

World Economic Forum in Jordan 2005**Dead Sea, Jordan****Seizing the moment in the Middle East**

*H.M. King Abdullah II Ibn Hussein of
the Hashemite Kingdom of Jordan*

More than 1,000 government, business and other leaders met at the World Economic Forum in Jordan 2005 under the theme “Seizing the Moment” to set out priority steps for comprehensive reform in the region and to increase engagement in the global economy.

The potential benefits deriving from continued economic liberalization and political reform in the Middle East are growing clearer and more urgent each year. The current environment in the region gives some grounds for optimism. However, in order to “seize the moment” for change and face up to the scale of the challenges facing the Middle East, the pace of reform will need to accelerate.

The clear wishes of Arab citizens for improved governance, human rights and economic opportunity were highlighted in an opening Town Hall (see page 3) in which participants discussed the causes of stagnation and the priorities for change identified in a survey conducted by Al Arabiya TV. The outcomes of this scene-setting discussion were fed into the remainder of the programme.

Principal conclusions of the meeting included:

Peace, security and international relations

- Although the 2005 elections in Iraq were a significant achievement, the divisions between Shiite, Sunni Arab and Kurdish groups, and the continuing violence, reinforce the need for a working constitution and a federal government structure that will ensure non-discriminatory representation for all the different interest groups.
- The withdrawal of the Israeli military and settlers from the Gaza Strip scheduled for August 2005 represents a significant chance for the peace process. To have its best chance of success, it will also require the agreed Israeli withdrawal from five West Bank cities and that the Palestinian Authority ensures the removal of all weapons from radicals based there.
- To prevent continuing economic stagnation in Gaza and the West Bank, a far greater movement of people, goods and capital must be allowed along with an increased ability to ship products by air and sea, both of these are currently restricted due to Israeli security concerns.
- Proclaimed US foreign policy in the Middle East is now focused on promoting democracy even at the expense of instability. Yet the sovereign elected government in Iraq that emerges from this policy may ask the US to cut short its presence there, possibly undermining the stability of the regime further. Democracy promotion could also pose dilemmas for the US Administration in the Palestinian territories if Hamas wins a significant share of the vote in parliamentary elections.

Economics, business and new growth drivers

- Population growth in the region over the next 20 years will require up to 100 million new jobs if there is to be a real chance of improving living standards for the average citizen. This will require a structural shift in which the private sector supersedes the state as the largest employer. Without this transformation, unemployment could double to over 25%, bringing a significant possibility of public disorder.
- There are considerable barriers to starting a new business throughout most of the region. Excessive costs, lengthy bureaucratic delays and legal limitations all need to be tackled before the private sector can hope to become a dynamic originator of employment.
- Water scarcity will become an issue of increasing importance for many countries in the area, escalating tensions among neighbours, unless substantial new infrastructure is created. Any significant economic expansion will also require greatly improved infrastructure in domestic energy, advanced telecommunications and in specific growth areas such as travel and tourism.
- Countries benefiting from high oil prices should not exploit them as an alternative to reform. Economic diversification will assist job creation and key sectors should be targeted including healthcare, pharmaceuticals, life sciences, and information and communication technologies – all of which have been identified as potential growth drivers in the region.

Political, social and educational reform

- Political leaders' acceptance of the need for reform and more vocal and determined populations have resulted in growing pressure to introduce a more participatory approach in many countries. Powerful interest groups, who want to preserve their benefit from the existing systems of government, must be prevented from allowing the call for democracy to fail.
- Many ordinary citizens remain deeply cynical about announcements of new reform programmes and will need to see substantive rather than superficial changes. These must include greatly reduced government control of television and radio channels and the print media.
- Should reform projects across the Arab world fail, societies could respond with political apathy, abandoning efforts to promote democracy. This could lead to the prolongation of political systems which merely rely on oil and gas rents. But an alternative outcome could be radicalization and the blaming of failure on external forces, providing a breeding ground for instability, with global ramifications.
- The priority for education reform in most countries is the provision of universal secondary education. But funding should be channelled towards investment in modern facilities and reform of the curriculum if these schools are to produce graduates equipped for a global economy which increasingly demands sophisticated knowledge-based skills.

