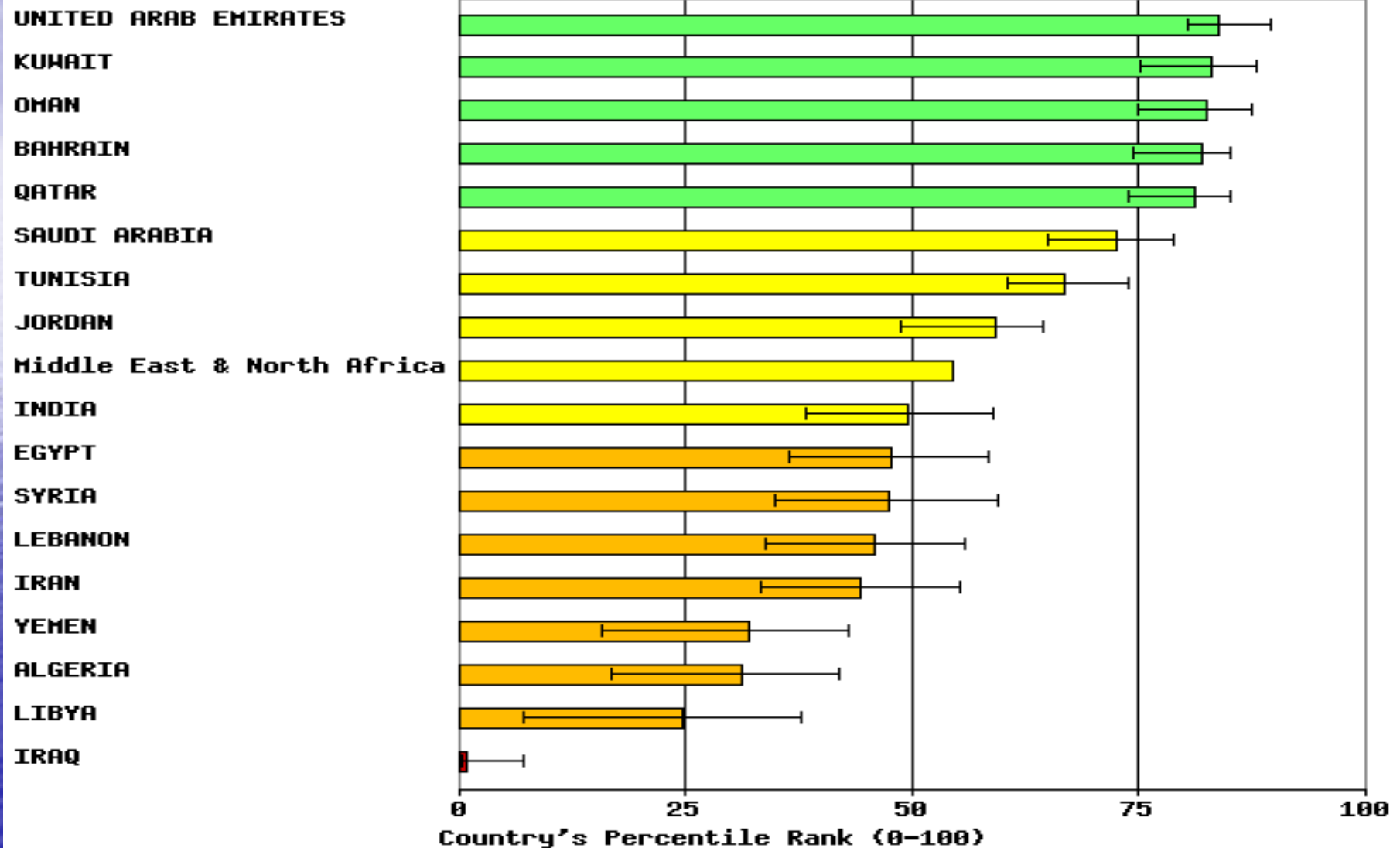
Middle East & North Africa - Regional Average (2002)



Source: D. Kaufmann, A. Kraay and M. Mastruzzi, 2003: Governance Matters III: Governance Indicators for 1996-2002 (<http://www.worldbank.org/ubi/governance/pubs/govnmatters3.html>)

