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Our next speaker is Memduh Karakullukçu. He will talk about the economic factors that will impact and shape the region's economy, whether energy dynamics or prices, public debt, capital flows, excess labor supply, technology and productivity. Therefore, he will talk about all the issues raised by previous speakers and limited to the same time.

Memduh Karakullukçu

I will keep it short, within the 15 minutes. It is good to be back in Abu Dhabi and with friends and colleagues at the World Policy Conference.

Of course, this is all happening under the tragic shadow of what is happening in Gaza, so I share the sadness, and we all do in Turkey and you can feel it among the people, it is very real.

Moving to the actual substance of my remarks, I will be at the intersection of geopolitics and geoeconomics, but more to the geoeconomic side. I think I was more on the geopolitical side last year but now we will get into economics. Abdulrahman did a great job of painting that picture, so I will try to build on that and maybe challenge him on a few things. When you are marginally a part of the Middle East, I am just an associate so I need to be very humble, and I will try to do that, but as a speaker you need to provoke a bit, so I will take a bit of a risk, so forgive me if I do not get that balance right.

When I was thinking about this presentation I thought back and it was exactly 10 years ago in 2013 that I was asked by the NATO Allied Command to write a piece about regional economics, so I thought that economics and security have been with me for some time. I thought that the last 10 years would be a good reference point to take for myself and that gives me a feel, or at least I will try to tease out a feel for the next 10 years and where things might go from here.

When I look back at those 10 year, what I got from my first analysis in 2013 was that the fundamental issue for me of development in the region is trust: the trust between its people and their governments. That trust was fractured and the question is how that can be rebuilt when there is so much pent up frustration and impatience in the people. It is very difficult for even well-meaning governments to try to deliver that fast when people have been waiting for 10, 15 or 20 years. What I got from it is that the challenge is immensely difficult.

With that, when I think about it, if I divide the problem into two pieces, one question is whether these economies will grow and create aggregate wealth, and the other is whether these economies will put in place the mechanisms where the created wealth will be distributed to society. It is the distribution, the engagement of the citizens that seems to be the problem in the Middle East. If you compare it with other regions in the world, it is not the best but it is okay at creating wealth, but it is the distribution, getting the people and the young people to be part of this is the challenge. Looking back over the past 10 years, I wonder whether things have progressed and if the region has come a long way. When I think about that the answer is not all that positive. Unemployment is high, youth unemployment is still high, the informal economy is still huge, participation by women is still very low. When it comes to the quality of jobs, they are still low-skilled, low-paid and low-tech, so there is not much change there. Then there is the weak private sector. The dream has always been to get the private sector going so that it absorbs these new, bright, well-educated people but it is not happening. It has not really happened to the extent that we all hoped. This is not because the governments, bureaucrats and technocrats did not try. Everybody has tried. I think well-meaning and very intelligent people have been trying. If I look back more than 10 years, I do sort of remember the 90s and 2000s, and it was the heyday of new liberalism and the IMF was in the region with programs with Egypt and Morocco. All this reform talk, or getting the rule of law, governance, reforming the trade sector, etc., it was all on the table so we have had this before and I think we had quite a bit of it until 2010.

Then in the last decade, we have had all these other realities. We had the aftermath of the Lehman crisis and what I still call the Arab Spring, and one after another. These 10 years has not really alleviated all these problems but it was not for lack of trying. I think people have been trying. I put the problem into two different baskets. One set of problems is that, as I said, there is this repetition of well-meaning and well-targeted platitudes but they do not go far. Sure, when you say that governance and the rule of law have to be improved, we all want that in my country as well but it is the how, how it will happen and we do not really even see incremental steps in that direction. That is one bucket of repeating platitudes, the right platitudes but that do not get you to a result.

Then there is another set, where things were actually done but we figured out that you implement the policy but you do not get the results. As I delved into this, for example, I realized that in the last 10 years, the number of years in education has increased in many countries in the region but that did not translate into better jobs or higher pay. Those better educated young people did not end up getting good jobs, which is strange. Something was done, there was investment in education but the result is not there. Then we always talk about the bloated public sector, the Egyptian public sector employs so many people but it has actually reduced the percentage of public sector employment. That is progress but unfortunately, from what I read it seems that the jobs that were left to the private sector were not replaced with formal, high-tech, high value-added private sector jobs, but were substituted with low-skilled, informal sector jobs. Therefore, the new job opportunities for people that were released from the state were not picked up by the sophisticated private sector. That link does not work. The Egyptian government did what it had to do but the other piece is not in place. Then when we look at FDI, foreign direct investment, some is coming in but the shift from the real estate, construction and energy to more labor-intensive industries is not happening either. The worrying thing in terms of FDI is that we always hope that when a multinational comes to

a greenfield site, there will be a ripple effect. People will work with this multinational, which will hire people, skills will flow to other companies, but that does not seem to happen. That link is not happening. It means that we are doing things and implementing these policies but not getting the results.

That is what I have teased out of the last 10 years and that brings me to now, and what happens in the next 10 years. If we are all gathered here again in 10 years' time in 2033, will we still be saying that it just did not happen, we tried and did not get the results? Will there still be high unemployment and low participation by women? I hope that is not the case and we have to figure out a way.

Now, what is different? Our Chair introduced the headwinds coming this way for the region with the energy transition and not knowing what is going to happen to the oil price. We have the relatively lower global growth coming our way, which will impact the region. After 10 or 15 years, we have positive real interest rates coming which will hit public debt in these countries. Then there is the climate issues, with droughts, food insecurity and food prices going up. Therefore, if it is business as usual, then the next 10 years does not look any better than the last 10 years, so we really have a problem.

I have given so many negative messages and I obviously do not have a clear answer to this, so I will just try something. The one thing I know, and this is clear from any meeting, is we are in the midst of transitions, the globe is going through multi-layered transitions, polycrises, etc. Every transition entails uncertainty risk but at the same time it is discontinuity. Cards are reshuffled and you can find ways to position and reposition yourself. That means there is more room for strategic plays when the cards are reshuffled, so that is probably where we are and what it feels like. To give it a bit more substance, what I am saying is that the geometry of the world is definitely changing, it has already changed. We were actually in a world of globalization, everybody was integrating, there was a development model for that where you brought the rural population to urban areas, they manufacture and export to the world. That is not working anymore because that is no longer the world we are in. Instead, the world we are in, let us call it a fragmented world, brings in other geometries, it is the friendshoring idea. You look at the map and it seems that Europe should friendshore in this region, it is a no-brainer but it is not happening at the moment. However, I think the strategic discussion, dialogue effort is there and it can be done. In a narrower sense, the energy integration with Europe is happening. Just look at the Morocco-UK Xlinks, the under0cean cable, which is a very impressive undertaking, or the impressive Italian-Tunisia interconnection, or Algeria-Spain. That is happening, there is some integration and that is a different paradigm.

Then if you look at another geometry, there is the Chinese BRI versus the American-Indian-Europe corridor, so we have all these investments coming this way. The question is if the countries in this region can look at this reshuffling and come up with a strategy and then focus on it to get the push, the jump-start or leverage where communities and societies feel that this is the new vision and direction they are going. I think that might be an opportunity but it is not easy and I am obviously just trying to imagine things.

I will just finish by giving one little example from my humble history and experience. In my thirties, I was given this great task of founding and managing Turkey's first technology park, so it was a development project. The idea was to get European and American high-tech



companies to come to Turkey to work with the local tech companies. That is actually what we want from FDI in the region. What I got out of that experience was that rule of law, good governance, all those things need to be in place. They can really make your life miserable if they are not in place, and they did make my life miserable but it is not enough. It is definitely not enough, you need to have an agile vision, a leadership that knows that vision and can maneuver with it and you need to make sure that everyone in that community and society knows about that vision. We cannot work with one-size-fits-all policies. They need to be agile and flexible, but you need institutions and institutional actors who can actually deliver and execute, who are given initiative but guidance. It is that kind of a structure that works.

To wrap up, I think that if we look at this problem as business as usual for the next 10 years then it does not look good to me. However, it seems to be full of strategic opportunities for the region and it may well find ways to negotiate this fine balance with the Europeans, Americans, Indians and Chinese, to deliver but it will require a different set of policy thinking and making. I hope that happens and when we meet in 10 years' time, I hope we have better stories to tell each other.

Abdulrahman A. Al Hamidy

Thank you so much. We have one more speaker so please write down your questions. Memduh, you covered a lot of issues including unemployment, informal economy, whether economic reform will work or not, which depends on whether the patient is in or outside intensive care, before the reform program starts. Education and there are very well-educated people who go to Europe, find jobs and participate and you need a vibrant private sector, and whether the government is crowding in or crowding out the private sector is something we can talk about.