World Economic Forum in Jordan 2005

Dead Sea, Jordan

Arab town hall compares leaders' and citizens' views

Over 700 of the region's leaders participated in the *Al Liqa al Maftooh* (Town Hall) to focus on issues of concern for both leaders and average citizens and to identify concrete action steps to address them. Electronic voting captured participants' opinions and compared them with the results of a groundbreaking Arabic language Al Arabiya TV-World Economic Forum survey of almost 3,000 television viewers across the region. A key multiple-choice question asked of both leaders and citizens was:

What is stalling development in the Arab world?

- 1. Governments are unwilling to implement change and reform**
- 2. Civil society is failing to convince governments**
- 3. The ongoing Arab-Israeli conflict**
- 4. Terrorism**

Here is a comparison of key results from the two polls:

1. Governments are unwilling to implement change and reform

Al Liqa al Maftooh participants: 64%; Al Arabiya Survey Respondents: 81%

2. Civil society is failing to convince governments

Al Liqa al Maftooh participants: 9%; Al Arabiya Survey Respondents: 7%

3. The ongoing Arab-Israeli conflict

Al Liqa al Maftooh participants: 24%; Al Arabiya Survey Respondents: 8%

4. Terrorism

Al Liqa al Maftooh participants: 3%; Al Arabiya Survey Respondents: 4%

Al Liqa al Maftooh participants then identified the top three issues for the region that require change or reform. The top three priorities selected were:

1) Transparency and Accountability (24.2%); 2) Education (23.9%); 3) Political Participation (15.7%).

In small-groups, participants determined the most important action steps needed to address each of the three selected issues.

Transparency and Accountability:

- Define clear legal processes and laws
- Establish independent judiciaries
- Augment freedom of press
- Disclose government budgets and decision-making processes

Education:

- Reform curricula to reflect international standards, vocational requirements and regional cultures
- Ensure a secular curricula
- Improve teaching skills
- Enhance respect for teachers in societies

Political Participation:

- Empower parliament with clear responsibilities
- Create independent electoral commissions
- Create clear legal frameworks to encourage political parties and civil society organizations

The Middle East as the focus for global peace and security

Big picture


- Middle East conflicts and tensions figure largely in the global security agenda. International terrorism, the insurgency in Iraq, the Israeli-Palestinian conflict and the prospect of Iran armed with nuclear weapons are among the most pressing security issues worldwide.
- In Iraq, elections early in 2005 were generally seen as a success. Nevertheless, insurgent attacks and suicide bombings have continued unabated, with some evidence that these attacks are becoming deadlier and better orchestrated. Progress has been made towards forming a government but significant sectarian tensions remain among Sunni Arab, Shiite and Kurdish groups.
- A new Palestinian leadership, the planned Israeli withdrawal from Gaza and the agreement of a fragile ceasefire have succeeded in reducing violence. The US government has become more closely engaged in attempting to rekindle the peace process, along with Egypt and Jordan.
- The US, Russia and the European Union all express grave concerns that Iran may be engaged in a covert nuclear arms development programme. Iran insists upon its right to enrich uranium as guaranteed under the nuclear Non-Proliferation Treaty.

Context

The Middle East today stands at a crossroads. The US-led invasion and occupation of Iraq and the toppling of Saddam Hussein's brutal regime have projected American power in the region as never before. Elections in Iraq and the Palestinian territories have presented new opportunities to establish democratic precedents and win popular support for elected governments. Political representation and civil and human rights are widely seen as prerequisites to the diminution of violence and the marginalization of extremists on all sides.

Significant obstacles remain, however. The establishment of a successful federal government structure in Iraq remains open to question. The Sunni Arabs, many of whom abstained or were frightened from participating in the recent elections, need to be fairly represented in the Iraqi cabinet and the Transitional National Assembly. Foreign and local insurgents maintain the ability to seemingly strike at will, undermining confidence in both US and British forces and their ability to create an effective Iraqi national police and anti-terrorist force.