Governance: Control of Corruption

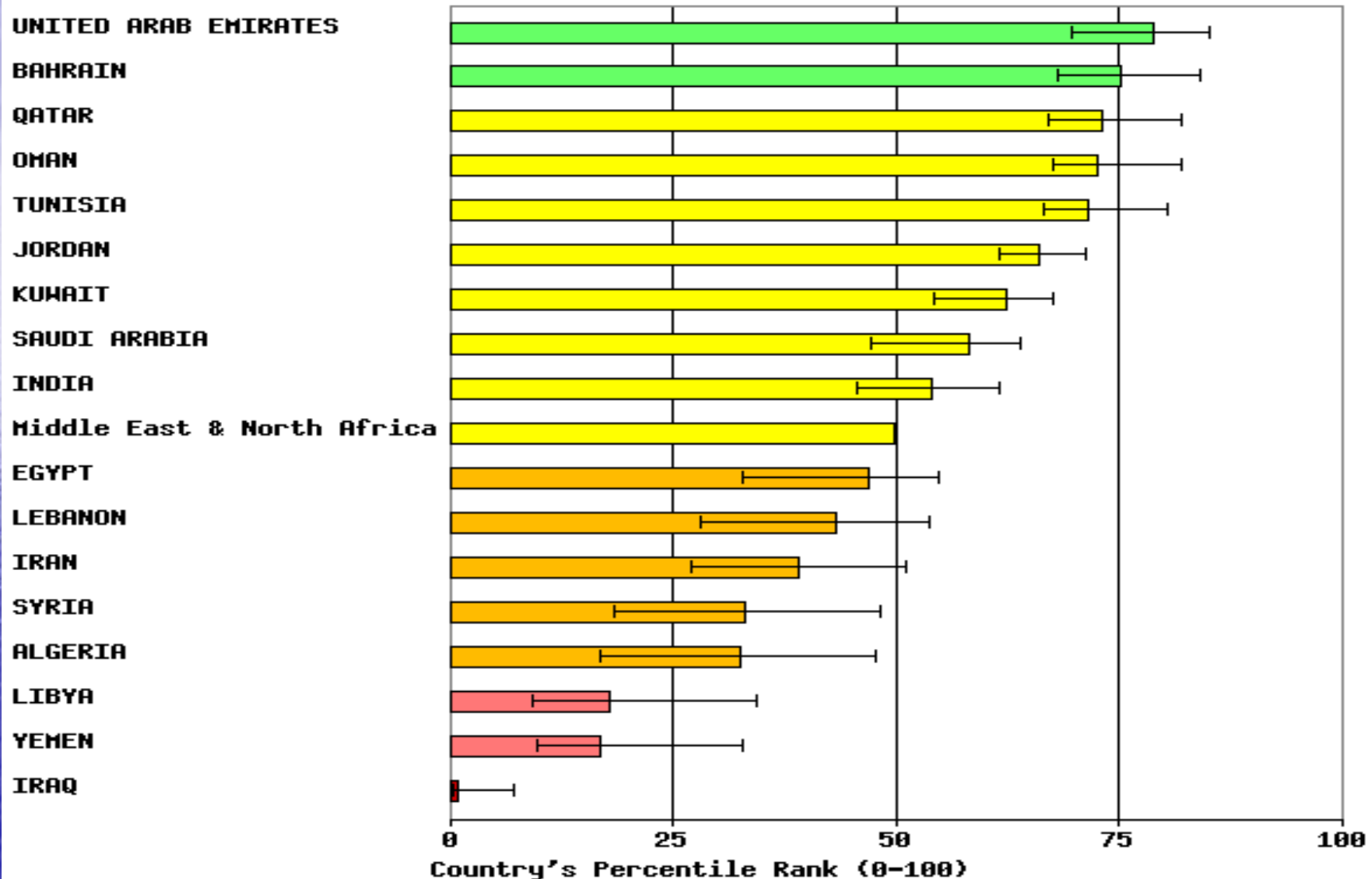
Control of Corruption (World, 2002)



Source: D. Kaufmann, A. Kraay and M. Mastruzzi, 2003: Governance Matters III: Governance Indicators for 1996-2002 (<http://www.worldbank.org/ubi/governance/pubs/govmatters3.html>)

