

Opportunities and Challenges in the MENA Region

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1. Introduction

Nine months after the start of the Arab Spring in January 2011, the political and economic outlook for much of the Middle East and North Africa (MENA) region remains uncertain. The popular and mostly secular call for greater political and economic freedom and representation and the end of corrupt and authoritarian regimes in Tunisia and Egypt rapidly spread to other countries in the region. The protests and demands for reforms have led to varying degrees of political change and, notably, the toppling of three long-ruling presidents: Tunisia's Zine El Abidine Ben Ali, Egypt's Hosni Mubarak, and Libya's Muammar Qaddafi. Tunisia and Egypt are now preparing for democratic elections, while some other governments—particularly the monarchies of Morocco and Jordan—have also undertaken a gradual process of political reform.

The opportunity for political reform in the MENA region is unprecedented. However, structural political change cannot be dissociated from further economic reforms. The interdependent structural challenges faced by many countries—such as high unemployment, low female labor force participation rates, low levels of private sector development, weak public and corporate governance, bloated public sectors, limited competition, and pervasive corruption—will need to be addressed. Indeed, political reform cannot fully respond to citizens' demands if it is not accompanied by better living standards. The current events provide an opportunity to develop a more transparent and effective economic governance to unleash the region's economic potential.

This chapter provides an overview of the economic challenges facing the MENA region, some of which have been brought to light even further by the Arab Spring. The chapter also reviews the region's economic performance over past years and the short-term economic impact of recent events. Finally, it highlights the economic potential of the MENA region and the way to maximize the great opportunities that lie ahead. The central argument throughout this chapter is that the current wave of political change provides a unique window of opportunity to introduce the transparent and accountable policies and institutions that will lead to increased competitiveness and better living standards.

An assessment of the economic challenges facing MENA should take into account the region's diversity. Throughout this chapter, the analysis considers three groups of countries, taking into account the level of hydrocarbon resources and population size: resource-rich, labor-abundant countries, resource-rich, labor-importing countries, and resource-poor countries (Box 1).

¹ The authors would like to thank the MENA-OECD Investment Programme, the OECD Economics Department and the World Economic Forum Middle East team for their valuable contributions.

Box 1. Groups of Countries According to Population and Hydrocarbon Resources

The diversity of the MENA region is such that it could be segmented in many different ways. Two of the most notable defining characteristics among MENA countries are the availability of oil resources and the size of their native populations. Based on these two factors, MENA countries can be classified in three main groups:

Resource-rich, labor-abundant countries are producers and exporters of oil and gas and have large native populations, which represent almost the totality of their residents. This group of countries includes Algeria, Iraq, Syria,² and Yemen.

Resource-rich, labor-importing countries are producers and exporters of oil and gas and have large shares of foreign or expatriate residents, who represent a significant percentage of the total population, even the majority in some cases. This group of countries comprises the Gulf Cooperation Council (GCC) members (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates) and Libya.

Resource-poor countries are small producers or importers of oil and gas. These countries include Djibouti, Egypt, Jordan, Lebanon, Mauritania, Morocco, Tunisia, and the Palestinian Authority.

Source: Adapted from World Bank (2007).

2. Key Challenges for the MENA Region

The Arab Spring has brought to light key challenges in the MENA region that had already existed for some time. These challenges include high unemployment levels (in particular among youth); pervasive corruption and lack of accountability and transparency; bloated public sectors with state-owned enterprises that crowd out the development of private enterprise and investment; low levels of enterprise creation; and, for a number of countries, a high dependence on fuel and food imports generating extensive exposure to commodity price volatility. Given that these challenges are both structural and interconnected, they can be addressed only through a coordinated and comprehensive strategy that involves governments, the private sector, civil society, and the international community.

Job creation is the top priority.

Job creation is the first priority in the MENA region. The available evidence indicates that the region suffers from long-term unemployment, ranging between 10 and 25 percent, and that the employment situation is likely to worsen in the context of recent events.³ It should be noted that high unemployment rates are also prevalent in some OECD countries, especially following the global economic crisis of 2008–09.⁴

In Tunisia, Morocco, and Egypt, official unemployment rates have remained close to 10 percent over the last ten years. Furthermore, the Palestinian Authority and Yemen have witnessed significant increases in unemployment since 2000. The lowest levels of unemployment can be found in Kuwait, the United Arab Emirates, and Saudi Arabia (Figure 1). Although total unemployment rates for Gulf Cooperation Council (GCC) countries are low, and native participation in the labor force is very limited, unofficial estimates suggest that unemployment among GCC young nationals (16–24 years), and especially among university graduates, is more than twice that of the total labor force (more than 35 percent across the GCC region).⁵ It is also important to note that unemployment figures provide only a partial picture of the employment situation in the region, where important shares of the population are underemployed in the informal economy (Figure 2). While the informal sector can act as a buffer for employment, wages are much lower and less secure, and there are serious deficits in employee work conditions.⁶