In the Palestinian territories, an uneasy ceasefire is holding but some violence continues. Israeli Prime Minister Ariel Sharon has confirmed his intention to withdraw soldiers and settlers from the Gaza strip, commencing mid August. Yasser Arafat's death and the election of President Mahmoud Abbas have led to a renewed Israeli-Palestinian dialogue, if not a formal resumption of the peace process. Extremists on both sides, however, appear determined to



"Active participation of the international community is needed to bring peace and prosperity. We need help in reconstruction."

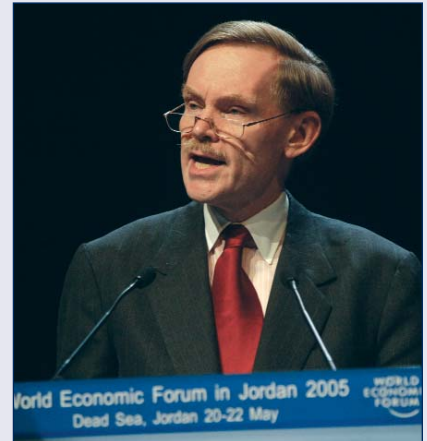
Hoshyar Zebari, Minister of Foreign Affairs of Iraq

World Economic Forum in Jordan 2005

Dead Sea, Jordan

derail the Gaza disengagement and both the Israeli and Palestinian leaders face an uphill struggle. Whether Hamas will fully engage in the democratic process remains a crucial determinant.

Diplomatic efforts to convince Tehran to indefinitely suspend uranium enrichment have stalled, with Washington and Tehran communicating through European intermediaries and no direct talks proposed or planned. The Bush Administration is seeking a further strengthening of the nuclear Non-Proliferation Treaty (NPT) whereby non-nuclear armed nations eliminate dual-use enrichment capabilities unnecessary for nuclear energy programmes and inspectors are granted access to all suspect nuclear sites. But, so far, Washington lacks sufficient international support.



*Robert Zoellick
US Deputy Secretary of State*

Strategic insights

- Representative government fair to all ethnic and religious groups in Iraq is vital in order to bolster support for the fledgling government and help to create a functioning constitution. Further international help is required in providing legal and technical assistance and also in rebuilding the country's shattered infrastructure and providing economic opportunities. Concrete plans and extensive financing will be required.
- The 'Iraqization' of the military struggle, building the capacity for the country to defend itself, will prove crucial to any future success at returning the country to anything approaching stability. Thus far, Iraqi forces are insufficient and lack both training and material. The transition is unlikely to happen quickly. Cooperation with Iraq's neighbours, especially Syria and Iran, is needed to disrupt insurgent resupply and eliminate safe havens.
- The Israeli disengagement from Gaza provides a window of opportunity but expectations on both sides will be high. The Palestinians expect Israel to stick to its commitment of also withdrawing from five West Bank cities, and the Israelis expect the Palestinian Authority to disarm extremists in these cities. Washington should become more fully engaged in ensuring both sides fulfil their commitments.
- Access to port and airport facilities and the ability to move goods, capital and people between Gaza, Israel and the West Bank are needed to create jobs, promote stability and thereby reduce support for Islamic extremists. International financial support is required to create industrial parks taking advantage of the right of Palestinians and Israelis to export goods duty-free to the US market.
- The Bush Administration should engage in direct talks with Iran to resolve the nuclear issue. Some analysts believe that Washington has focused too much on Iranian liberals and reformers and instead needs to engage the country's top leaders.

The Middle East's economic and business outlook

Big picture

- Over the next 20 years, the Arab region will need at least 65 million new jobs to absorb an expected increase of 70% in the labour force. Significantly higher growth will be needed to reduce the current average unemployment rate of 13%. Consistent growth of over 6% per year will be needed to meet this goal, up from the 3.7% average achieved over the past decade. If this current growth rate is not increased, unemployment is expected to rise to 25% by 2025.
- The Arab region's share of foreign direct investment (FDI) flows has stagnated and is far lower than any other region, reaching only US\$ 7.1 billion in 2003. Though the requirement for imported capital is less than other developing regions, the Middle East is missing out on other benefits of FDI such as the transfer of skills and technologies, added employment and the experience of working with foreign firms.
- There are enormous variations in incomes in the region. Per capita income in 2004 ranged from US\$ 526 in Yemen to US\$ 33,570 in Qatar, according to the IMF. Average annual growth rates between 1990 and 2004 ranged from 2.4% in Saudi Arabia and Algeria to 6.9% in Qatar.
- The competitiveness of the region lags behind not only much of the rest of the world but also other emerging economies. The heavy involvement of the state in Arab economies and an unpredictable regulatory environment prevents an effective free market in most sectors.