Governance: Government Effectiveness

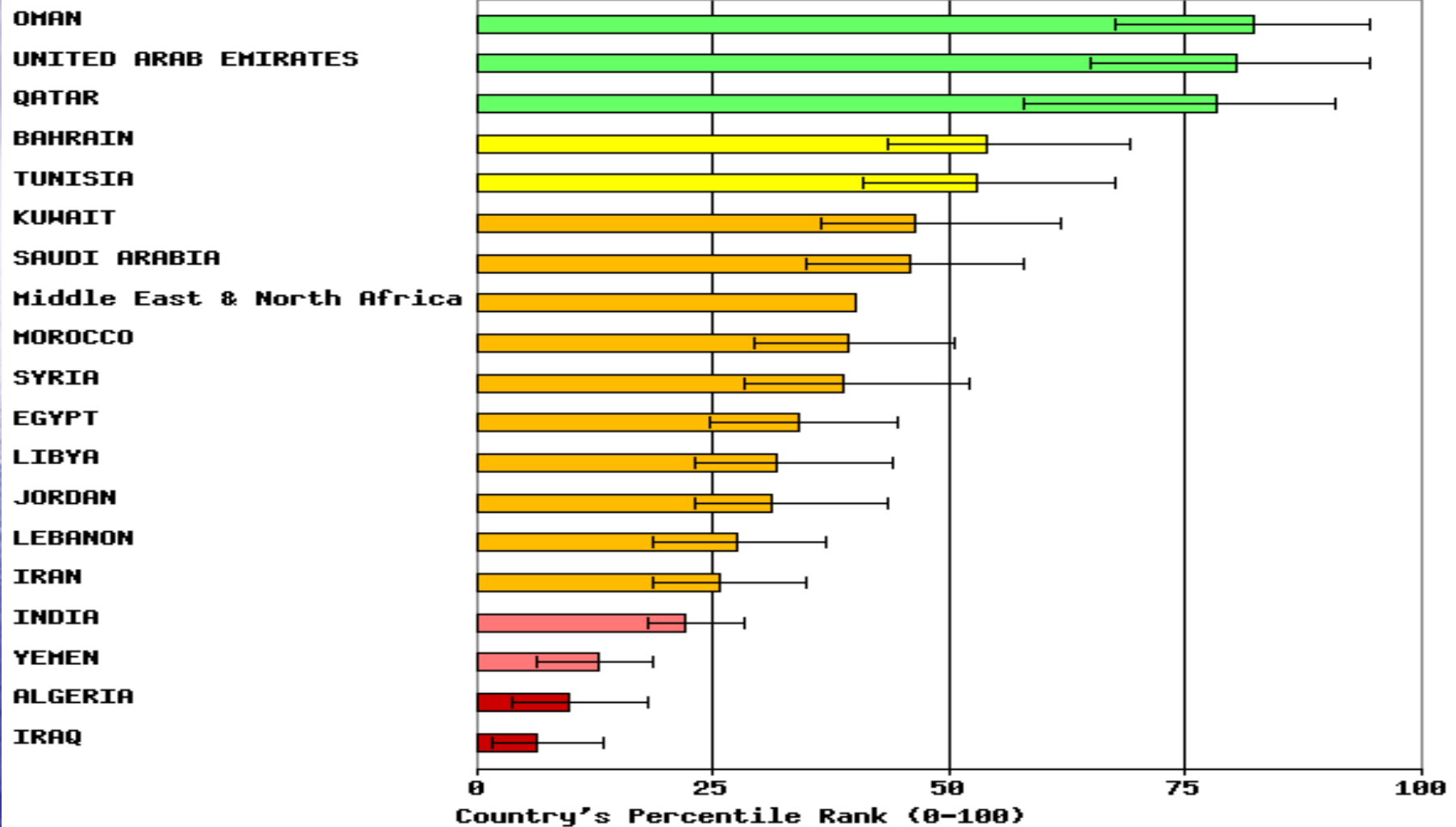
Government Effectiveness (World, 2002)



Source: D. Kaufmann, A. Kraay and M. Mastruzzi, 2003: Governance Matters III: Governance Indicators for 1996-2002 (<http://www.worldbank.org/ubi/governance/pubs/goumatters3.html>)

Governance: Political Stability

Political Stability (World, 2002)

