The Arab World: Performance and Prospects

Abdlatif Yousef Al-Hamad

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Foreword

The 2003 Per Jacobsson Lecture was delivered by Abdlatif Al-Hamad, Director General and Chairman of the Board of the Arab Fund for Economic and Social Development, on the topic of "The Arab World: Performance and Prospects." The event was jointly sponsored with the Central Bank of the United Arab Emirates and the National Bank of Dubai. Mr. Al-Hamad's presentation took place at the Emirates Towers Hotel in Dubai, United Arab Emirates, on Sunday, September 21, 2003, on the occasion of the Annual Meetings of the International Monetary Fund and the World Bank Group. Mr. Jacques de Larosière, Chairman of the Per Jacobsson Foundation, presided over the event, the proceedings of which are presented in this publication.

The Per Jacobsson lectures are held annually in the context of the Annual Meetings of the International Monetary Fund and the World Bank Group and, on a number of occasions, also at the time of the Annual Meeting of the Bank for International Settlements in Basel, Switzerland. The Foundation was established in 1964 in honor of Per Jacobsson, the third Managing Director of the International Monetary Fund. The Foundation promotes informed international discussion of current problems in the field of monetary affairs.

Contents

Opening Remarks

JACQUES DE LAROSIÈRE

Ladies and gentlemen, I am delighted to greet you here today on the occasion of another Per Jacobsson Foundation lecture. This has become a tradition, to have such a lecture at the Annual Meetings, but it is a particular pleasure, I must say, to have it for the first time in the Middle East and in this absolutely beautiful city, Dubai.

I would like to now introduce you to someone who is very important, because Your Excellency is, first of all, the head of the Central Bank of the United Arab Emirates, which is an eminent position, and because he has also been kind enough to cosponsor this meeting. I would like to thank him and to express my heartfelt gratitude, and I speak also for the members of the board of the Per Jacobsson Foundation and Leo Van Houtven, for his generosity and participation in this event.

Therefore, I would like now to give the floor to Sultan Al-Suwaidi so that he can present the speaker and I am sure what he has to say will be of great interest.

SULTAN AL-SUWAIDI

Honorable guests, Excellencies, ladies and gentlemen, let me first say thank you very much to the honorable Jacques de Larosière.

It is a great pleasure to have you all here. Welcome to the United Arab Emirates. Welcome to Dubai. I hope that you have a nice and enjoyable stay here among us.

I have the utmost pleasure and honor of introducing our guest speaker, His Excellency Dr. Abdlatif Yousef Al-Hamad. Abdlatif Yousef Al-Hamad graduated from McKenna College, in California, in the United States, and did graduate work in international affairs at Harvard University. His Excellency Al-Hamad has been the Director-General and Chairman of the Board of Directors of the Arab Fund for Economic and Social Development since 1985.

In this capacity, his efforts have focused primarily on promoting development in Arab countries, mobilizing the productive potential of the Arab people, encouraging scientific research and technological advancement, and establishing long-standing partnerships with international development institutions.

He was Minister of Finance of Kuwait from 1981 to 1983. During this period, he chaired the World Bank and IMF Annual Meetings. From 1961 to 1981, His Excellency was the Director General of the Kuwait Fund for Arab Economic Development, where he dedicated himself to mobilizing resources for development in Arab, Asian, and African countries, to establishing traditions of efficient and speedy responses to projects, and to launching action aimed at increasing economic prosperity and promoting social equity.

His Excellency is a trustee and a member of the board of directors of several international development organizations. He was chairman of a task force on multilateral development banks and he is a member of the board of several higher education and research and development institutions.

Of the many achievements of His Excellency Al-Hamad, I would like to mention two in particular. The first is the electricity grid spanning Arab countries and Arab-North African countries and Europe, as well as the second leg of the grid that reaches to Turkey. The whole grid system is approaching completion soon. The importance of electricity grids was spotlighted by the recent electricity failure in North America.

The second particular achievement is the financing of private businesses by the Arab Fund. This initiative was developed by His Excellency.

And with this introduction, honorable guests, excellencies, ladies and gentlemen, let me yield the podium now to His Excellency Abdlatif Yousef Al-Hamad.

JACQUES DE LAROSIÈRE

Your Excellency has summarized wonderfully Mr. Al-Hamad's achievements. I would like to just add one thing. Abdlatif and I have known each other for the last 30 years. I can tell you, I have never met anyone who is as cooperative with multilateral institutions, as objective, as helping, as imaginative, and as constructive as he has been. And I have many anecdotes to substantiate that statement.

I would like to add something else. [It's about] his leadership of the Arab Fund, which is doing great things and to which Sultan Al-Suwaidi was so right to call our attention. Did you know that 25 years ago the Arab countries, with very good foresight, provided $2 billion to that fund? Without having added one cent to that initial endowment, the equity value of the fund is now larger than $7 billion, and Mr. Al-Hamad does not ask one cent, neither of the shareholders, nor of the market for the financing of his $1 billion of new lending operations a year. This is the benefit of that initial endowment. Of course, he does not hand out dividends, but he uses the money that is produced by the very artful investment of that endowment for his operations. This is one of the most clever and effective uses of international aid, because it is self-generating, and we owe it to him. Now, please welcome Mr. Abdlatif Yousef Al-Hamad. Thank you very much.

The Arab World: Performance and Prospects

Abdlatif Yousef Al-Hamad

Thank you for your invitation and for the opportunity to address such a distinguished audience. It is an honor for me to give this prestigious Per Jacobsson Lecture. I beg your indulgence to break away from the tradition of discussing monetary and banking issues, and focus on development and reform questions in the Arab world.

