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## **The Arab Countries and How to Create 100 Million Jobs**

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Perhaps nothing underscores more eloquently the challenges which policy-makers in the Arab countries face in coming years than to focus attention on the labour market. The labour force in the Middle East and North Africa region is projected to swell from some 104 million at the outset of this decade to 185 million by 2020. Just to keep unemployment rates at present levels—already among the world's highest—80 million new jobs will have to be created. To actually bring unemployment rates down to more sustainable levels, a figure of 100 million new jobs is more appropriate, implying a rate of job creation of some 4% per year, extremely high by international standards.

None of this will happen without a major shift in policies and, indeed, in the underlying philosophy that has driven them during the past two decades. A new model is needed that shifts the sources of growth in the region from an undue emphasis on the oil sector to non-oil industries, from state-dominated activities to those entailing a much larger private orientation, ideally involving the nourishing of competitive export-oriented activities. One key component of this shift will have to be a major boost to trade and investment, well beyond the initial efforts made by a few countries in the region in the context of free trade bilateral deals or efforts by several others to join the WTO.

The need for urgent action is highlighted by a combination of several factors. First, the region as a whole remains unduly dependent on the energy sector. It is worrying to see that in countries such as Saudi Arabia close to 80% of budget revenues and 90% of exports are linked to sales of crude oil and refined products, making these economies unusually vulnerable to external shocks. Second, growing competition in world markets and the emergence of highly competitive economies in the Far East and in central and Eastern Europe risks leaving countries in the Arab world behind, with stagnant or falling levels of per capita income. Third, it is not reasonable to assume that growing pressures in Arab countries' labour markets will be met by a major opening up in the EU, many of whose economies have unemployment problems of their own. Finally, failure to address this labour market time bomb is likely to raise persistent questions about government legitimacy, at a time when public opinion in a growing number of countries has come to see the role of government as inextricably linked to job creation and the provision of reliable public services.

Leaders in the region should take some comfort in the fact that the scope for gains in trade and investment are huge. Non-oil merchandise exports still account for a relatively small share of GDP—around 6%—or less than one

third of the levels prevailing in some of the East Asian economies. Inflows of foreign direct investment are likewise very small; at 0.5% of GDP they could easily expand by 4 or 5 times, to levels seen in a large number of emerging markets. Tapping into some of this potential could create millions of jobs, many of them for women, who have benefited from considerable government investment in education in recent years but still face numerous barriers to enter the labour market. It would improve productivity overall and also encourage specialization in certain manufacturing niches for which the region's proximity to major international markets could be a competitive advantage.

How to move forward? Luckily, there is a broad body of knowledge and country-specific experience available that can be tapped to formulate major trade and investment liberalization, as the primary aims of economic policy in coming years. Economists may disagree about most issues, but there is broad consensus on what are the key elements of a policy package aimed at opening up the economy. Policies will have to be bold and ambitious, to reinforce credibility. There will have to be a major reduction in import quotas and licensing monopolies and the phasing out of rent-seeking privileges, which have acquired an ubiquitous character in the region. Across the board cuts in tariffs to a fairly low uniform level will also be necessary. Investment deregulation to free up new entry and to encourage private investment will need to be an integral component of this. Some gradualism might be called for in those sectors where the above measures could have short-term effects on output.

The countries in the Arab world will need to make some strides not only in

improving the investment climate but also in enhancing job opportunities for women and in laying the foundation for improved governance. Notwithstanding relatively heavy investment in women's education, female labour force participation rates remain by far the lowest in the world and thus the region is not benefiting from the potential returns to these worthwhile investments.

But, beyond issues of macroeconomic management, we have also learned that successful economic development strategies have much to do with the role of government and the exercise of political authority in a society for the management of its resources. It matters a great deal whether governments are accountable to their respective populations. Investors seem to care enormously whether judges and courts are reasonably independent or whether they are up for sale. Do businesses have to pay bribes to clear goods through customs or to settle their taxes? Do governments show favouritism in their decisions or are they fairly even-handed in their relations with the private sector? Are public resources being allocated to public health and education or rather to wasteful projects or unproductive expenditures? On all of these issues there is much to do in the Arab world.

The rapid emergence of a single fully integrated international economy is quickly becoming a reality. Countries that do not face up to the challenges of global competition and that do not modernize their economies and make them flexible and nimble are likely to fall behind. Declining levels of per capita income could lead to growing political and social restlessness making the task of efficient economic management all the more difficult. But credible reforms, beginning with a substantial

liberalization of trade and investment, could go a long way toward releasing the great potential of the Arab countries and

enabling them to enter a critical stage of the much hoped-for renaissance.



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