

# **LIGHT FROM ASHES & TURMOIL? WHITHER THE ARAB FIRESTORM?**

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# LIGHT FROM ASHES & TURMOIL?

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- ARAB FIRE STORM: RECENT DEVELOPMENTS
- EVERYONE IS VULNERABLE
- IMPERATIVE OF STRUCTURAL REFORMS: A LIST OF 10 REQUIRED TRANSFORMATIONS
- NEED TO BUILD INSTITUTIONS FOR REFORM & TRANSFORMATION
- FINANCIAL GAME CHANGERS

# NEGLECT ECONOMICS AT YOUR PERIL!

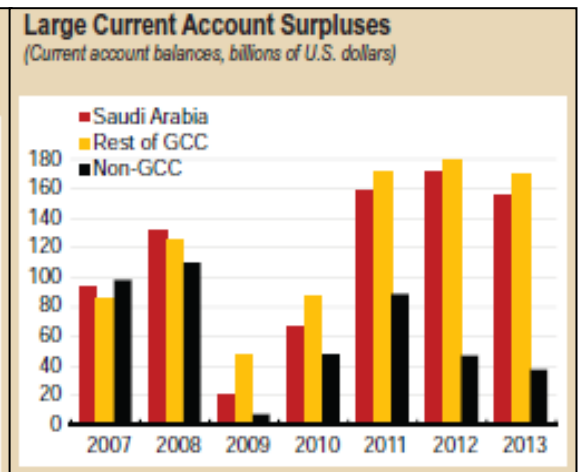
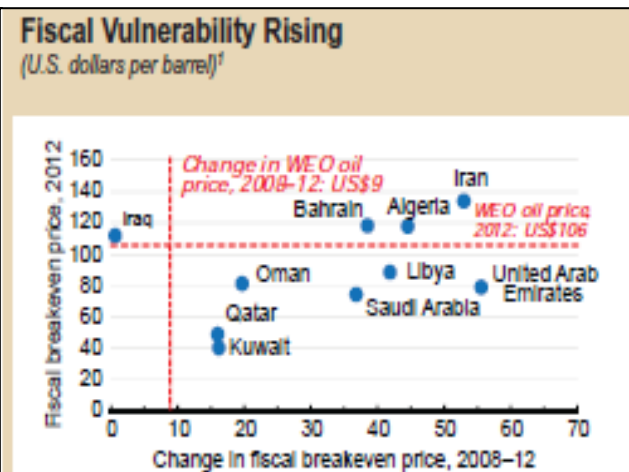
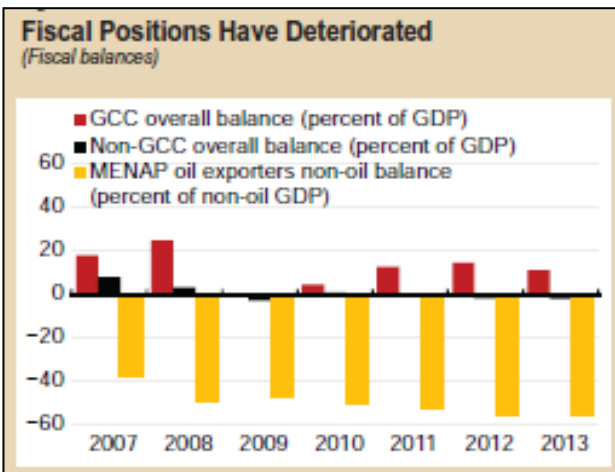
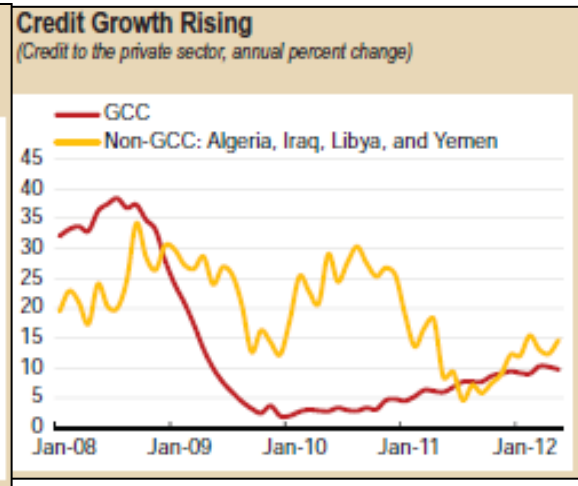
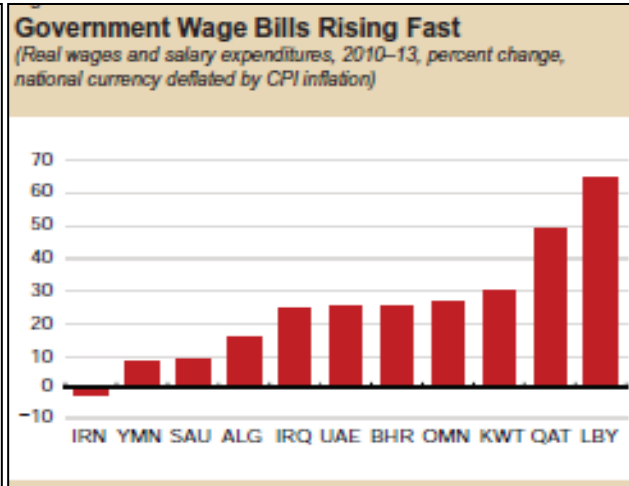
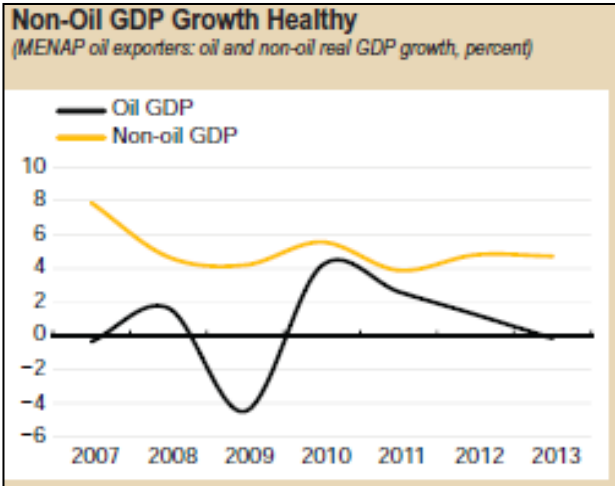
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- Arab economies face demographic youth bulge, lack of openness & competitiveness, structural problems
  - Focus on security & political reform is valid, but not at expense of deteriorating macroeconomic stability
  - Macroeconomic conditions in 'transition' countries are deteriorating (ex-Libya) with growing poverty & unemployment, higher budget deficits & subsidies, lower investment, deteriorating balance of payments
  - GCC & oil exporters have benefited from higher oil prices and government profligacy: higher spending & subsidies, higher incomes in public sector & social spending crowding out private sector job creation
  - Policy responses have been a palliative but does not address structural issues and youth unemployment

# STRUCTURAL ISSUES: INFRASTRUCTURE & UNEMPLOYMENT

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- Main Economic Policy Issue is youth unemployment
- Explosive Arab Demographics:
  - Pop: 355 mn but 500 mn by 2025
  - 55% below 24yrs, 2/3 below 30yrs
  - LF: 146mn but 185mn by 2020
  - Need to create 100mn new jobs by 2020
  - Need growth rates of 6%-7.5% p.a.
- Unemployment:
  - At least 15mn unemployed; 18% U rate
  - But Youth U rate 35%, female UR 45%
- Infrastructure Underinvestment: need \$100bn p.a. but facing a \$60bn financing gap
- Each \$10bn infrastructure investment creates some 1.1mn new jobs in oil importing countries & 0.5mn in oil exporters

# MENA: RECENT ECONOMIC DEVELOPMENTS



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# Arab Firestorm => Rising Vulnerabilities

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- Arab region going through a historic transition period with many 'fault lines'
- Arab countries face and share a number of common vulnerabilities and legacies:
  - ***Political & Governance***
  - ***Socio-Demographic***
  - ***Economic***
- **Successful Transitions Require Structural Reforms to address the factors leading to vulnerability**

# MENAT Vulnerability Index Factors

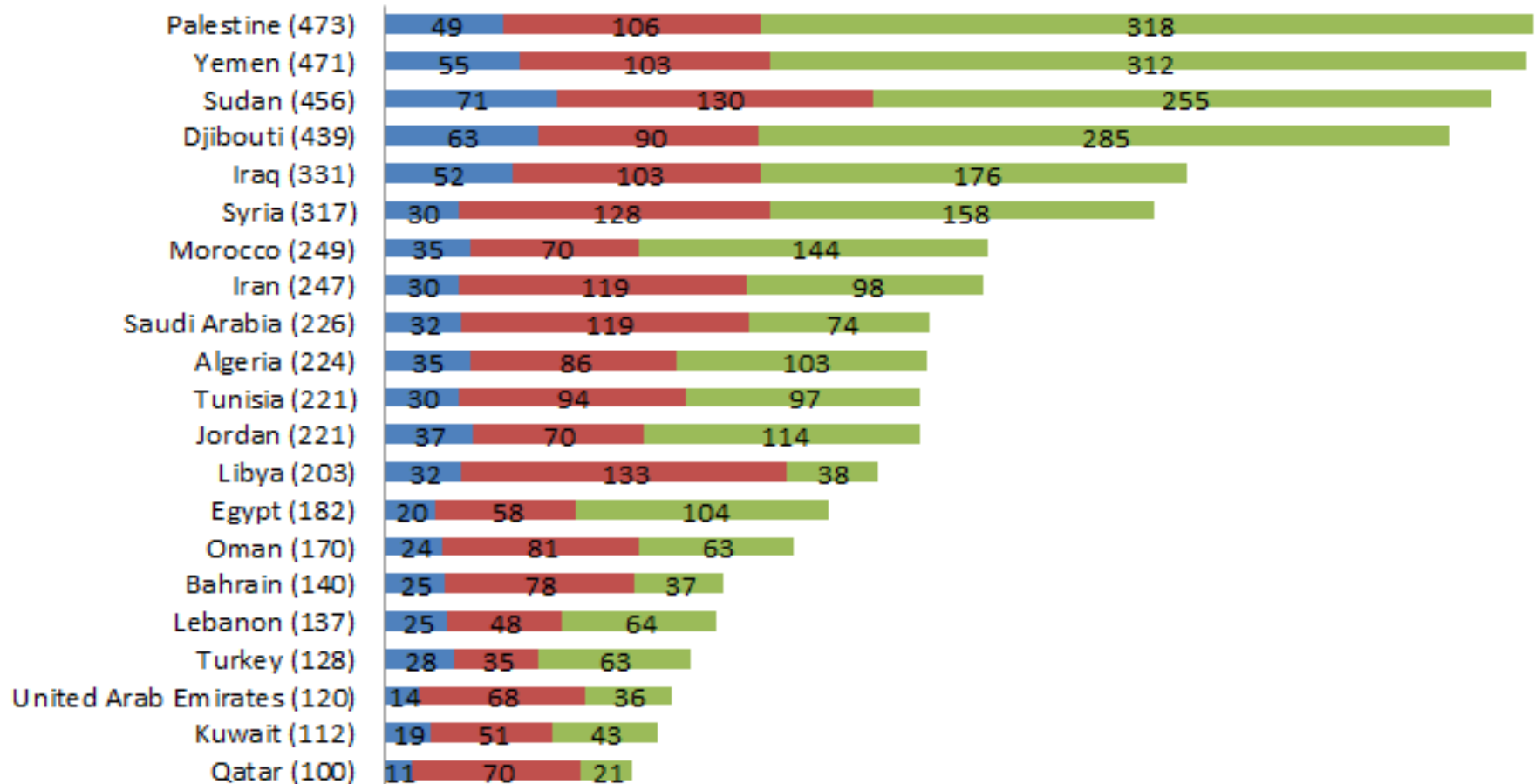
<b>SOCIO- DEMOGRAPHIC FACTORS</b>	<b>POLITICAL &amp; GOVERNANCE FACTORS</b>	<b>ECONOMIC FACTORS</b>
<b>Fraction of population under 25</b>	<b>Voice &amp; Accountability Index</b>	<b>Food price inflation</b>
<b>Youth unemployment rate</b>	<b>Rankings of political rights</b>	<b>GDP per capita</b>
<b>Age dependency ratio</b>	<b>Rankings of corruption</b>	<b>Military spending as a percentage of GDP</b>
<b>Infant mortality rate</b>	<b>Rankings of civil liberties</b>	
	<b>Press freedom index</b>	