* * *

The Arab region is extremely large and diverse in terms of geography, resources, and development levels. It covers a territory of 14.8 million square km, 50 percent larger than the United States. But it is sparsely populated, with one of the lowest population densities in the world. It extends from Dubai on the Arabian Gulf to Nouakchott in Mauritania on the Atlantic. The current 295 million Arabs live on the small portion of viable land, which represents only 4.2 percent of the total territory, equivalent to no more than a medium-sized country like Spain.

The region is the poorest in the world in terms of water and agricultural resources. The water share per capita, for the region as a whole, is less than 1,000 m^3/year, compared with a world average of 7,000 m^3/year. This is the lowest level in the world. But more significantly, 13 of 22 Arab countries suffer from severe water shortages, with less than 500 m^3/year. This makes agricultural production a serious problem, creating a permanent food deficit. Today, the food deficit is in excess of $13 billion, representing half of total needs, making it the largest regional food deficit in the world. Yet, the agricultural sector remains crucial in most Arab economies. Rural population represents 44 percent of total Arab population. In some countries, such as Sudan and Yemen, it is as high as 65 percent and 70 percent of their respective populations.

On the other hand, the Arab region remains the richest in the world in terms of hydrocarbon reserves. It has over 61 percent of known global oil reserves and 30 percent of total world gas reserves. In 2002, Arab hydrocarbon production was 30 percent of oil and 16 percent of world gas production. At current international production levels, the relative share of the Arab region in world reserves will increase dramatically over the next couple of decades.

Nonetheless, total Arab GDP at current prices reached only $717 billion in 2002, with an average per capita of $2,445. This places the Arab region in the middle-income group worldwide. But one must point out that per capita GDP varies greatly among Arab countries, from as low as $335 in Mauritania to $30,000 in Qatar.

With this background in mind, I will attempt, in this lecture, to address three important issues: The first is, why have things gone wrong in the last few decades? The second is, what are the trends and dominant factors that determine the region's relationship to the rest of the world? And, finally, what are the dynamic forces that can produce change and improve the overall performance in the Arab countries?

PERFORMANCE AND CHALLENGES

Looking at the region at large, one cannot help but notice that most countries face external threats and internal instability. Economic growth is slow, unemployment is high, and poverty is on the rise. Earlier this year, the region was set back by another major war, the fifth in the last 50 years. It is evident that this part of the world is trapped in a political, economic, and security deadlock, notwithstanding its rich natural resources, great cultural heritage, and a message of peace that is central to its main religion.

Today, anxiety, pessimism, and despair seem to prevail throughout the region, while suspicion and concern characterize the external view of the area. This was not always the case. Many Arab countries have shown in their recent past high levels of vitality, good performance, and a considerable degree of stability.

As a matter of fact, during the period from 1960 to 1985, the development performance of the Arab region surpassed all regions, except East Asia, in income growth, and outperformed them all in income distribution. Good performance was not the preserve of countries with newly found oil riches; non-oil economies in the Mashreq and Maghreb also did well. For example, Egypt was neck-to-neck with East Asian countries in economic growth, and performed better in poverty reduction.

Available data indicate that, during this period, investments in the Arab world reached about 30 percent of their GDP, productivity increased by 2.1 percent annually, and per capita real growth averaged about 3.2 percent per annum. The region's human development index rose considerably, as schools and hospitals reached the remotest areas in most Arab countries, infant mortality was nearly halved, and life expectancy at birth increased by more than 10 years on average. Great improvements were achieved in the physical infrastructure: electricity generation increased eightfold, and 114,000 kilometers of roads and highways were built, in addition to dozens of modern airports, seaports, and telecommunication networks. The outcome of these enormous investments by the state in the physical and social infrastructure may not have spurred as much private sector activity in the productive sectors as was hoped, but it surely raised the standard of welfare and well-being of the average family very significantly. The most remarkable achievement in the Arab region in that period was the reduction of poverty rates to the lowest levels in the world. The share of the population living under the absolute poverty benchmark decreased from over 40 percent to less than 10 percent.

The overall performance of the Arab world during that golden period of the 1960s, 1970s, and up to the mid-1980s was the combined result of dynamic economic policies and of market-oriented institutional reforms that took advantage of a buoyant world economy. But the key factor of dynamism was, of course, the windfall earnings from oil, whose benefits spilled over the entire Arab region, spurred by the dramatic manner in which movements of labor accelerated and became the key equilibrating mechanism toward regional integration, along with significant aid transfers to the lower-income Arab countries.

Just as outstanding was the growth and equity record of the Arab region for over two decades. The momentum was not maintained, however, and further growth proved unsustainable. During the last 15 years, investment and productivity rates have declined, and economic growth has barely kept pace with an increasing population, with per capita growth rates dropping to less than 1 percent a year. The region's share of world trade declined from 9.6 percent in 1981 to 3.2 percent by 2002 (from 4.2 percent to 2.1 percent, if oil exports are excluded).

The serious reversal in the performance of the Arab region has been the subject of a number of research studies and investigations, reflecting the growing concern of policymakers over poor outcomes and uncertain prospects. The *Arab World Competitiveness Report 2002–2003* points out that with the exception of Tunisia, Oman, and Egypt, productivity has declined in all other Arab countries and the efficiency of the economy has markedly deteriorated. Unemployment reached dangerous levels, exceeding 25 percent of the labor force in many countries, and poverty increased everywhere. The *ERF Economic Trends Reports for the MENA Region* has consistently warned that the pace of institutional reform and liberalization was too slow and that progress toward regional integration too hesitant.