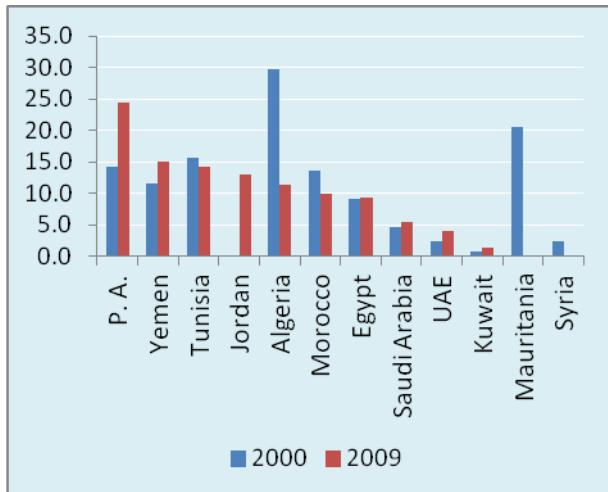
Labor market rigidities, which discourage firms from expanding employment even in expansionary economic periods, play a role in the high unemployment levels for MENA. According to the Global Competitiveness Index 2011, summarised in the previous chapter, hiring and firing regulations in resource-poor countries are more restrictive than the average in other emerging and developing countries. Evidence

from the World Bank Enterprise surveys also indicates that the share of firms identifying labor regulation as a major constraint to business is on average higher in MENA resource-poor countries.⁷

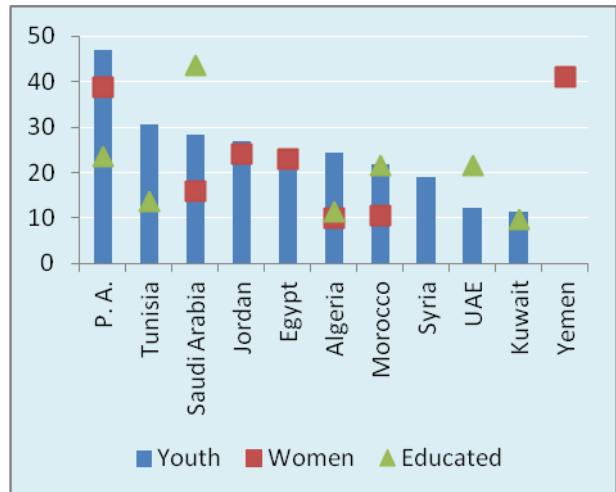
Long-term structural unemployment represents a daunting challenge for the MENA region. The MENA-OECD Investment Programme estimates that, in order to remain at current unemployment levels, 25 million jobs will need to be created over the next decade, requiring an average annual growth rate of 5.5 percent,⁸ one point above the average growth of the last decade. Much more dire estimates from the World Bank suggest that the region will need to create twice as many jobs—at least 50 million—over the next decade in order to ensure social and political stability.⁹ Reaching this higher target would require annual growth rates of at least 6.5 percent for the MENA region, two points higher than the average growth in the last decade.¹⁰ In this more pessimistic scenario, the growth rate required for resource-poor countries is estimated to be even higher, at 7.5 percent.¹¹

Figure 1. MENA registers high unemployment levels, mostly among youth, women, and the educated

A. Unemployment rates in percent in 2000 and 2009 or closest years for which data are available



B. Unemployment in percent among youth, women, and the educated in 2009 or most recent year for which data are available

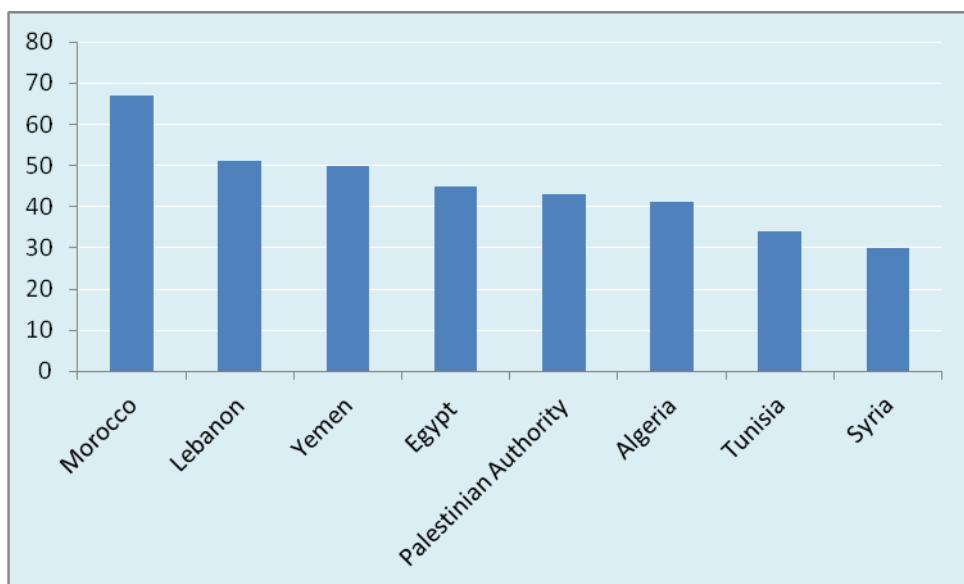


Source: World Bank 2011a.

