JIHAD AZOUR
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Miguel Ángel MORATINOS

We are now going to move to Jihad Azour. He is Director of the Middle East and Central Asia Department at the IMF. He was Minister of Finance in the government of Lebanon and I think it is good to have a great economist to understand what is behind the geopolitics. It is true that we talk mainly about oil in the Middle East, but there are other kinds of financial and economic crossroads that influence the geopolitics of the region, so Jihad, you have the floor. I was hoping that you could clarify today’s situation for us from an economic point of view.

Jihad AZOUR

The economic and financial question, which has led to several transformations in the region in the past decades, remains central to what we are currently experiencing, including on the political and security scene. However, those who follow economic developments can observe that, despite its importance, this area remains relatively marginalised in current public debate and in decision-making at the regional or international level.

It is thus important to take a step back, in an attempt to better assess the issues and prospects for the region: what are our current conditions? What is the economic situation of the region as a whole? What is the outlook for the years to come and what are the challenges facing the countries in the region?

Over the last few days, when I presented the IMF’s economic outlook for the region for Year 2017, I saw a divergence in the growth prospects of oil importing countries versus those of oil exporting countries. Yet reform objectives or needs between these two groups of countries converge.

First of all, a relative divergence in growth prospects can be seen between countries. Oil importing countries are growing at a relatively acceptable rate – about 4-4.5% this year. That level of growth is equivalent to the average experienced by these countries in the first decade of the third millennium. In contrast, exporting countries are growing at a rate no greater than 1.5% to 2%, even though the non-oil sector is growing at a faster pace. This shows that we are gradually moving toward a post-oil economy situation, for the exporting countries as well as for the importing countries. And this requires a number of transformations that are underway and which will have an economic and social impact, as well as a political and security-related one.

The second thing we can observe is that this region stands at one of the most important crossroads in its recent history. Consequently, it is important that we develop a forward-looking perspective on how things can develop in the years to come, so that we can define a certain number of actions that can have an impact and change the economic and social conditions of the people in the region.

With regard to priorities, it is clear that both parts of the region need to grow at higher rates but also to have growth that is more inclusive for a number of social groups and categories.

First of all, if we look at the forces involved, we see that we are at a crossroads, with a region that can go in either of two different directions. On an economic level, for example, there are positive signs in the resilience which this region has shown over recent years. Since 2008, the region has faced a series of shocks in succession and not the least: the fallout from the 2008 financial crisis, the Arab Spring, and all the deflagrations that resulted from it, the plunge in oil prices which has truly changed the game -- and yet, despite all of this, we have observed a certain resiliency in the region’s economies. Moreover, despite the refugee problem, which accounts for roughly 40% of refugees worldwide, the countries in the region have managed to post a fairly acceptable growth rate and have successfully responded to fairly substantial crises.
That said, these countries have failed to achieve any in-depth economic transformation. Why? Because they have failed to either create diversification in their economies or address a major challenge, the question of demography and economic and social inclusion. Thus, we have, at the economic level, both positive points and negative points. The recovery in global growth offers some countries the opportunity to be brought into this new cycle. On the other hand, the current situation points to a number of emerging risks.

One of these risks, to illustrate, is the possibility of raising interest rates and drying up liquidity. For example, for the coming years, we expect to see $35 billion less capital flows going to emerging markets. The countries in the region have become one of the largest issuers among emerging countries on the international capital market. So there are developments, whether in terms of the internal economy or global economic developments that can go in different directions.

On geopolitical issues, there are positive points with the improvement in conditions in certain countries such as Iraq recently, Sudan or Somalia despite the security challenges, but there are also new risks emerging with the diplomatic discord between the Gulf countries and the international tension between the United States and Iran.

At the structural level too, we are seeing tensions between the different trends. Rampant demographic growth, with an unemployment rate that is one of the highest in the world, 12.5% on average, especially among young people, 25%. On the other hand, however, we have youth that is connected and can actually bring about great transformations through technology.

If we look into the future, we can clearly identify a number of objectives. The first objective is that, if we want to achieve growth, we need to work on what we can call the game changers. Education in technology is one. It is clear that we need to move from an education that is limited to the traditional education framework, i.e., school/university, to an education that extends throughout a career. Instead of building schools, we need to build skills. In other words, working on skills, working on knowledge is a very important component. Technology can make a great leap forward. Let me offer a few examples.

One of the factors from which the region is suffering is financial inclusion. SME-SMIs in the region employ 60% of the productive force of payroll and have access to only 2% of GDP in bank financing. On the other hand, more than 60% of the youth and the population have access to the Internet regularly, at a time when more or less the same number has no bank account. There are leaps forward in technological terms that can play a very important role in the economic and social transformation, as well as in development. Consider important issues such as the environment that have not been sufficiently taken into consideration, and which have created migration issues and issues especially for countries where agriculture plays an important part. Technology and knowledge are important factors.

Market access is also an important factor. This is where the improvement of the business climate, market structures, and the reduction of the dominance in a certain number of groups can play an important part and improve economic governance and the relationship between citizens and the State.

A third important driver is access to financing. It is very important to be able to channel financial resources so that we can offer start-ups, small and medium-sized projects, the possibility of creating jobs, creating growth and creating jobs that come not just from the public sector. We have just completed a study that shows that employment in the public sector partly kills growth, often with gaps between wages in the public and private sectors.

The transformation of these aspects can be achieved through a certain number of levers. Public finance policy plays an important part. Introducing greater economic justice and greater progressivity through taxation makes it possible to identify resources that can be used to develop well-targeted social programmes. Working on institutional reform and combating corruption also makes it possible to improve economic efficiency and institutional efficiency. Creating ways to empower women in the region’s economy could help create 1-2% growth on average of GDP per year.

I will conclude with a very important point. Regional and international cooperation must be rediscovered. We have just completed a study that is emerging in the regional perspective papers and shows that if we re-engage the economies
in greater economic integration, improve trade and diversify exports, we can over the next five years create around 5-10% additional growth.

Let me conclude with a figure. Importing countries are growing at 4%. That is good, but it is not enough to solve the problem of unemployment. Above 6%, we will start to have an impact on unemployment, all the more so as we are in a time when approximately 25 million young people will enter the labour market over the next 5 years.

So in conclusion, the economic and social issue remains in fact the core of what the region is experiencing as change, but it must be even more central to what public policy decision makers include in their discussions.

Miguel Ángel MORATINOS

Thank you very much, Jihad. I have taken many things away from your talk, and especially one. You told us that these countries, even though they experienced many crises, had showed resilience. This is already something to remember, but of which none of them are aware. They did not make the effort to take a post-oil perspective. I believe that, in this post-oil perspective, we should keep in mind the role of the major players a bit.