Let me now give you my own diagnosis of the region's ailments, using a political economy perspective, along with the economic, social, and demographic analysis, which is, in my view, the only way to understand and resolve the perplexing nexus of successes and failures, of opportunities and disappointments.

Flawed leadership and inept policies prevailed in some countries, with a persistence made possible by the huge oil revenues that accrued directly to the state. The most blatant example of all this was Iraq. In that unfortunate country, mismanagement, corruption, and foreign military adventures cost its people and many others their livelihood, their welfare, their freedom, and, in many cases, their lives. But for most Arab countries, a mix of factors caused the dramatic downturn in their economies. Some of these were internal, others were the negative impact of external factors. Let me now review with you some of the most salient of these factors.

1. The sharp decline in oil revenues in the exporting countries had a major impact on capital flows in the region at large. Move-

ments of labor, goods, and services were negatively affected. Incomes, investments, and job creation in the Arab region declined dramatically. The average nominal price of crude oil decreased from $27 per barrel in 1985 to $12 by 1998. The slump was even more considerable in real terms. Undoubtedly, this was the main cause of the decline of economic growth in the Arab world during the period 1986–2002.

But if the impact of the oil sector is excluded, growth in other sectors in the Arab economies during the last two decades was not as mediocre as it may at first appear. The non-oil GDP grew by an average of 5 percent during 1980–2002, instead of 2.5 percent when oil is included. The performance of some Arab countries, such as Egypt, Syria, and Tunisia, compared with that of other developing countries was reasonable over the period. Their economies today are more diversified, with less reliance on their oil revenues, than those of the main oil-exporting countries in the region.

2. The collapse of centrally planned and bureaucratically managed economic systems, which had informed the policies of a number of Arab countries for decades, resulted in a lack of direction for a number of years in parts of the region. Because of the absence of a clear vision, increasing population pressure, and rising social demands, many of these countries failed to adopt appropriate adjustment policies for growth and institutional reforms. Their strategies continued to rely upon physical capital accumulation, while neglecting the need for human and institutional development with greater openness to the rest of the world.

3. Inappropriate macroeconomic policies, such as inflexible exchange rates set above their real value, as in the case of Egypt and Morocco, or interest rates and indirect taxes at excessively high levels, as in Tunisia, led to serious distortions in their economies. These policies resulted in higher costs of production and lower returns on investment. The problem of overvalued exchange rates has discouraged production both for export and for import substitutes. The related policy of high real interest rates has discouraged investment and promoted further accumulation in short-term bank deposits and other nonproductive assets.

4. More significant was the lack of urgency in implementing badly needed reforms, which led to slowing the pace of job creation throughout the region.

With the overall decline of their economies in the second half of the 1980s, Arab countries had to face a number of hard choices. Some agreed to comply with the "Washington Consensus" and to submit, although reluctantly, to their prescriptions. Others, especially oil-rich countries, did not feel any urgency to restructure their economies. As a result, they are now lagging behind countries in Asia and Latin America and even some Arab countries in terms of growth rates. More recently, however, their position has evolved from one of comfortable complacency to one of positive self-criticism and serious concern about their future. Most Gulf Cooperation Council (GCC) countries, for instance, now realize that

- Oil and natural gas reserves have a limited life span, and the time has come for better economic management in order to maintain their high standards of living.
- Their population growth rates, the highest in the world, close to three times the world average, represent a challenge that cannot be resolved without far-reaching and urgent reforms.
- In spite of the apparent wealth and huge oil reserves, the gross domestic product of the GCC countries, in absolute terms, is rather modest. It is roughly comparable to that of Switzerland, but with a population five times larger, and growing nine times faster.
- Total imports into the GCC are equivalent to the combined imports of Russia and India, whose combined population is more than 50 times larger.
- Eleven million expatriates work in GCC countries; they transfer annually about $25 billion in remittances, or about 10 percent of the combined GDP of the Gulf States.

But even those countries that introduced comprehensive reforms and helped stabilize their economies and accelerate growth did not sustain the reform process in the late 1990s. What made their governments shy away from these reforms was their fear of social upheavals. This led, in some cases, to an ever increasing role for the public sector in vital economic activities, such as finance, transportation, telecommunications, and energy, which resulted in great inefficiencies and low productivity. Instead of decreasing, with the decline of oil and government revenues, the role of the state remained overwhelming, making the situation even more precarious.

5. The reluctance of a number of Arab countries to change their trade policies away from excessive protection and in favor of export orientation hampered their growth. In fact, the small group of countries that followed the outward-orientation route, such as Tunisia, Morocco, and Jordan, made important strides. They increased their exports of manufactured goods and services, and succeeded in accelerating job creation.

Consider, for example, the value of Tunisian manufactured exports, which is $5.45 billion, four times that of a much larger country, Egypt, which is only $1.36 billion. Taking advantage of international partnerships, such as the Euro-Med, requires an enabling investment environment, coupled with low tariffs and other trade barriers. We in the region must not shy away from benefiting from the experience of others in developing export industries and in engaging more aggressively in world trade.

The lessons may have been learned belatedly but, by now, most Arab countries have either joined, or are in the process of joining, the World Trade Organization. This is a major step in the direction of trade liberalization. But real benefits will accrue only if regional cooperation and intraregional integration are strengthened, and if the transition to free trade is managed in a way that avoids economic and social disruption.

The free trade area that was established recently by the Arab countries should be operational by 2010 and will improve inter-Arab trade, which has remained thus far very small. Over the 30-year period from 1970 to 2002, trade among Arab countries was no more than 8 percent of their total foreign trade.

Meanwhile, the Arab countries have engaged in a number of schemes of intraregional cooperation. Of all these projects between Arab and non-Arab countries, the Mediterranean free trade agreement is probably the most advanced.

However, narrow nationalistic interests have stripped the project of its development value and historical dimension. Wherever south Mediterranean countries have a comparative advantage, such as in the case of agricultural products, the Euro-Mediterranean countries manage to impose protective policies in favor of their producers. Nevertheless, this agreement has merits. It is forcing Arab countries on the southern rim of the Mediterranean to restructure their industry and to be more competitive in external markets. But this is no substitute for a more engaged and committed Europe, with unrestricted trade liberalization and markets open to goods and services from the south Mediterranean. In the current situation, Arab countries are increasingly disadvantaged, given the accession of Eastern European countries into the European Union.

6. Political and social instability, the poor quality of services, and weaknesses in public governance were among the main reasons why Arab countries failed to attract significant amounts of foreign investment. The UNCTAD *World Investment Report 2002* points out that the share of foreign investment flowing to Arab countries is negligible: the total in 22 countries does not even match that of Singapore. Foreign direct investment (FDI) plays an important role in development. FDI brings not only capital but, more importantly, technology, management skills, and access to international markets. It is a critical component for participating effectively in the international production networks, which the countries of the region need badly.

7. The greatest challenges in the Arab world today are the rate of population growth and the need for increasing financial resources, both for capital investment and social development, to meet the current needs and rising expectations. At an average rate of 2.5 percent a year, population growth is hindering progress in most Arab countries. The demographic challenge is not only about numbers, but more critical is the shortfall in certain required skills and capabilities in all countries. The failure to reform the educational system and adjust to the needs of the marketplace is a real obstacle to the modernization that is necessary for global competition. Growth is hampered, and unemployment and poverty are rising. This is the situation today in most countries, including such oil-rich Gulf countries as Kuwait and Saudi Arabia, where the unemployment rate is rising rapidly.

The demographic situation will continue for years to come, in spite of a current decline in birth rates in most Arab countries. However, the real challenge to all governments in the region is to create jobs fast enough to meet the increasing supply of workers. The rapid rise in women's school enrollment, as welcome as it may be, continues to create additional strains on the job markets. The pressure on the declining resources will remain high for at least the next two decades. The region must create some 50 million new jobs in order to keep unemployment at its present level, and close to 70 million jobs to reach full employment in the next 20 years. Coping with such formidable challenges cannot be envisioned without dramatically increasing the region's share in world trade.

8. Finally, prolonged harsh weather conditions, drought, and deterioration of the food gap have made things worse in the Arab world. In this context, I must emphasize that water is a key element in regional security. Shortage of water is a challenge to all Arab countries, especially in view of the fact that the sources of all the rivers flowing through Arab lands are controlled by other nations, who often do not give enough recognition to vital Arab national interests in this regard. This may represent a *casus belli* in the future. But violent conflicts because of water must be avoided. All countries should do their utmost to arbitrate disputes and avoid military solutions. Water resources should be shared fairly but, more important, all countries must follow policies for better water management.

I do not intend to dwell on the failures in our region and its uncertain prospects. One must recognize that in spite of all these handicaps, some Arab countries succeeded in correcting distortions that plagued their economies: productivity increased, efficiency was enhanced, growth was accelerated, and foreign trade performance improved. This was particularly the case in Morocco, Tunisia, Egypt, and Jordan. However, no sustainable progress was achieved in most other countries, nor in the region when considered as a whole.

Nonetheless, there are a number of bright spots. In the last decade, the process of modernization moved at a faster pace than in the past. The role of women has improved in most Arab countries. They represent over 70 percent of students in most Gulf-area universities. More than 25 percent of judges in Tunisia are women, as compared with 20 percent of federal judges in the United States. Ten percent of members in the newly elected Moroccan Parliament are women as compared with 13 percent in the U.S. Congress.

During four decades, starting in 1960, the level of school admissions has grown by more than 150 percent, a rate unmatched in any other region of the world. The quality of education may have deteriorated, and it is still short on meeting the demands of a strong and competitive private sector, but there can be no doubt that its expansion to include both genders and all segments of society has initiated a strong push for higher productivity and societal change in all Arab countries.

REFORMS AND PRIORITIES

With this background in mind, how should we view the future of the Arab region? Unfortunately, the prospects of the region seem gloomy in the short run. We cannot expect anything but more sluggishness in the next few years. Indeed, total dependence of Arab economies on oil prices is not likely to change soon. Financial difficulties will probably endure, public investments will continue to decline, and the private sector will remain inefficient, overprotected, and too weak to provide a creditable alternative.

In addition to all of this, the *Arab Human Development Report 2002* highlighted three deficits that are slowing development in the region: deficits in freedom, in knowledge, and in women's empowerment. All Arabs would agree that they need to make up these deficits and to overcome other major difficulties that are hampering their development.

But in the medium and long run, the prospects for improvements are much greater. A number of prerequisites for long-term growth are in place. These are education, infrastructure, and the social dimension of development. The pace of recovery will not be the same in all countries of the region, as their resource bases differ greatly. But the crucial factor is the quality and sustainability of the reform process in a difficult global environment.

It is imperative that we very quickly determine the right priorities and create momentum for reforms. I think the most critical of these are the following.

Good Governance

We are all aware that the key to economic development is not only a country's natural resources, or its physical capital, but also its economic and legal institutions. Improving governance in these institutions has become urgent in the Arab world. No country can really be integrated into the world economy if the rule of law does not prevail, if the judiciary system is not independent, and if accounting and reporting are not transparent.

The issue of governance is probably the most challenging in the Arab world. It is generally considered to be the greatest obstacle to improving efficiency, competitiveness, and growth. Experience has shown that excessive restriction of information, lack of accountability and transparency, and centralization of decision making can be disastrous, both at the business and government levels.

Arab business should evolve and adopt new management styles, compatible with global business practices. Globalization is forcing business around the world to reorganize and adapt. It behooves the business community in the Arab world to follow international practices with timely decisions, which are a crucial element for success in the marketplace.

On the other hand, government involvement in the economy should be restricted to three major roles—ensuring the supply of high-quality public services, maintaining a national legal framework that enforces laws and contracts fairly and efficiently, and managing the macroeconomy—so as to preserve economic stability and social harmony. But the reality is that bureaucracies in many Arab countries are resisting such a conversion of roles. They insist on preserving public ownership and government management of purported strategic activities such as public utilities, energy, telecommunications, and banking. Public ownership and management have clearly proven their disastrous impact on economic performance everywhere in the world. Admittedly, the privatization of these activities will not necessarily be a panacea. Its success will hinge upon the extent of fair competition, the development of the legal system, and the strength and autonomy of regulatory bodies.

Freedom and Democracy

No one can deny that freedom and democracy are in deficit in the Arab world, which is hindering sustainable development in the region. Many skeptics have raised questions about the validity of the "freedom index" that was used in the *Arab Human Development Report 2002*. But no one can dispute the fact that the

Arab region's place on that index is lower than all other regions in the world. Genuine political participation is weak, with many restrictions on liberties, and accountability is generally lacking. The *Global Competitiveness Report 2002–2003* of the World Economic Forum shows that the region is the weakest in the world in terms of "voice and accountability," whereas it is better, in terms of both "corruption" and "the rule of law," than East Asia, the former Soviet Union, South Asia, and Sub-Saharan Africa. But no progress can be achieved if citizens are not allowed to think freely and to act independently.

Reform of the Financial Systems

An efficient financial system is an essential component of more competitive markets. The Latin American and the Southeast Asian financial crises have underscored the vulnerability of weak national systems and of inflexible financial regulation in a globalized market.

Development of strict standards and best practices for Arab banking are crucial for their success in mobilizing savings and liquidity in financial markets. A well-regulated securities market providing sound information and protection to all investors must be developed. The basis of all this must be serious and fair privatization policies, which are only the minimum prerequisites for the creation of a viable financial system.

Education and Appropriate Technologies

As Bill Gates says in *Business at the Speed of Thought,* "The victory goes to the side that can strike the quickest with the best intelligence." This applies in business as it does in the military.

Intelligence in societies is information and education. The Arab region needs to improve the quality of education and further its spread. The current average of the workforce of four years of schooling is not conducive to high productivity. Development strategies in the Arab world should take into account the fact that competitiveness is no longer based on cheap labor and abundant natural resources, but on knowledge, innovation, and high productivity. Adopting the right technologies and good work ethics are at the root of success in economic development.

CONCLUSION

The outlook for the Arab world appears to be clouded with uncertainties these days. The region's ability to achieve sustained growth over the long run may look as if it is impeded by a fear of engaging in reforms, that reforms might spark social and political upheaval and destroy the power base of vested interests. But there is no denying that the Arab world is being shaken to its very foundations by the rise of poverty and unemployment, a condition that could drive people to despair and nurture extremism and violence.

However, I am convinced that we are capable of rising to these challenges. The Arabs have always been open to the world; from Babylonia to Egypt, from Carthage to Andalusia, from Damascus to Baghdad, they have always been among the leaders of civilizations. The region's people were the first to engage in farming, to build cities, and to adopt each one of the three largest monotheist religions of the world. Such a heritage should never be forgotten or squandered. But polemics notwithstanding, Arab countries today urgently need reforms and rejuvenation of their institutions, not only in the economic sphere, but throughout the social system.

They should conform to the fundamental values of justice, compassion, and tolerance among people and nations, in accordance with the Holy Quran's precept of "*We created you from a single pair of a male and a female, and made you into nations and tribes, that you may know each other.*" The principle of individual freedom and responsibility was first brought to civilization by Islam. Professor Bernard Lewis of Princeton University reminds us, in *What Went Wrong? The Clash Between Islam and Modernity in the Middle East,* that "Islam is an egalitarian religion," all its teachings are "against privilege by descent, by birth, by status, by wealth, or even by race" and "insist that rank and honor are determined by piety and merit." Arabs have now to learn anew how to live by this edict in all walks of life.

Questions and Answers

Following the formal presentation, Mr. Al-Hamad answered questions from the audience.

OLEH HAVRYLYSHYN, of the International Monetary Fund: What are your views about the best ways in which the countries that have substantial oil resources should use those resources? How can they best use the oil wealth, while avoiding the problems that you mentioned of the past?

MR. AL-HAMAD: I think the best way to illustrate what I have in mind is to talk about my own country, Kuwait, which is known for its oil revenues. Kuwait has a very well-developed welfare state in terms of services. You come to life with the help of the state, and you are buried with the grace of the state. The state takes care of you from birth to death.

The system, for which the state does not have to collect taxes from people, was fine when Kuwait was moving from one stage of development to another, as we were in the 1950s—from a very primitive society to a more sophisticated society. But as a country grows and becomes a partner in the world economy, attitudes have to change and education has to improve. You have to train your people more seriously, introduce serious work ethics, and make workers more productive. In order to improve their own well-being, your people should not rely on an economy that takes care of them from birth to death, with no responsibilities.

Historically, Kuwait started as a private sector country; the private sector built the country and made something out of nothing, in a waterless piece of the desert. With oil, we became complacent. Policymakers found it easier and less of a headache to buy labor. Essentially, one is employed by the state, not to produce, but to get a paycheck. It is not unheard of for some very enterprising government employees to contract their jobs to others. They give half of their salary to someone else to do their job, while they spend their time doing whatever they want, either at their own businesses or at others' businesses. This may have been acceptable initially, but it cannot continue.