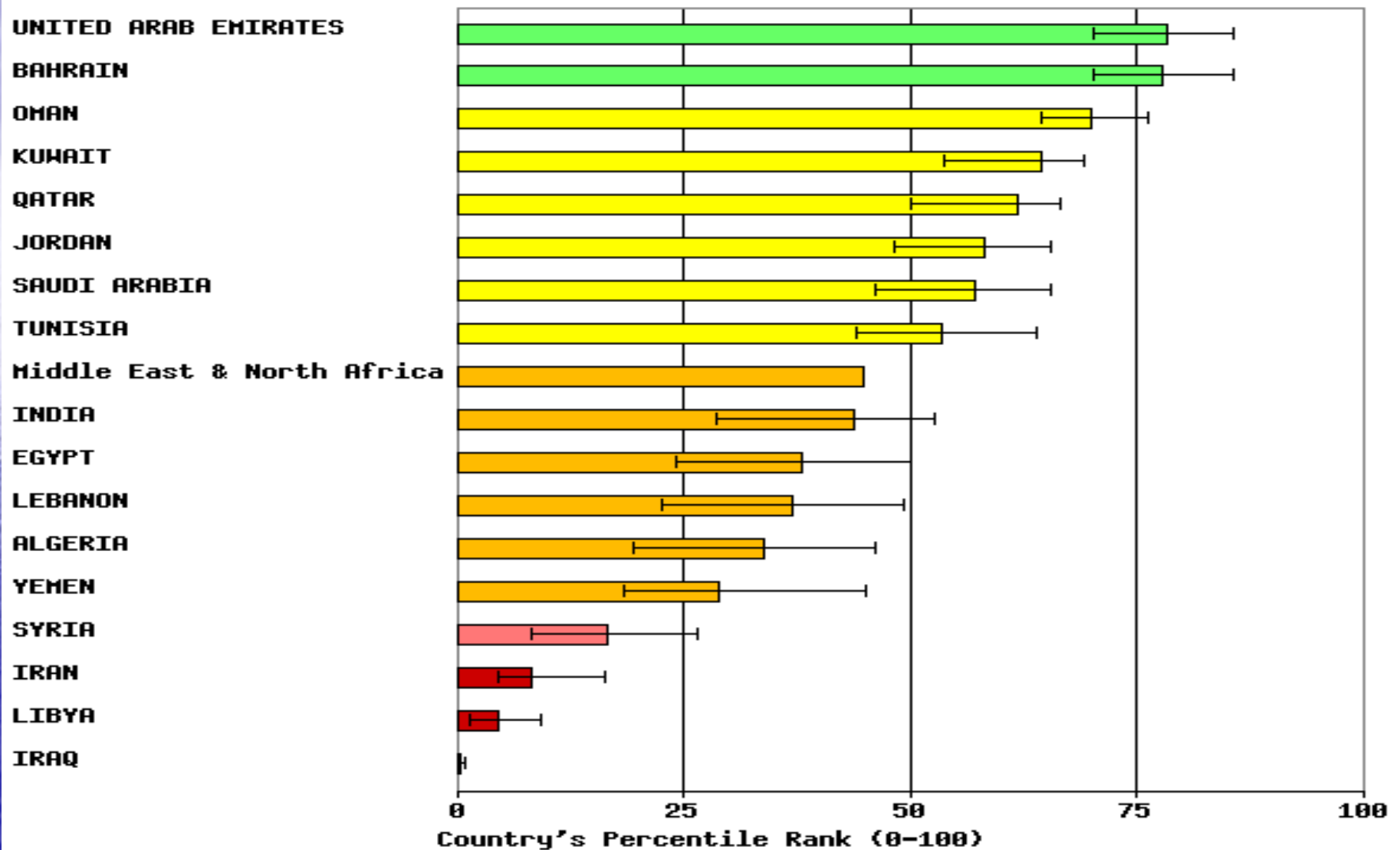


Source: D. Kaufmann, A. Kraay and M. Mastruzzi, 2003: Governance Matters III: Governance Indicators for 1996-2002 (<http://www.worldbank.org/wbi/governance/pubs/govmatters3.html>)