Notes: Recent unemployment data are not available for Mauritania and Syria. Youth unemployment refers to the unemployed aged 15–24 as a percent of total labor force aged 15–24. Women's unemployment refers to the female unemployed as a percent of the female labor force. Unemployment among the educated refers to the unemployed with tertiary education as a percent of total unemployment. P.A. stands for Palestinian Authority.

Figure 2. Employment in the informal economy is high in some MENA countries

Informal employment as percent of total non-agricultural employment, 2000–07



Source: Heintz and Chang 2007.

Unemployment is particularly acute among youth (15–24 years), averaging approximately 25 percent in the MENA region, which is significantly higher than the 17.3 percent of the OECD area.¹² Youth unemployment is about 25 percent in Jordan and Egypt, closer to 30 percent in Saudi Arabia and Tunisia, and nearly 50 percent in the Palestinian Authority (Figure 1, chart B). Furthermore, the 2.8 million young workers who enter the labor market every year¹³ are finding it increasingly difficult to find formal employment. Youth unemployment is exacerbated by weak economic growth, restricted government budgets (limiting further expansion of employment in the public sector), and a private sector—the main vehicle for sustainable job creation—that is stifled by red tape, corruption, and unfair competitive practices, especially in resource-poor countries.¹⁴ Again, it should be highlighted that some OECD countries also have specific problems with youth unemployment, which reaches over 20 percent in Belgium, France, Finland, and Poland, and around 30 percent in Greece, Ireland, Italy, and Spain.

A striking feature of unemployment in MENA is that it is also high among the most educated: over 43 percent of those with tertiary education are unemployed in Saudi Arabia; 24 percent in the Palestinian Authority; 22 percent in Morocco and the United Arab Emirates; 14 percent in Tunisia; and over 11 percent in Algeria (Figure 1, chart B).

One of the reasons for high levels of unemployment for youth and the educated is a persistent gap between the skills acquired at university and the requirements of business. Enterprises often cite lack of suitable skills as an important constraint to hiring: according to the World Bank's Enterprise Surveys, firms identify labor skill levels as a major constraint in Lebanon (38 percent of surveyed firms), Syria (36 percent), Jordan (33 percent), Mauritania and Egypt (31 percent in both countries).¹⁵ The World Economic Forum (2011) has also identified an inadequately educated labor force as one of the most problematic factors for doing business in the Arab World.¹⁶

Skills mismatches are not exclusive to the MENA region. In 2005, an average 25.3 percent of workers in OECD countries for which data are available were over-qualified for their jobs, and 22.2 percent were under-qualified.¹⁷

Unemployment is also disproportionately high among women. According to the World Economic Forum's *Global Gender Gap Report 2010*, significant progress has been made in the region to increase women's educational attainment rates, and over the past decade, almost all MENA countries have closed 90 percent or more of the gender gap in education. However, these improvements in education have not been matched with comparable increases in female labor force participation rates: approximately 33 percent of working-age women join the labor force,¹⁸ compared with 56 percent in low- and middle-income countries and 61 percent in OECD member countries.¹⁹ The very low participation of women in the labor force and low employment levels are widely considered a missed opportunity for economic growth and development.²⁰

Furthermore, in all countries of the MENA region (with the exception of the Palestinian Authority), women who join the labor force have consistently higher unemployment rates than their male counterparts. The gender gap in unemployment is the largest in the United Arab Emirates, Saudi Arabia, Kuwait, Yemen, and Egypt, where the female unemployment rate is nearly four times the male unemployment rate. The labor market outcomes for women in the MENA region could be attributed to prevailing cultural attitudes, gendered laws, and weak support services.²¹ The OECD-MENA Women's Business Forum, an inter-regional network bringing together civil society, government, and private sector representatives, works to overcome these obstacles by supporting the development of targeted policies and business support services for women entrepreneurs.²²

The advent of the Arab Spring is adding pressure to unemployment rates, which are expected to increase, given the slowdown in economic activity in the most affected countries and the slowdown in the economic growth of major OECD and non-OECD economies.²³ For example, the Ministry of Finance of Egypt estimates that, because of the contraction in consumption (the main economic driver in the country) and economic activity, unemployment has increased to 12 percent, compared with less than 8.9 percent in December 2010, and will be unlikely to decrease before 2013–14. Similarly, unemployment in Tunisia is estimated by the Ministry of Finance to have increased from 13 percent in 2010 to close to 17 percent, mostly because of the economic slowdown and the repatriation of Tunisians working in Libya. These higher unemployment rates add to social pressures in the short term.

Emigration is expected to rise as a result of the Arab Spring.

Emigration is expected to increase in those countries most affected by the Arab Spring. Emigration to GCC countries, which already host significant shares of Arab immigrants, is expected to rise. Numerous accounts have been reported of emigrants fleeing from Northern Africa to Europe. