“A roadmap for Lebanon: how to prevent it from becoming another Gaza”, an extended version of the Op-ed in Arabian Gulf Business Insight (AGBI), 9 Oct 2024

The below opinion piece is an extended version of the opinion piece titled “Lebanon conflict will only exacerbate existing economic crisis” that was published in the Arabian Gulf Business Insight (AGBI) on 9th October 2024.

A roadmap for Lebanon: how to prevent it from becoming another Gaza

The country is battling core infrastructure damage, collapsed business activity and decimated tourism

A major humanitarian crisis is unfolding in Lebanon. Israel’s ongoing vast, destructive violence unleashed on Lebanon has exacted a heavy human toll with over 2,300 killed [1], 10,000 wounded, destroyed core infrastructure including public utilities, water, sanitation, power and roads and degraded the public health system. Much of Beirut’s Dahieh and South Lebanon stands in ruin. More than 1.2mn persons are forcibly displaced – roughly 20% of the population – in a country that is not equipped to handle a major humanitarian crisis; already bearing the burden of hosting the largest number of refugees per capita globally (including an estimated 200,000-250,000 Palestinian refugees). The humanitarian logistical and operational challenges are compounded by a near absence of financial resources. Massive scale of strikes (3,000 over two days) [2], the use of 2000-pound bombs, evacuation orders in the middle of the night, attacks on health facilities and hospitals – all indicate that Israel is following the same playbook of Gaza in the new killing fields of Lebanon.

In addition to the traditional weapons used like bombs and missiles, Israel has introduced a new type of warfare, adding a new layer of complexity and distrust. The detonation of handheld pagers and walkie-talkies in Lebanon ushers in a new class of warfare: the weaponisation of electronic communications. The deployment of AI-based tools creates a new class of warfare, including the use of Machine Learning to inform targeting decisions and an evacuation monitoring tool among others [3]. This opens a Pandora's box threatening trust in digital tools and the digital world from telecommunications to electric vehicles, personal computers and digital networks. Already, international flights are banning pagers and walkie talkies, which could theoretically be extended to any electronic device (be it phones or laptops).

The deaths and destruction heave an additional burden to Lebanon's existing misery and socio-economic-political-environmental polycrisis. October 2024 marks five years since the onset of Lebanon's financial crisis, the deepest in global financial history. The absence of a head of state for two years, and effective functioning and unified government has led to inaction. The banking sector's collapse wiped out lifetime savings for most Lebanese. and the epicentre of the problem; the failure to undertake structural reforms, restructure the banking system and the public sector, combined with the absence of a social safety net inflicted severe socio-economic costs with poverty levels exceeding 50% of the population [4]. The country was already reeling from a sharp and disorderly devaluation (98%) of the national currency, hyperinflationary conditions, a collapse in public finances, a massive brain drain, and a collapse of GDP from US$ 54.9bn in 2018 to US$ 17.9bn in 2023 and falling further in 2024.

The war will only exacerbate the existing crisis: we are witnessing increasing population displacement alongside lower consumption, a collapse of business activity and tourism in the country. War could result in an interruption of schooling adding to the long-term scarring effects and of remittances (increasingly in cash), a major source of income for the impoverished population (remittances represent some 30% of GDP). Should the war deepen and extend for longer, GDP could contract by up to 25%, with a sharp decline in foreign trade, wider budget deficits, along with massive emigration, while inflation would accelerate, and the already-battered pound would become unsustainable with an expansion of the US$ based cash economy.

In the 12 months of the war on Gaza, more than 80% of civilian infrastructure and more than 70% of civilian homes have been destroyed or severely damaged. Another Gaza scenario on Lebanese grounds, “Lebaza”, with massive destruction of civilian infrastructure would result in an immense reconstruction effort and cost for a country that has neither the resources nor the ability to reconstruct. The war in 2006, which had a devastating impact on Lebanon, saw reconstruction costs exceed US$ 10bn. Promised international funding under Paris II, was only partial: the pre-condition rollout of structural reforms was not undertaken.

What should be the priorities for Lebanon?

Firstly, mobilisation of humanitarian aid. The UN and the caretaker government launched a Flash Appeal for US$425. Mn.

The GCC has affirmed support (with the UAE leading with US$100 Mn) and multilateral humanitarian aid has started flowing.

The needs of the displaced must be addressed, compounded by approaching winter. Food, shelter, medical, protection and schooling must be prioritised to avoid long-term scarring effects from a loss in school years even if a ceasefire were to be announced immediately.

Secondly, international access needs to be maintained through ports, airport and international roads to Syria and hinterland. In the 2006 war, Israel bombed Beirut airport's runways, forcing a complete shutdown until the 33-day war ended. This should not be repeated – there have been reports of multiple explosions near the airport. Road access is critical to ensure trade and mobility (including movement of displaced persons to safer areas).

Thirdly, it is urgent to elect a new President and form a new, empowered national emergency government, capable of building unity and gaining domestic and international confidence to address Lebanon's devastation, reach a ceasefire and plan reconstruction, the cost of which given the growing scale of destruction is likely to exceed US$25billion.

[1] Source: Lebanon's Ministry of Public Health.

[2] The Israeli military carried out 3000 strikes in Lebanon on Sep 24-25, the deadliest since the 2006 war; to compare, US carried out less than 3000 strikes a year, excluding the first year of attack, in the 20-year US-Afghanistan war

[3] https://www.hrw.org/news/2024/09/10/gaza-israeli-militarys-digital-tools-risk-civilian-harm

[4] Lebanon poverty and equity assessment https://www.worldbank.org/en/country/lebanon/publication/lebanon-poverty-and-equity-assessment-2024

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“The GCC will benefit from a US-China chill”, Op-ed in Arabian Gulf Business Insight (AGBI), 4 Jun 2024

The opinion piece titled “The GCC will benefit from a US-China chill” was published in the Arabian Gulf Business Insight (AGBI) on 4th Jun 2024.

A slightly longer version of the article is posted below.

The GCC will benefit from a US-China chill

The Gulf’s expanding strategic links with Asia mean higher growth at home

The US-China tech and trade war has ramped up with President Biden imposing new tariffs on Chinese goods and quadrupling of tariffs on EVs from 25% to a staggering 100 percent! The economic war will intensify in this US election year. Spillover into Europe and Chinese retaliation mean greater global trade and investment fragmentation and dislocation. Trade restrictions have surged, tripling since 2019 to more than three thousand last year, depressing trade growth.

Growing protectionism and economic policies increasingly dominated by national security considerations are also negatively affecting capital flows and FDI. The growth of FDI is no longer aligned with growth in trade and GDP. FDI growth has stagnated to near zero since 2010, versus trade and GDP growing annually by an average 4.2% and 3.4% respectively.[1]

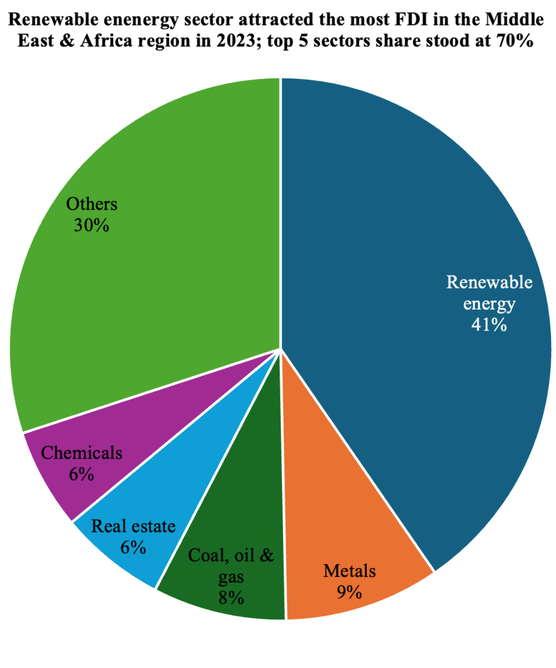
In sharp contrast to the gloomy global landscape, President Sheikh Mohamed Bin Zayed is visiting Korea and China to deepen economic, tech, trade, and strategic ties. The growing strategic links of the GCC with Asia & China reinforce three external sector growth drivers acting in conjunction with domestic growth drivers: foreign direct investment (FDI), trade policy reforms and liberalisation, and attraction of human capital. These support non-oil diversification and growth including tech, digital economy & innovation, green economy, and services.

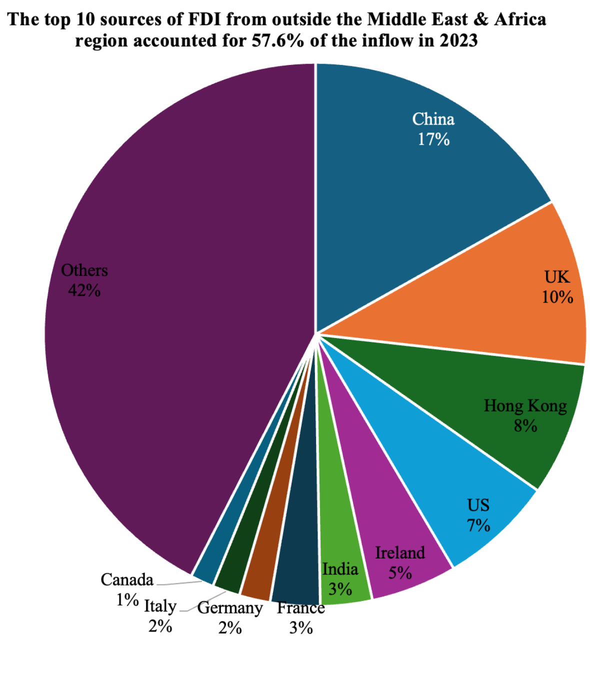
Data from fDi Intelligence shows that greenfield FDI in the Middle East & Africa region, measured by number of projects, bucked the global trend, and grew by 19% yoy to 2658 in 2023 (roughly 16% of global FDI projects). While capital investment fell by 6% to USD 249.8bn in 2023 (due to the spike in green hydrogen projects in 2022), the number of projects and investment were up by 46% and 111% respectively compared to pre-pandemic 2019. Two major takeaways from the data are the growing investments into the Middle East & Africa region from China and the increasing focus on investments into clean energy and renewables.

As the US & EU’s economic war with China widens, the GCC and its Middle East hinterland is becoming an increasingly strategic partner for China. Not only have state-owned investors in the GCC invested more than USD 2.3 billion into China in 2023 (versus USD 100 million in 2022), but **recent official trips to China by both Saudi Arabia and the UAE herald further deepening existing economic ties.**

China was the top source of FDI from outside the region: at USD 42.1 billion, the country's share was around 16% of total inflows. The pattern is also changing: Saudi Arabia was the largest recipient of Chinese FDI in 2023 (USD 16.8 billion), with a 10% share of the country's total outbound capital investment. FDI into Saudi Arabia surged by 111% yoy to USD 28.8 billion; one-fifth going to the EV sector. Such investments not only support asset prices in both regions, but also facilitate adoption of innovative technologies and knowledge transfer into the non-oil sectors.

Investments into renewable energy accounted for just over 40% of total FDI capital investment in the region. China-based Human Horizons EV research, development, manufacturing, and sales joint venture facility in Saudi Arabia is one of the examples, a USD 5.6 billion deal aimed at boosting EV production in the region.





Source: The fDi Report 2024, fDi Intelligence, May 2024. Charts by Nasser Saidi & Associates.

Not only has the region been attracting investments, but more interestingly, firms from the region are growing their global FDI footprint in line with its "Middle Powers" status. UAE's Dubai World was among the top ten foreign investors in 2023 by project, while Mubadala Investment Group was the top-ranked foreign investor in 2023 by capex and Saudi Aramco was fourth in this list.

Ranging from investments into infrastructure projects (e.g., BRI projects, Etihad Rail in the UAE) and energy transition (e.g., in UAE’s power plants, EVs factories in Saudi Arabia) to Asian investment and asset managers/ family offices setting up operations in the region’s financial centres, economic and financial ties are deepening and widening. In the near-term, cooperation could range from industrial policy partnerships (given institutional and governance similarities in the role of SEZs and SOEs) to linking Saudi & UAE financial markets to Shanghai and Hong Kong, facilitating financial flows. The latter can fund the expansion of partnership in BRI projects, energy, clean tech, and climate tech (given China’s global dominance in green tech), sustainable funding for long-term projects and PPPs. From a medium to longer-term perspective, linkages could involve the adoption of the yuan for trade (the PetroYuan can be used both for energy and non-oil trade, payments and settlement), in addition the extension of the Cross-Border Interbank Payment System (CIPS, an alternative to SWIFT) and arranging central bank digital currency transfers (facilitating cross-border flows). Considering the ambitions of the GCC and China, the setup of a GCC space port, exploration of space including commercial space travel would be another major potential avenue for cooperation.

GCC will benefit from global fragmentation and China disconnect and decoupling. GCC’s investment deals with China (and more broadly Asia), especially inward FDI, will support a higher growth path in the region (including in the non-oil sector) supported by trade liberalisation.

[1] UNCTAD research.

“The Gulf superstorm is a climate change omen”, Op-ed in Arabian Gulf Business Insight (AGBI), 6 May 2024

The opinion piece titled “The Gulf superstorm is a climate change omen” appeared in the Arabian Gulf Business Insight (AGBI) on 6th May 2024.

The article is posted below.

The Gulf superstorm is a climate change omen

As GCC nations diversify their economies, it is critical that new policies are green by design

Climate change is increasing the frequency of extreme weather events. That much is clear as superstorms wash over Oman, Saudi Arabia and the UAE, unleashing unprecedented levels of rainfall and high winds.

Dubai received more than 250mm of rain in one day last month, compared to its standard 140mm per year. The resulting floods overwhelmed infrastructure – roads, shopping malls and public spaces – severely disrupting local life and economic activity.

The floods also disrupted flights at Dubai International Airport, which fortunately proved resilient and was functioning two days after the rains. The government's disaster recovery response, including Dubai Municipality deploying 2,500 workers to address emergencies, allowed the city to return to normality a few days later. Since then, the UAE has set AED 2 billion ($545 million) aside to pay for and rebuild flood-damaged homes, in addition to announcing an AED 80 billion drainage system as part of Dubai Economic Agenda D33.

So, what lessons can be learned from the storm?

The growing costs and risks of climate change require urgent action from both the public and private sectors.

In the Mena region, all countries aside from Libya and Yemen (given political issues) have submitted their nationally determined contributions reports, while only Kuwait and Palestine have submitted national adaptation plans to the UN's Framework Convention on Climate Change.

Developing national frameworks means that both climate adaptation and climate risk mitigation policies must be implemented, along with supporting investments.

Extreme weather events and higher reinsurance costs lead to increased insurance premiums for consumers. Insured global losses from natural disasters totalled $95 billion in 2023. National adaptation plans lower the cost of insurance by increasing public awareness and providing accurate data on climate-related events and vulnerabilities.

In the Middle East and Central Asia region, the International Monetary Fund believes that climate adaptation and strengthening infrastructure resilience will require an annual investment of around 1.6 percent of GDP (roughly $80 billion in 2021).

Furthermore, the agency estimates the cost of enhancing private asset resilience at around 0.5 percent of GDP. These expenses are over and above the estimated annual $250 billion to $310 billion needed to mitigate climate change.

To add to these concerns, those nations with greater financing needs are also the ones least prepared, either due to fiscal limitations, high debt burdens or weak financial development.

Climate change requires businesses to redesign their risk management plans and tools. Are business continuity and business disaster recovery plans climate resilient? Extreme climate events can lead to a reduction in revenue or potential bankruptcy.

BloombergNEF, a research organisation, found that 65 percent of more than 2,000 companies failed to identify assets and operations that may be vulnerable to physical risks. Even fewer companies conduct financial assessments of climate-related risks.

> *Climate risk should be measured and priced. The physical risks are growing and could result in loan and balance sheet losses for banks*

Businesses are also vulnerable to climate-related legal risks. Currently more than 2,500 climate lawsuits are recorded globally. About 55 percent of the 549 lawsuits outside the US have had a climate-positive ruling, according to the London School of Economics.

Climate risk, which encompasses physical and energy transition risks linked to climate change, should be measured and priced. The physical risks are growing and could result in loan and balance sheet losses for banks. Often, the damage is underreported.

The Task Force on Climate-Related Financial Disclosures is pushing corporations to increase exposure reporting. Climate risk pricing should be required by central banks and financial regulators and translated into risk-based financing and loans.

The GCC countries are currently deploying industrial policies to support economic diversification. It is critical that these policies are green by design and imbued with climate adaptation and mitigation measures.

Climate risk mitigation includes energy transition investment and fossil fuel asset de-risking, focused on clean energy, electric mobility, carbon capture and storage and clean tech. These innovations can be private sector-driven.

There are many ways to build climate-resilient infrastructure: through public investment, public-private partnerships, or market-based private sector incentives (such as carbon pricing).

Examples include green hydrogen, solar-powered desalination and district cooling. The GCC already has a comparative advantage in these exportable technologies.

The Gulf states are also applying artificial intelligence to climate action. Abu Dhabi’s G42 developed Jais Climate, the world’s first bilingual large language model dedicated to climate and sustainability, “to inform, inspire and drive awareness about climate change and sustainability”.

AI and machine learning enable complex and multi-dimensional data to be handled more adeptly, which lends itself to climate economy modelling and the forecasting of effective action to help combat climate change.

Climate adaptation, energy transition and green economy policies will drive growth in renewable energy and clean technologies and trade. They can play a critical role in transforming the oil-producing economies and output structures.

Dr Nasser Saidi is the president of Nasser Saidi and Associates. He was formerly chief economist and head of external relations at the DIFC Authority, Lebanon's economy minister and a vice-governor of the Central Bank of Lebanon

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Comments on the impact of UAE being removed from the FATF grey list in The National, 24 Feb 2024

Dr. Nasser Saidi's comments appeared in an article in The National titled "UAE's removal from Financial Action Task Force's grey list to spur investor confidence" published on 24th February 2024.

The comments are posted below.

The immediate benefit would be an improvement in investors' trust and confidence in the UAE, leading to an increase in more sustainable capital, foreign direct investment and portfolio flows, according to Nasser Saidi, head of consultancy Nasser Saidi and Associates.

This move will also support the expansion of both the domestic banking and financial sectors as well as the international financial free zones, as wealthy global investors and foreign businesses become more comfortable investing in the UAE, given *its adoption of international laws and conventions, he explained.*

Another major beneficiary will be the asset and wealth management activities of UAE-based family offices, he said.

"The UAE's removal from the FATF grey list is a testament to the country's political will and willingness to improve overall governance, transparency and disclosure of the banking and financial sector, address weaknesses alongside increasing its ability to deter illicit money flows [via the Executive Office for Anti-Money Laundering and Counter-Terrorism Financing], enhancing its ability to undertake financial investigations and extraditions of financial criminals among others," Mr Saidi added.
"However, it is important that the UAE continues on its journey in adopting and implementing international best practices and standards, continuously strengthening its financial regulatory regime, including AML/ CFT."

Comments on the impact of the war in Gaza on Lebanon in The National, 14 Feb 2024

Dr. Nasser Saidi's comments appeared in an article in The National titled "Lebanon's economy reels as cost of damages from Gaza war soar" published on 14th February 2024.

The comments are posted below.

Nasser Saidi, a former economy minister and deputy governor of Lebanon's central bank, told The National that the violence has caused extensive damage to buildings, infrastructure and *private property, adding up to huge losses for Lebanon's already struggling economy. More than 65,000 people have been displaced in Lebanon because of the war. Trade, tourism, hospitality as well as agriculture and aviation are some of the sectors that have been hit hard.*

"The direct attacks in the south of Lebanon heighten uncertainty, inflict damage and destruction to an already impoverished region of the country and inevitably augment the country's burdens," Mr Saidi, who is also head of consultancy Nasser Saidi and Associates, said.

"Already, Lebanon's four main economic pillars, trade and tourism, health, education, banking and finance have been decimated by the ongoing crisis and lack of reforms. Not to mention the long-term scarring effects from the mass migration of Lebanon's human capital which will accelerate if there is an escalation or war in Lebanon."

The agriculture sector has been particularly affected by the fighting. "South Lebanon and Nabatieh are major agricultural hubs accounting for 21.5 per cent of Lebanon's cultivated areas and damage to the sector will result in loss of the means of livelihood and income," Mr Saidi said.

"Any escalation [in the conflict] to the wider nation would be disastrous for a country already reeling from political, economic, and social woes – rebuilding would likely take decades rather than years," Mr Saidi said.

Comments made during this interview were also included in The National's Editorial on 16th February 2024.

"Disastrous", "decimated" and "impoverished" – these are just some of the words used by Nasser Saidi, a former economy minister and deputy governor of Lebanon's central bank, to describe his country's fragile state this week. In an interview with The National published on Wednesday, he

outlined how Lebanon's economic problems – which the World Bank has called one of the worst global financial crises since the middle of the 19th century – were being exacerbated by the spreading violence of the Israel-Gaza war.
According to Mr Saidi, the escalation of the conflict will drive "mass migration" from Lebanon. Rebuilding would "likely take decades rather than years", he added.

Comments on Saudi Arabia's gold discovery in The National, Jan 7 2024

Dr. Nasser Saidi's comments appeared in an article in The National titled "[Will Saudi Arabia's recent gold discovery provide a major boost to its economy?]" published on 7th January 2024.

The comments are posted below.

"The gold discovery could prove significant as the gold content of the ore is high," Nasser Saidi, a former Lebanese economy minister and vice governor of the country's central bank, told The National.

"Saudi Arabia can attract private sector investments in underexplored regions such as the Western Arabian Shield both in precious metals, as well as critical industrial minerals that are basic resources in global decarbonisation," Mr Saidi said. The Western Arabian Shield region also holds valuable rare earth elements, such as tantalum, for which it has a quarter of the world's reserves. It is widely used in smartphones.

Comments on Lebanon & potential spillover from the Israel–Gaza war in The National, Oct 18 2023

Dr. Nasser Saidi's comments appeared in an article in The National titled "Lebanon's economy could collapse completely if Israel–Gaza war spreads, warn analysts" published on 18th October 2023.

The comments are posted below.

"The economic situation and all the indicators will rapidly deteriorate as a result of the security crisis and the Hamas-Israel war which can spill over into Lebanon," Nasser Saidi, a former economy minister and vice-governor of Lebanon's central bank, told The National.

An escalation of the conflict into Lebanon, he said, would lead to "potential destruction of its remaining infrastructure, including ports and the airport which are the economic lifeline of the country given its high dependence on the Lebanese diaspora."

Lebanon "could experience complete collapse" if the fighting continued to spread, added Mr Saidi, president of Nasser Saidi and Associates.

"Already we have seen population displacement from the south of the country, while we are witnessing an accelerated exodus of skilled professionals."

Comments on the landmark power project of GCC Interconnection Authority and Iraq in Arab News, Jun 24 2023

Dr. Nasser Saidi's comments appeared in an Arab News article titled "Electrical transmission line connecting Afar in Saudi Arabia to Yusufiya in Iraq inaugurated" published on 24th June 2023.

The comments are posted below.

Crucially, the agreement underscores part of what Nasser Saidi, Lebanon's former economy and trade minister and founder of Nasser Saidi & Associates, calls "the regionalized globalization by the GCC.

"Integrated electricity grids, such as between Saudi and Iraq, result in greater power efficiency, improved management of electricity grids and network economies, lowering costs for all the countries involved," he told Arab News.

"It allows the creation of a GCC-augmented electricity market and electricity trading across borders. In parallel, Saudi, the UAE and other GCC countries are heavily investing in renewable energy (mainly solar) for their power generation," he said.

"Eventually, the GCC can export solar-based electricity green energy to not only neighboring countries (Iraq, Jordan, Egypt

and Yemen) but also to India and across North Africa into Europe. Already, a GCC-India undersea electricity connector is planned. A new energy infrastructure map is emerging."

There also, said Saidi, wider possibilities and vision for the agreement that have the potential as stated by Prince Saud and Al-Mitiwiti to garner greater energy security and economic benefits for the region.

"The integration of basic infrastructure – water, electricity, transport and logistics (ports and airports) – is a major building block of greater economic integration between the GCC and its regional partners, enabling the deepening of regional trade and investment links," Saidi explained.

He added: "Infrastructure integration fosters economic development. It creates jobs in countries such as Iraq, Jordan, Egypt, Lebanon and Syria that have traditionally been reliant on exporting labor, helping them combat the present brain drain."

Moreover, as Saidi stressed, the greater integration of these countries with the GCC enables partners to participate in global value chains through the region, generating higher value exports (rather than low-value commodity exports such as phosphates) and diversify their economies.

All of this is taking place during a time of great change for world energy markets.

"The GCC countries are now pursuing an active international trade and investment strategy leading to 'regionalized globalization', at a time when the rest of the global economy is fragmenting and there is attempted US, EU and allies decoupling from China," he added. "Strategically, regionalized globalization can lead to greater geopolitical stability."

Interview with Al Arabiya TV (Arabic) on US stimulus package & inflationary pressures, 9 Feb 2021

Dr. Nasser Saidi spoke to Al Arabiya's Nadine Hani on 9th Feb 2021 about the $1.9trn stimulus plans in the US and whether this would lead to inflationary pressures. Will this support a stock market bubble, leading to an eventual crash?
Watch the full interview (in Arabic) here.

Comments on McKinsey's Lebanon report in Arab News, Jan 2019

Dr. Nasser Saidi's comments (below) appeared in an Arab News report titled "Lebanon's damning McKinsey report: how the experts reacted", on January 7, 2019. The full article can be accessed here and here; the Arab News report can can be downloaded here.

One of the damaging figures reveals that Lebanon's residents spend 50 percent more time than needed on congested roads, only 15 percent of which are in good condition. It also

discloses that Lebanon’s infrastructure ranks 113th out of 137 countries.
“These numbers come from a variety of sources like the World Bank and others, so these have been assessed by various international parties,” Dr. Nasser Saidi, former chief economist and head of external relations at the Dubai International Financial Center, told Arab News.
“What’s more important is the cost of this in terms of productivity and income, because when you spend time on the road you aren’t producing anything, so congestion costs are very large in terms of both loss of business opportunities, lost income and lost productivity.”
Lebanon’s perceived corruption was shown to have increased by 26 points since 2012 to 146 out of 180.
“In terms of governance, it has been deteriorating over the past five to six years on a continuous basis,” Saidi said. “It’s corruption, bribery and nepotism. In all reports on transparency and corruption, Lebanon is unfortunately one of the most corrupt (places) in the world, and the importance of it is not only that we want to be able to fight corruption, but that it has become a cancer and it is so pervasive.”
He emphasized the issue as it is a major contributor to public finance and the budget deficit. “Corruption is directly related to government procurement and government contracts as well as government revenue,” he said. “So there is widespread tax evasion, and corruption is at the core of Lebanon’s large budget deficit, which was close to 11 percent in 2018 and likely to be the same or higher in 2019… The economic and fiscal impacts are extremely important.”
“If you want to measure the real damage that the civil war and the (Israeli) occupation have done to the country, it’s where Lebanon stands vis-a-vis countries that were equivalent to it before the war,” he added. “So it has regressed a lot by that measure.” Saidi said the poor quality of statistics in the country needs to be improved as the central statistics office lacks resources and figures on key areas including GDP and investment.

He said the lack of field productivity growth and investment means it is unsurprising that there has not been much of an increase in per capita income or real GDP.