# MENAT Vulnerability Index (2011)

## MENA Vulnerability Index (2011)

■ Demographics (30%) ■ Political (40%) ■ Economics (30%)



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# Policy Agendas for Transformation & Stabilisation for Arab countries

## DOMESTIC

- Political Transformation
- Governance
- Social Safety Nets
- Educational Transformation
- Women Empowerment
- Fiscal Transformation
- Economic Diversification
- Job Creation

## REGIONAL

- MENA Bank for Development & Reconstruction
- GCC Common Market & Common Currency
- Regional Economic Integration
- Develop Local Currency Financial Markets
- Shift Economic Policy Toward Asia & EMEs

## INTERNATIONAL

- Resolve Israel-Palestine Cancer
- Aid
- Trade
- Investment
- Economic Focus not Military Engagement

***Arab countries need to own & achieve their own transformation - need an Arab Renaissance and a new Development paradigm:***

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- 1. Political & Governance** transformation (MT/LT)
- 2. Educational** transformation to remedy the weak link between education & economic growth, income distribution & poverty reduction (MT/LT)
- 3. Empowerment of Women:** if FLFP were same level as in OECD (60%) we could increase GDP by 20-25%! (MT/LT)
- 4. Build Capacity & Institutions for Economic & Financial Management** (ST/MT)
- 5. Shift in trade, investment & financial policies towards Asia and EMEs:** integrate into New Silk Road (MT)
- 6. Regional Economic Integration:** infrastructure; trade & investment; set-up Arab Bank for Reconstruction and Development (ST/MT)
- 7. Economic diversification** (MT/LT)
- 8. Transformation of Role of the State and greater Private sector role** (ST/MT)
- 9. Develop Local Currency Financial Markets =>Access to finance for SMEs, FOEs** (ST/MT)
- 10. Fiscal reform:** Revenue diversification/ Expenditure rationalisation (MT)

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# NEED TO BUILD INSTITUTIONS FOR REFORM & TRANSFORMATION

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- Arab region needs to catch on political, governance, socio-economic and development gap that has emerged over past half century
- But, there as an absence of a common vision, no leadership and no 'road map' for transformation and reform
- 'Transition' countries need institutions, finance, time and effort to rebuild nations
- Arab region needs to 'recast' its existing central institutions for collective action (Arab League & related agencies, AMF, various Arab Funds) & create new ones

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# FINANCIAL GAME CHANGERS

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- **Arab Bank for Reconstruction & Development**
- **NEXPAND securities exchange for SMEs, Entrepreneurs and FOEs**
- **Eureeca Crowd Funding Platform**



# ADDITIONAL REFERENCES

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- IMF (2012): MENAP Regional Economic Outlook, Nov.
- World Bank (2012): MENA Region – Economic Developments & Prospects
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Thank you

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