In Kuwait today, unfortunately, the government owns at least 90 percent of the institutions that were started by the private sector. It is impossible to avoid politics if we are to move toward privatizing again much of what once was in private hands. We have relied too heavily on oil, instead of using it as a cushion. It was a fuel that ran the engine of our economies. But that fuel is going to stop flowing someday. And unless we find an alternative way of running the economic engine, I think we are going to have a serious crisis. There are many prescriptions, and they are very simple, and all we need are timely decisions.

The Kuwaitis are enfranchised. They have free choice, and they elect their members of parliaments. But, unfortunately, members of parliament compete with one another to extend even greater benefits to the people, in order to retain their political positions.

RAYMOND LLOYD, from the Council for Parity Democracy, London: In the 1990s, the Algerian President for the International Fund for Agricultural Development (IFAD), a fund established 10 years earlier at the initiative of OPEC, could say with pride that half of IFAD's beneficiaries were women. How soon do you plan for this to be the case with the Arab Fund for Economic and Social Development? That is my first question.

And, second, in at least three Gulf countries, Bahrain, Oman and Qatar, and also in Morocco, as you have pointed out, there have been notable developments toward democracy. To what extent will future economic and social development depend on politically accountable governments, and, in particular, in Saudi Arabia, Syria, and Egypt?

MR. AL-HAMAD: On your first question, about the percentage of women who benefit from Arab Fund activities, I would say as many women as men benefit. When you build a road, it benefits both. When you have power, both use it. I mean, we have not restricted women from switching the light on and off. In terms of education, there are as many women enrolled in schools as men in the region. The gender gap has been practically eliminated in many countries of the region. There are differences, of course, and not all countries are the same.

If I may again use the example of my own country. Kuwait and many other Gulf countries are very proud of the fact that women are paid equal to men for performing the same job. This may not be the case in many other regions. Women are entitled to an education, and more than 50 percent of university enrollment in some of these countries are of women. I would say 30 to 40 percent of government employees—and the most productive—are women.

So, the Arab countries, and especially the GCC countries, have really come a long way. But you have to also look at where we started. We came from a very primitive, backward, bedouin community, and we had to bridge the gender divide. It was my generation that did the bridging. The next generation, that of my children, has a different attitude and different outlook; and we therefore have to appreciate that some time is needed to achieve absolute equality.

On your second question, about democracy, I am not talking about one man, one vote. Unfortunately, Kuwait still has not given women the right to vote because parliament does not want it. They missed legislating it by half a vote when it was put before them. But what is more critical in terms of economic and social development is the participation of the people; they have to understand that it is their process. They have to be the beneficiaries, and they have to pay the price for it. Any economic and social reform means that some will gain and some will lose, but this is part of the process if we are to move ahead. Many of these countries are moving in the direction of greater participation.

PRINCESS E.B.I. OLADUNNI, from the Central Bank of Nigeria: My first question is this, how is it possible to adopt new management practices in the face of cultural or religious practices, especially when the cost of money is different because of interest rates?

The second question stems from a seminar I attended yesterday, given by the Arab Women's Organization. I was told there that a *household that is headed by a woman is not regarded as a family. But the majority of families are headed by women, either as a result of crisis or war. Therefore, if a woman loses her husband, either because of divorce or crisis, and she has to take care of the family, what is her position within the society, and how do you empower these people and recognize that they are playing a very important role?*

MR. AL-HAMAD: To take your second question first, you are asking a person who grew up in a maternal society. My grandmother was the chief of the family. She was the head of the family, and everything went through her, simply because the men were away from Kuwait, away from home, working and earning a living on the high seas or trading abroad. Women ran households in my country when I was growing up, and today they are very much a part of the economic system. So, I disagree with whoever told you that households headed by women are not respected in this part of the world.

Regarding your first question, on cultural/religious differentiation and interest rates, I do not see any problem. All you have to do is look at the mushrooming of Islamic banking institutions. If you go to a conventional banker, he will tell you, "I will charge you seven percent and you will pay it at the end of the period," and so on and so forth, and he is very hard and difficult with you, as bank managers should be. And if you go to an Islamic banking institution, they tell you, "Okay, we will give you a hundred, you will repay one hundred and ten." By my calculation, they are making interest. You can call it what you like. It is a question of packaging, and they are equally as hard as bank managers.

WALTER STECHEL, from the German Foreign Office: I have a question concerning population growth. Development is a moving target, and the movement of the target is, to a large extent, determined by population growth. How do you assess the chances of bringing down population growth to facilitate development? Does your fund have activities in this area?

MR. AL-HAMAD: The highest population growth rate is in the GCC countries. We are still unaware, unfortunately, of the importance of reducing the rate of population growth. However, the population of the GCC countries is only a small percentage of the total population of the Arab world.

Other countries, such as Egypt, have really achieved a great deal in terms of reducing their population growth rates. Tunisia and some other countries are actually moving into negative growth rates. Unfortunately, growth rates are like trains: it takes them a long time to stop.

Generally speaking, I am optimistic about the population issue, but we have to keep on hammering on the population issue because we have a young population in the region, and the challenge for us is to create employment in the future, when many people will be entering the job market. This is going to be a major challenge, and the best way to approach it is really to keep on telling people not to produce more children, we have enough of them as we are.