The McKinsey report highlighted the country’s education system, deeming it to be of low quality and in decline. It said many skills are not being taught to suit labor force needs, partially because the curriculum has not been upgraded since 1997. Experts, however, said this is only the case for public sector schools and universities.

“The picture is diverse and there’s a big gap between public and private education,” Saidi said. “The major private sector universities are St. Joseph, the AUB and the LAU, which are able to deliver competitive quality education. The evidence for that is that our graduates are able to go to top-notch universities internationally.” But the problem is that it is mostly elites who can afford high-quality education, leaving behind most of the population, including Syrian refugees, he said.

He pointed the finger at the Arab world as a whole. “You need to think of two things: Education for employment, which should give you skills to be able to get jobs, and digital education for digital employment, because economies on a global basis and in the Arab world are increasingly going to have to move to become digital.”

In terms of the country’s diaspora and its $6.9 billion in remittances sent back to Lebanon, the report said they are not largely channelled into productive areas.

“There’s very little public investment, and all remittances and the capital coming in from the diaspora go into bank deposits, treasury bills and to finance the budget deficit,” Saidi said. “We have one of the highest levels of debt to GDP in the world, in excess of over 158 percent, which makes it the third most indebted country in the world after Japan and Greece.”

He attributed the problem to very little public investment, which trickled down to poor infrastructure performance. “It’s all going to finance wages, pensions and interests on public

debt," he added, calling it a resource curse due to the government's dependency on it. "They're happy to pay high rates just to attract them. Had we not had them, they would've had to adjust on their own and had fiscal reform."
The main issues at hand, he believes, are fiscal reform and corruption, cutting down the budget deficit and the level of public debt.

Infrastructure as an Engine of Growth in MENASA

http://nassersaidi.com/wp-content/uploads/2012/04/Economic-Note-15.pdf

DIFC Economic Note 15 titled "Infrastructure as an Engine of Growth in MENASA" provides a descriptive analysis of the infrastructure in the Middle East North Africa and South Asia region. Drawing from the key driving factors behind development of hard and soft infrastructure in the region, the paper also discusses the role of the public and private sector in its investment.

The MENASA region is experiencing a secular wave of transformation with two epicenters, India and the GCC. In the former, the main drivers are a "Goldilocks" demographics and the long lasting impact of reforms enacted in the 1990s by Dr. Singh (India's current PM) are expected to solidify and extend this transformation process. In the GCC, the main driver is an energy commodity windfall that for the first time in history is not merely amassed in offshore assets, but is increasingly deployed domestically to transform the Arabian Peninsula into an advanced XXI century knowledge based economy.

Two factors will be keys to the future of the region: demographics and urbanization. With fertility rates still well above 2.2, the MENASA region will enjoy the goldilocks of an expanding labor force, while massive internal migration will feed a powerful process of urbanization. These secular waves require a massive commitment to build indispensable infrastructure to sustain the increased population and economic growth. In the two epicenters this need is well understood by policy makers, but a fundamental difference is noticeable. While in the GCC infrastructure projects are anticipating the demand and actually stimulating it (supply side effect), in the rest of MENASA the existing infrastructure are strained due to poor maintenance and intensive usage.

Investment in infrastructure sets in motion a virtuous circle: higher productivity and competitiveness translate into higher incomes and higher government revenues and in turn more public investment in a mutually reinforcing pattern, as has been the case of China over the past two decades and the GCC since the turn of the century. In the process, other positive spill-overs are felt in the form of learning-by-doing effects, efficiency gains in companies, human capital improvement, research and development in construction techniques, technology transfers and process innovation.

Governments’ role as the largest provider of infrastructure financing in the region needs to be redefined given the crisis and resultant fiscal constraints. The role of private sector needs to be enhanced through privatization and Public-Private Partnerships (PPPs). The availability of capital is a key to spur an investment cycle – given the long-gestation nature of infrastructure projects, there is a need to attract private sector funds and more importantly, a need to develop deep and liquid local currency debt markets to improve access to finance.