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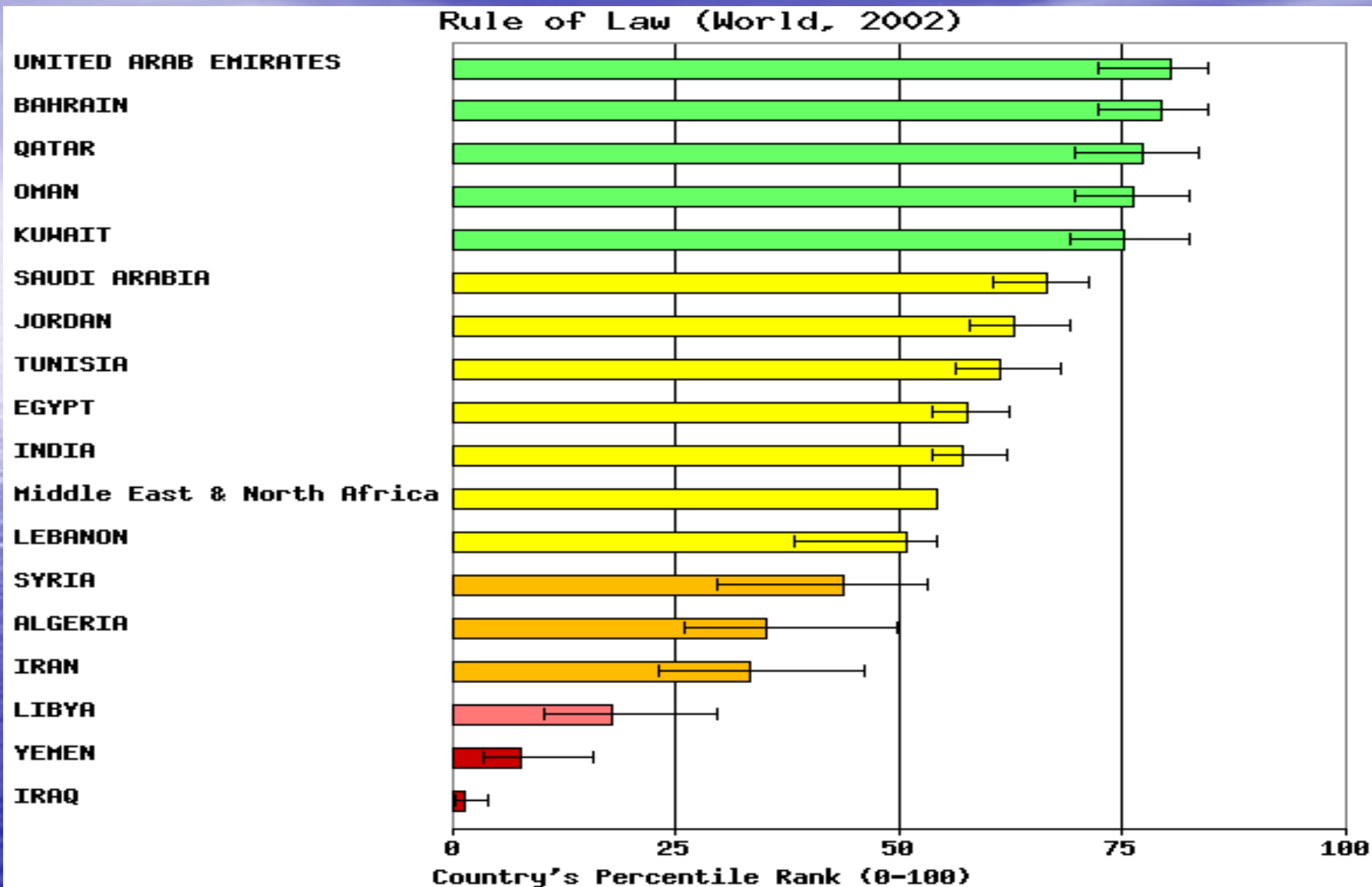
Governance: Regulatory Quality

Regulatory Quality (World, 2002)



Source: D. Kaufmann, A. Kraay and M. Mastruzzi, 2003: Governance Matters III: Governance Indicators for 1996-2002 (<http://www.worldbank.org/ubi/governance/pubs/govmatters3.html>)