MINOS ZOMBANAKIS: My question is as follows: Do the elements for change exist today in the Arab World? Or do you accept/reject the new kind of policy from the neoconservatives in the United States, that changes must be imposed upon the Middle East countries because, otherwise, they cannot change? This is a very sensitive question, but it is something that we read about in the newspapers everyday, and it is something that is used to justify U.S. policy toward the rest of the world, especially Islamic countries.

MR. AL-HAMAD: The elements of change are there, definitely, but the first element that we have to recognize is self-criticism. When we published the *Arab Human Development Report*, in conjunction with the UNDP, many people disagreed with our conclusions.

However, what was much more important was the fact that it was debated like no other report ever had been debated in the region, throughout the Arab media. It was discussed and some people agreed, other people disagreed, people argued, some people accused us of treason, while others supported us. It became an issue, and to my mind, that was a tidal change in attitudes.

We have to change our attitudes before we begin to change our economies. We have to acknowledge that change is an acceptable process in which we should engage ourselves. This change in attitude is coming, and in the next generation, the people will be much more ready to do so.

One of the stagnating elements in our region is the average age and average tenure of our leadership. When we have change, and when we have young people leading and making the policies, they will bring in a new dimension. In life, we are all created, and we will all die someday, and destiny will take care of us.

ARIBI SALAH, from the Economic Community of West African States: My question relates to cooperation and integration among the countries of the Arab world. In our community we are looking at trade as the most important instrument for integration. How do you intend to stimulate intraregional trade in the Arab world?

And, second, in which sectors do you think you have made more progress in the Arab world, as it relates to cooperation?

MR. AL-HAMAD: We have had two important developments. One, the GCC decision to remove customs duties on trade among the GCC countries will trigger much greater integration within these countries: Kuwait, Saudi Arabia, Bahrain, Qatar, the United Arab Emirates, and Oman.

The Gulf Cooperation Council was established in 1980 and has gone a long way toward unifying tariffs, removing barriers, and creating freedom of movement for citizens, as well as securing for people the right to work, the right for domicile, the freedom from residence restrictions, and so forth. This success has also encouraged the Arab region to create a free trade zone that will be fully implemented by the year 2010.

This clearly shows a change in attitudes because all of our cooperation efforts in the past were at the political level. The heads of state of these countries would get together and say, “Let’s do something together,” and agree to do something, but it would not filter down.

In our experience in the GCC, we have demonstrated to the rest of the region and the region has accepted that things can be done differently. The heads of state can make the major decisions, but the bricks-and-mortar work has to be done at a much lower level. We have worked along these lines, and it has been proven a success. And the method is being emulated and followed in the rest of the Arab world.

Much more significantly, we have to recognize that the institution I am involved with, the Arab Fund for Economic and Social Development, is a regional integration institution. It is created by the region, and funded by the region, for the benefit of the region. We have financed close to 500 major projects in 17 countries over the last 25 years. We have financed about $15 billion, which only serves as a catalyst, because that amount covers only 26 percent of the final total cost of projects.

GEPP VOGT: This may be a bit of a cynical question regarding privatization. How would you try to convince a ruler, for instance, in this beautiful Dubai, to privatize part of the land to companies or private persons from outside the region?

And if this did not work, how would it work to privatize other assets that are now in public hands, which I think we would all agree would be very useful to do?

MR. AL-HAMAD: Well, I'm not qualified to say how much of Dubai's development is done by the private sector, but to my recollection it is a very substantial percentage. But the issue is not really about privatizing land, but rather how to create the environment for private investments.

More important, we should begin to differentiate between ownership and management. The problem in our region is not that the state owns companies that are run like state-owned enterprises. It would be very easy for the state to be the owner of the post office, for example, but the problem is to manage it like a private sector operation. It is really a question of management style and accountability, which, unfortunately, has not prevailed in most of our countries.

At the same time, we should be much more open to private investors in our region. For example, in Kuwait, the "sacred cow" is the oil sector, but now the Kuwait authorities are in the process of inviting foreign investors to explore and to invest in the oil sector. If we are able to do that, then, I think we are on the right track.

MR. DE LAROSIÈRE: Thank you very much. I would like to thank you again, Abdlatif, for this remarkable talk. You have heard the strength of the audience's applause, which tells you much. And I thank the audience for coming and for asking so many interesting questions.

Abdlatif Yousef Al-Hamad

Abdlatif Al-Hamad has been the Director-General and Chairman of the Board of Directors of the Arab Fund for Economic and Social Development since 1985. In this capacity, his efforts have focused primarily on promoting development in Arab countries, mobilizing the productive potential of the Arab people, encouraging scientific research and technological advancement, and establishing long-standing partnerships with international development institutions.

He was Minister of Finance in the government of the State of Kuwait from 1981 to 1983. During this period, he chaired the World Bank and IMF annual meetings. From 1961 to 1981, he was the Director-General of the Kuwait Fund for Arab Economic Development, where he dedicated himself to mobilizing resources for development in Arab, Asian, and African countries, to establishing traditions of efficient and speedy response to projects, and to launching action aimed at increasing economic prosperity and promoting social equity.

Abdlatif Al-Hamad is a trustee and member of the board of directors of several international development organizations, and was chairman of a task force on multilateral development banks. He is a member of the boards of several higher education and research institutions and has published numerous papers on financial, economic, and development problems. He graduated from Claremont McKenna College, California, and did graduate work in international affairs at Harvard University.

The Per Jacobsson Lectures

2003 *The Arab World: Performance and Prospects*. Lecture by Abdlatif Yousef Al-Hamad (Dubai).

2002 *The Boom-Bust Capital Spending Cycle in the United States: Lessons Learned*. Lecture by E. Gerald Corrigan.

Recent Emerging Market Crises: What Have We Learned? Lecture by Guillermo Ortiz (Basel).