Context

Economic reform is hindered by an over-reliance on the public sector which often provides job security and a social safety net for those who are employed. The result is that many interest groups resist restructuring as it is against their short-term interests, despite the long-term gains it would achieve for the rest of the population.

There is an increasing realization of the importance of increasing FDI. Coca-Cola estimates that for every job it creates directly with FDI, it generates between 7 and 30 additional jobs in the supplier network. The formation of an Arab Business Council/G-8 Investment Task Force in May 2005, with the help of the G-8 countries, has brought Arab governments together with



Peter Brabeck-Letmathe, Chairman and Chief Executive Officer, Nestlé, Switzerland; Victor L. L. Chu, Chairman and Chief Executive Officer, First Eastern Investment Group, Hong Kong SAR; Maurice Lévy, Chairman and Chief Executive Officer, Publicis Group, France; Lubna S. Olayan, Chief Executive Officer, Olayan Financing Company, Saudi Arabia; Member of the Foundation Board of the World Economic Forum; Brian C. Bruce, Group Chief Executive, Murray & Roberts Holdings, South Africa

World Economic Forum in Jordan 2005

Dead Sea, Jordan

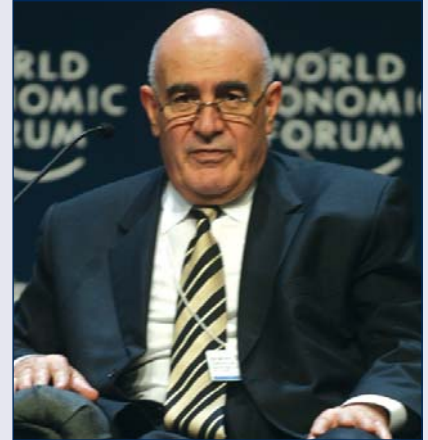
foreign companies to discuss the obstacles to foreign investment.

The EU trade commissioner is seeking clearance from its 25 members to start negotiations on opening up trade in the service sector for those Arab nations currently involved in the ten-year-old EU-Mediterranean partnership, also known as the Barcelona Process. However, the current agreements do not provide the incentives needed to accelerate economic restructuring.

Widespread “income status disequilibrium” where influential public sector officials are paid badly, provides a fertile ground for corruption and bribery which are high by Western standards and results in a massive misallocation of resources. The awarding of jobs or contracts to family members is often not seen as nepotism but as correct behaviour in fulfilling an obligation towards an extended family.

Strategic insights

- The enormous number of new entrants to the Arab labour market will likely cause serious social unrest if it is not dealt with by structural changes to allow major increases in employment. It will become impossible for the public sector to continue as the major employer in the region and the dramatically increased role demanded of the private sector will require serious governmental cooperation.
- Arab states will have to radically increase their very low level of regional economic integration, supported by home-grown reform and liberalization, to achieve a far higher share of global GDP and will need to participate more actively in the World Trade Organization.



*Ibrahim S. Dabdoub
Chief Executive Officer,
National Bank of Kuwait,
Kuwait*



*Marilyn C. Nelson
Chair and Chief Executive Officer,
Carlson Companies, USA*

- The development of trade in services between the Arab world and the European Union should provide a major opportunity for economic diversification, particularly for Arab countries that are not well positioned to develop manufacturing industries. But it will also require far greater freedom in the movement of labour and capital.
- As anti-corruption laws become more effective in other countries, foreign companies will not want to fall foul of their own home judiciaries and will increasingly seek to avoid countries which have not taken steps to outlaw bribery. Without such changes it will be impossible to achieve the vital increases needed in FDI.
- The region is not changing fast enough to keep up with China and India, which offer global investors both an almost unlimited supply of cheap labour and huge internal markets. But the revenues earned from oil price rises provide an ideal opportunity to help with the cost of stringent economic reforms. The alternative may well be a crisis not dissimilar to the situation

reached in several Latin American countries where significant restructuring was only introduced after an extreme worsening of economic conditions.

The need for improved governance and political reform

Big picture

- Since the terrorist attacks of 11 September 2001, the international community has been highly concerned about long-term stability within the Middle East and threats to its security emanating from the region. As a result, some countries implicitly claim to have a legitimate interest in engaging in the domestic affairs of Arab countries.
- Civil society across the Arab world has become more vocal in demanding political participation and is unified behind the shared objective of shaping a more liberal agenda for the Arab world. A new generation of political leaders is displaying a higher degree of awareness of the need for political freedoms and increased popular participation.
- Various interest groups have so far been able to defend their privileged positions in society due to frail political institutions and weak rule of law. The main pressure for reform has come from outside, as Arab civil society lacks leverage to push a reformist agenda. It has been relatively easy for certain elites to de-legitimize external calls for change while doing little to encourage reform from within.
- There is a lack of confidence in the ability of Arab countries to manage the transition of political systems from autocratic to democratic government. There is no consensus about how much instability the Arab region and the rest of the world will accept in this transitional period.

Context

Most governments in the region are not accountable to parliaments. There is insufficient civilian oversight of the security institutions, and public finances are obscured. The right to form political parties is permitted in 14 out of 22 Arab countries. Libya and the member states of the Gulf Cooperation Council prohibit the formation of political parties.

The number of political parties in the Arab world is increasing. Some countries have a proliferation of parties – 27 in Algeria, 26 in Morocco, 31 in Jordan and 22 in Yemen. This could be interpreted either as an indication of mounting political consciousness or as a reflection of fragmentation among political elites and a tactic by ruling regimes to divide political opposition.

A powerful indicator for measuring oppression is the freedom to articulate political preferences and interests through the media. Freedom of the press is most threatened in the Middle East and East Asia according to the Worldwide Press Freedom Index. In the Arab world, Lebanon is the leading country with regard to press freedom, while Tunisia, Saudi Arabia, Syria and Libya lag behind.

*“The path of democracy
is the only path of the Arab
people.”*

**Amre Moussa, Secretary-
General, League of Arab States,
Cairo**

World Economic Forum in Jordan 2005

Dead Sea, Jordan

Radio and television journalism are controlled even more closely. Unlike the print media, broadcasting can bypass illiteracy, which is over 40% across the Arab world, and appeal to mass audiences. This results in a different set of standards for the censorship of the broadcast media which tends to be under direct government supervision. Governments of most Arab states not only own but also operate and control the broadcast institutions.

A survey by Dubai-based Al Arabiya TV channel provided indications that most people in the region believe that governments' unwillingness to implement reforms constitute the main impediment to change (see page 3).

Strategic insights

- The last few years have seen a proliferation of regional and national reform agendas. Combined with a more substantial political discourse within the Arab world, this shows a clear emergence of a democratic culture starting to take root in much of the region.
- Should reform projects across the Arab world fail, societies could respond with political apathy and the continuation of stabilizing political systems by the distribution of oil and gas rents. But an alternative response is radicalization and the blaming of failure on external forces, providing a breeding ground for instability, with global ramifications.
- The public is highly sceptical about the proliferation of reform agendas and perceive current initiatives to be largely cosmetic. Arab societies will not buy into them until there are concrete changes that affect the lives of people.
- The integration of disparate elements of society, including Islamist forces, into the political system is crucial to the development of a sustainable political society in the Arab world.



*Silvan Shalom
Deputy Prime Minister and Minister
of Foreign Affairs of Israel*

Infrastructure: the key to peace and prosperity

Big picture

- There are crucial infrastructure gaps in many Arab countries that need to be filled. In telecommunications, for example, most Arab countries are not as “network ready” as other emerging economies. The sector is often under state control or lacking in competition and, thus, operates below international standards.
- Several countries in the Middle East and North Africa (MENA) face a scarcity of water. While the MENA region accounts for about 5% of the world’s population it possesses only 1% of its renewable water resources. This shortage has led to tensions among neighbours. In addition, many countries have perennial difficulties in meeting their domestic energy demands.
- Iraq and the Palestinian Territories in particular must lay the groundwork necessary to take advantage of economic and business opportunities created by evolving political and social conditions, even if instability persists over the short term.
- Private sector participation in infrastructure across the Middle East has been limited, partly for political and security reasons. Many projects have entailed high costs with low returns due to the perceived high risks and technical difficulties.

Context



Ahmed Mahmoud Nazif
Prime Minister of Egypt

Globalization-ready regions are marked by a high degree of integration, particularly through the interconnection of supply chains and telecommunication networks. Efficient and cost-effective logistics are key to the competitiveness of any country and region, particularly in attracting investment from multinational firms.

Poor infrastructure is a major hurdle to regional economic development. Developing ports, airports, railways, roads, energy and power grids, telecom networks and other facilities is crucial to promoting the diversification of Arab economies beyond petroleum products.

Better infrastructure will drive growth in the region and help create the jobs necessary to bring down unemployment and reduce poverty. The opportunity to participate in long-term infrastructure projects will attract more FDI into the region.

The economic and political aspirations of the region cannot be met if Arab countries fail to address their lack of preparedness to be globally competitive. Deficiencies include poor infrastructure, the fragmented nature of the regional economy and the lack of new engines of growth.

World Economic Forum in Jordan 2005

Dead Sea, Jordan

Inadequate preparation for a hoped for post-conflict period could result in social dissatisfaction and unrest if immediate “peace dividends” are not realized. Expectations are high. If not at least partially met, through job creation driven by investment which has been attracted by infrastructure development, disappointment among people in the region may well deepen.

Strategic insights

- Failure to fill urgent infrastructure requirements, particularly water and power needs, could lead to destabilizing domestic pressures. Competition for water resources could result in serious conflict among neighbours if not addressed in a regional framework.
- Infrastructure improvement is especially important in the Palestinian Territories where maintaining stability while quickly stimulating growth and employment is crucial to establishing peace.



*Marc Otte
EU Special Envoy to the Peace
Process in the Middle East,
Council of the European Union,
Brussels*

- For the region to be able to deal with the challenges of globalization, infrastructure development must be approached as a cooperative effort. Long-term strategic plans need to be formulated and executed jointly by countries that have only recently been adversaries.
 - Infrastructure development can also give a major boost to the development of new growth sectors. In particular, travel and tourism is one area that would reap immediate benefits from increased stability and security in the region.
 - The private sector must play a lead role in infrastructure development across the region. Preparing for peace will require willingness by the business sector to take greater risks and invest the funds necessary to finance major construction and reconstruction. Investors must have the opportunity to make good returns. As far as possible more effort is needed to harness new technology to make projects such as desalination plants cost-effective.
- A more cooperative political environment in the Middle East will enable important joint projects such as the Red Sea-Dead Sea canal to move ahead more quickly. It would also open the door for more imaginative initiatives such as a Red Sea-Mediterranean rail connection or a highway network that allows vehicles to drive from Turkey to Egypt. Such projects will enhance the integration of the MENA economies, boost its global competitiveness and attract greater investment to the region.
 - Even if the political environment deteriorates, or the status quo continues, governments and businesses should not use this as a reason to refrain from addressing glaring infrastructure deficits, particularly in water and energy resource development.

Assessing the impact of US foreign policy in the region

Big picture

- Iraq has long held strategic value for the US, first as a counter-balance to Iranian ambitions, and now as a base to project influence in the region. But following a long and bloody insurgency, policy-makers in Washington are rethinking the means of achieving the Administration's regional goals.
- The US military presence in the Middle East has doubtlessly lessened the possibility of a new Arab-Israeli war. However, Washington has so far failed to use its leverage to bring the parties firmly back to the Roadmap. Israeli-Palestinian relations remain fragile at best.
- Despite US influence in the region, Washington's engagement with Israel and the Palestinian Authority has not yet succeeded in returning to the roadmap for peace.



*Gordon H. Smith
Senator from Oregon (Republican), USA*

Context

President Bush's second inaugural speech stressed the goal of spreading freedom and democracy around the world. Iraq is the most crucial test of this new doctrine, with a stable authoritarian regime there no longer appearing an acceptable option. Yet, it is doubtful that Washington expected to support the kind of Iraqi government which is emerging – one which legitimizes a political role for religious clergy. Currently dominated by the country's Shiite majority, Iraq's government may eventually call for the withdrawal of US forces or seek to limit their activities.

In the eyes of Arab governments, the emergence of a Palestinian leadership acceptable to Israel and able to secure a ceasefire from militant groups has placed the onus on Israel and the US to take measures to reach a just and lasting settlement. Furthermore, many Arabs are already suspicious of President Bush's commitment to democracy, and will feel vindicated in this view if Palestinians are not offered similar rights to the citizens of the new Iraq.

Strategic insights

- Once viewed as an asset to project US power in the region, Iraq is now seen as a less likely long-term base for US military forces. Nor is it clear that the new Iraqi government will be happy with a prolonged American presence. This could lead to further instability in Iraq and the region.
- Israel's planned withdrawal from Gaza and greater democracy in the Palestinian Territories could create new risks. If Hamas and other extremist groups do well in upcoming elections, consensus for a two-state solution could break down.
- The outcome of political changes in Lebanon remains unclear with the possibility of heightened sectarian tensions in the wake of Syrian troop withdrawals.

World Economic Forum in Jordan 2005

Dead Sea, Jordan

Operating in the Middle East's difficult business environment

Big picture

- Many Arab countries have burdensome bureaucratic and legal barriers that impose high costs on entrepreneurs seeking to start new firms, register property or enforce contracts. This encourages businesses to pay incentives or bribes to speed up the process or to run their affairs informally.
- In those countries where enforcing contracts is difficult, access to trade and credit are often limited to a small community of people with informal relations through kinship, repeated dealings with each other or the security of available assets.

Context

Public administrations are not streamlined to actively encourage doing business in the Arab world, as is the case in the best performing countries. Countries which set up a unified administrative agency for business registration or integrate the business start-up process into a single access point can yield huge returns.

To fund a business, Arab entrepreneurs need to raise an average of 1,000% of per capita income as opposed to only 44% in OECD countries, according to 2004 World Bank figures. Starting a business typically takes 39 days compared to an OECD average of 25 days. Where contracts can be enforced it takes an average of 417 days compared to an OECD average of 229 days.

An entrepreneur in Algeria faces 14 steps to open a business, and in Saudi Arabia waits 64 days to obtain a license to operate. Algeria has the most difficult system to register property. Egypt requires less than half the steps of Algeria, but the process takes nearly four times longer. The costs of registering property are highest in Syria, at over 30% of the property's value.

Strategic insights

- The private sector must be enabled to play the role of a forceful job creator if there is to be any chance of achieving the levels of sustainable growth and development that will raise the standards of living for most citizens.
- There are considerable differences between Arab countries regarding their barriers to entrepreneurship. Most have at least one or two burdensome costs or restrictions that are serious inhibitors to doing business, well above OECD averages. These burdens urgently need to be removed and this will require decisive action by governments.
- The establishment of a powerful pan-Arab business development agency could play a vital role in sharing best practices and detailed information on how and where successful reforms have been achieved, as well as in providing technical assistance and know-how.

"The public sector has failed to deliver in the region. We have seen its failure the world over. We know the private sector can deliver and it is time to take off the shackles."

Mohamed A. Alabbar,
Chairman, Emaar Properties,
United Arab Emirates

Encouraging new engines of business growth

Big picture

- The average unemployment rate for the Arab region is around 15%. In some countries with above average unemployment the proportion of the population under the age of 15 is very high, indicating that the employment situation is likely to worsen before it gets better.
- While a few oil exporting economies have diversified and privatized state-owned industries in recent years, many others have resisted reform and have yet to develop new sectors of growth.
- There is a positive correlation between the level of economic diversification and the rate of growth. The lack of economic diversity leaves many Arab countries vulnerable to the volatility of energy markets. High oil prices often act as a disincentive to reform.



Ahmed Qurei
Prime Minister of the Palestinian Authority

Context

Arab nations are coming to accept that achieving higher growth, bringing down unemployment and reducing poverty will require diversification as an essential part of economic reform.

New growth engines must be identified. The region has many options to pursue, with the security issue the one persistent hindrance. There is enormous room for improvement in trade, both within the region and with other areas, in the ability to attract foreign direct investment and in the cultivation of enterprises and corporate performance.

Arab economies risk social tension if they resist reform. To deal with massive population growth they need to create extensive new employment opportunities. This will be especially important to secure the peace in post-conflict areas once the political and security situation improves.

Strategic insights

- To attract domestic and foreign investment in emerging industries governments must provide not only better infrastructure but also improvements in intellectual property protection, human resources and facilitating investment.
- There should be an increased focus on the specific sectors of information and communication technologies, healthcare, pharmaceuticals and life sciences. Some economies have already made progress in these areas and good outsourcing opportunities exist. Cooperative regional approaches are essential.
- The stimulation of an enterprise culture in the region will require further developments in microfinance, the promotion of research and development through corporate, academic and government partnerships, and the expansion of education and employment opportunities for young people and women.
- The region should forge stronger partnerships in Asia, and particularly with China, to take advantage of high levels of economic growth and increased levels of demand.

World Economic Forum in Jordan 2005

Dead Sea, Jordan

The importance of regional educational reform

Big picture

- Arab countries made significant progress in expanding access to and participation in education in the latter decades of the 20th century. However, there are large discrepancies between the educational performances of individual states which must be acknowledged in any regional approach.
- Educational systems in the region are not producing students with the knowledge and skills required to help them become active and productive citizens. This threatens prospects for economic and social development.
- Without significant efforts to align education systems with the evolving needs of the global knowledge-based economy, Arab countries are at risk of being left behind the higher growth economies of Central Europe and East Asia.

Context

While enrolment in primary education in the Arab world averages 92%, less than 60% of Arab youths are provided with a secondary education. Pre-primary education is available for around one in five children.

Levels of illiteracy are still running at around 40%. The challenges of providing access to quality education will become even larger, as over the next 15 years, the 5 to 14 year age group will increase by over 13 million young people, almost 19%.

Evaluating the overall quality of education in the Arab world is difficult as only a few Arab countries participate in international quality assessments. For example, between 1999 and 2003, few Arab countries participated in the Trends in International Mathematics and Science Study conducted by the US National Center for Education Statistics. And, in 2004, only Tunisia participated in the Programme for International Student Assessment by the OECD. The performance of the region in these assessments was largely well below average.

*"Education is the pipeline
for the workforce of the
future."*

**Tae Yoo, Vice-President,
Corporate Affairs, Cisco
Systems, USA**

Strategic insights

- Large-scale investments must be made to upgrade the educational systems in the Arab world to ensure it will be equipped to face the challenges of the knowledge economy. These efforts should be used to set up an Arab Education Development Decade between 2010 and 2020.
- The next four years should be devoted to examining educational systems across the Arab world, identifying scalable best practices and upgrading the capacity and abilities of those institutions which are managing education throughout the region.
- Educational reform forums should be established at national levels to guide the reform processes, monitor achievements and exchange information. A regional educational reform fund should also be created to assist Arab countries in preparing and financing their plans.

World Economic Forum in Jordan 2005

Dead Sea, Jordan

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For further information on the Centre for Strategic Insight, please contact:
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Middle East Programme

For over a decade the World Economic Forum meetings in Morocco, Egypt, Qatar and Jordan, have brought together over 1,200 political, business and civil society leaders from the region and abroad. Our members and participants are able to work on issues of great concern to the global community: peace and security, economic opportunity and, more recently, governance, energy, regional vision and intercultural dialogue. The World Economic Forum will continue to offer a platform for launching action and partnerships that tackle such challenges.

The Arab Business Council (ABC) of the World Economic Forum was founded by a group of Forum members from the Arab world in 2003 and has as its mission a commitment to enhance competitiveness in the Arab world. Knowing the region is facing political, economic and social challenges, the ABC plays a proactive role in meeting them, rather than leaving this to governments alone.

For further information on our Middle East Programme, please contact:
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