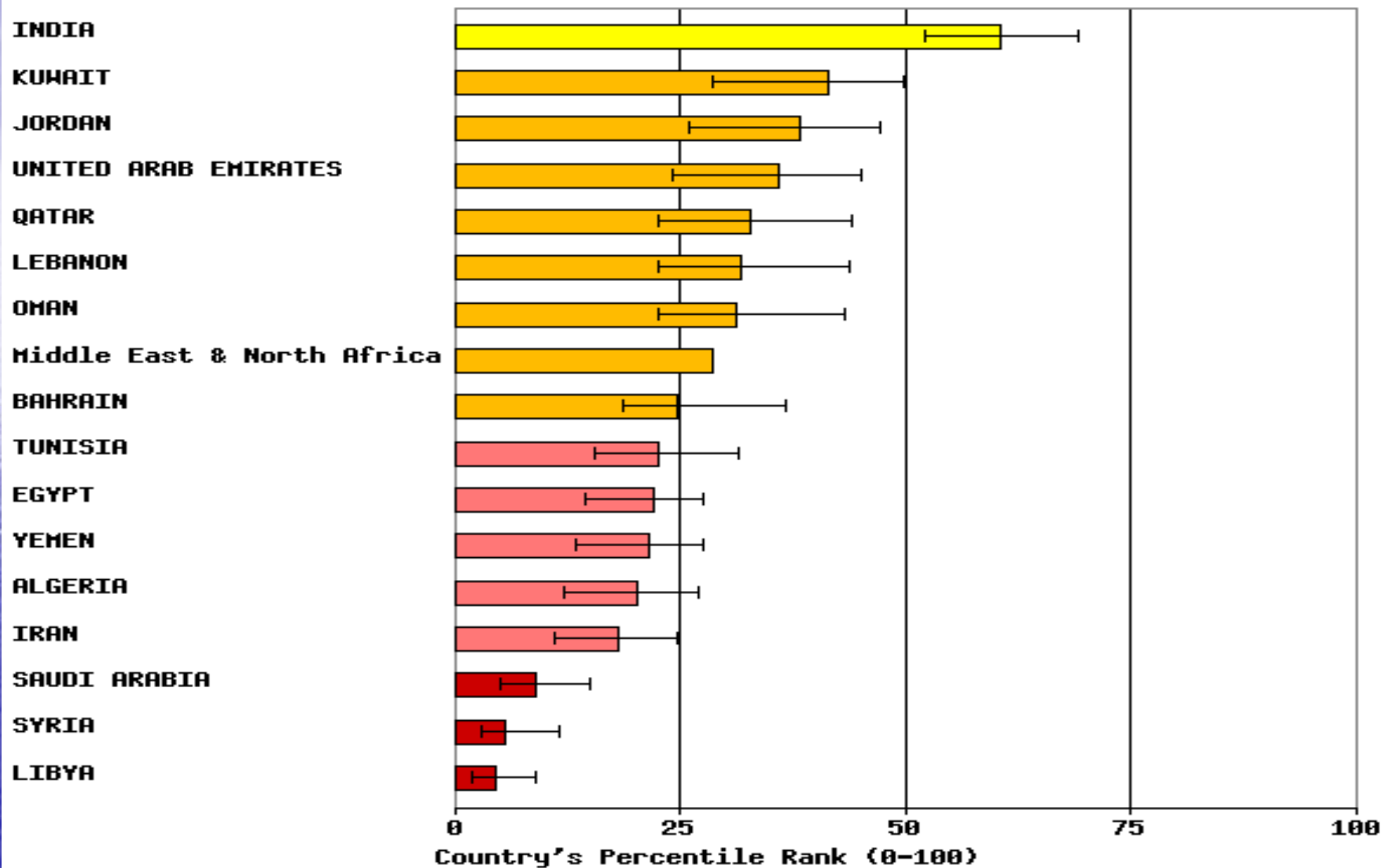
Governance: Rule of Law



Source: D. Kaufmann, A. Kraay and M. Mastruzzi, 2003: Governance Matters III: Governance Indicators for 1996-2002 (<http://www.worldbank.org/ubi/governance/pubs/goumatters3.html>)

Governance: Voice & Accountability

Voice and Accountability (World, 2002)



Source: D. Kaufmann, A. Kraay and M. Mastruzzi, 2003: Governance Matters III: Governance Indicators for 1996-2002 (<http://www.worldbank.org/ubi/governance/pubs/govmatters3.html>)

'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
- Good CG essential in MENA to compensate for *weak overall (i.e. public) governance*

Two Thoughts (1): Power

« ...Military power may acquire empires, but it is not enough to sustain them. »

*Sir Michael Howard IISS FT Weekend 7/8
Sept 02*

Two Thoughts (2): Democracy in the ME

« *but the expectation that the overthrow of Saddam Hussein will release democratic forces in Iraq that will provide a beacon for the entire Middle East demands a considerable suspension of disbelief. The best intentioned of liberators may have to stay and maintain 'order' for long enough for democracy to become rooted; to engage in... 'nation building' »*

Sir Michael Howard IISS FT Weekend 7/8 Sept 02

"Road Maps"

- Current regional initiatives: Iraq, 'Israeli-Palestinian Road Map' are high risk, unrealistic to expect positive outcomes in an American election year
- Countries of the region must take the initiative
- Important roles of civil society and elites: build for our future generations
- 'Bank the demographic dividend': education, infrastructure, housing, ICT, water
- Need to create 100 million new jobs and provide infrastructure for young populations of the region

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 the EU through tool of Association Agreements*

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*
- *Address the 'Gender divide': increase labor force participation & fight against discrimination of women*

**Searching for Growth in
Road Maps?**

Dr Nasser Saidi@

Thank you

Q & A