2001 No lecture took place due to the cancellation of the Annual Meetings of the IMF and the World Bank Group.

2000 *Ten Years On—Some Lessons from the Transition*. Lecture by Josef Tošovský (Prague).

Strengthening the Resilience of Financial Systems. Symposium panelists: Peter B. Kenen, Arminio Fraga, and Jacques de Larosière (Lucerne).

1999 *The Past and Future of European Integration—A Central Banker's View*. Lecture by Willem F. Duisenberg.

1998 *Managing the International Economy in the Age of Globalization*. Lecture by Peter D. Sutherland.

1997 *Asian Monetary Cooperation,* Lecture by Joseph C.K. Yam, CBE, JP (Hong Kong).

1996 *Financing Development in a World of Private Capital Flows: The Challenge for International Financial Institutions in Working with the Private Sector*. Lecture by Jacques de Larosière.

1995 *Economic Transformation: The Tasks Still Ahead*. Symposium panelists: Jan Svejnar, Oleh Havrylyshyn, and Sergei K. Dubinin.

1994 *Central Banking in Transition*. Lecture by Baron Alexandre Lamfalussy (London).

Capital Flows to Emerging Countries: Are They Sustainable? Lecture by Guillermo de la Dehesa (Madrid).

1993 *Latin America: Economic and Social Transition to the Twenty-First Century*. Lecture by Enrique V. Iglesias.

1992 *A New Monetary Order for Europe*. Lecture by Karl Otto Pöhl.

1991 *The Road to European Monetary Union: Lessons from the Bretton Woods Regime*. Lecture by Alexander K. Swoboda (Basel).

Privatization: Financial Choices and Opportunities. Lecture by Amnuay Viravan (Bangkok).

1990 *The Triumph of Central Banking?* Lecture by Paul A. Volcker.

1989 *Promoting Successful Adjustment: The Experience of Ghana*. Lecture by J.L.S. Abbey.

Economic Restructuring in New Zealand Since 1984. Lecture by David Caygill.

1988 *The International Monetary System: The Next Twenty-Five Years*. Symposium panelists: Sir Kit McMahon, Tommaso Padoa-Schioppa, and C. Fred Bergsten (Basel).

1987 *Interdependence: Vulnerability and Opportunity*. Lecture by Sylvia Ostry.

1986 *The Emergence of Global Finance*. Lecture by Yusuke Kashiwagi.

1985 *Do We Know Where We're Going?* Lecture by Sir Jeremy Morse (Seoul).

1984 *Economic Nationalism and International Interdependence: The Global Costs of National Choices*. Lecture by Peter G. Peterson.

1983 *Developing a New International Monetary System: A Long-Term View*. Lecture by H. Johannes Witteveen.

1982 *Monetary Policy: Finding a Place to Stand.* Lecture by Gerald K. Bouey (Toronto).

1981 *Central Banking with the Benefit of Hindsight.* Lecture by Jelle Zijlstra; commentary by Albert Adomakoh.

1980 *Reflections on the International Monetary System.* Lecture by Guillaume Guindey; commentary by Charles A. Coombs (Basel).

1979 *The Anguish of Central Banking.* Lecture by Arthur F. Burns; commentaries by Milutin Ćirović and Jacques J. Polak (Belgrade).

1978 *The International Capital Market and the International Monetary System.* Lecture by Gabriel Hauge and Erik Hoffmeyer; commentary by Lord Roll of Ipsden.

1977 *The International Monetary System in Operation.* Lectures by Wilfried Guth and Sir Arthur Lewis.

1976 *Why Banks Are Unpopular.* Lecture by Guido Carli; commentary by Milton Gilbert (Basel).

1975 *Emerging Arrangements in International Payments: Public and Private.* Lecture by Alfred Hayes; commentaries by Khodadad Farmanfarmaian, Carlos Massad, and Claudio Segré.

1974 *Steps to International Monetary Order.* Lectures by Conrad J. Oort and Puey Ungphakorn; commentaries by Saburo Okita and William McChesney Martin (Tokyo).

1973 *Inflation and the International Monetary System.* Lecture by Otmar Emminger; commentaries by Adolfo Diz and János Fekete (Basel).

1972 *The Monetary Crisis of 1971: The Lessons to Be Learned.* Lecture by Henry C. Wallich; commentaries by C.J. Morse and I.G. Patel.

1971 *International Capital Movements: Past, Present, Future.* Lecture by Sir Eric Roll; commentaries by Henry H. Fowler and Wilfried Guth.

1970 *Toward a World Central Bank?* Lecture by William McChesney Martin; commentaries by Karl Blessing, Alfredo Machado Gómez, and Harry G. Johnson (Basel).

1969 *The Role of Monetary Gold over the Next Ten Years.* Lecture by Alexandre Lamfalussy; commentaries by Wilfrid Baumgartner, Guido Carli, and L.K. Jha.

1968 *Central Banking and Economic Integration.* Lecture by M.W. Holtrop; commentary by Lord Cromer (Stockholm).

1967 *Economic Development: The Banking Aspects.* Lecture by David Rockefeller; commentaries by Felipe Herrera and Shigeo Horie (Rio de Janeiro).

1966 *The Role of the Central Banker Today.* Lecture by Louis Rasminsky; commentaries by Donato Menichella, Stefano Siglienti, Marcus Wallenberg, and Franz Aschinger (Rome).

1965 *The Balance Between Monetary Policy and Other Instruments of Economic Policy in a Modern Society.* Lectures by C.D. Deshmukh and Robert V. Roosa.

1964 *Economic Growth and Monetary Stability.* Lectures by Maurice Frère and Rodrigo Gómez (Basel).

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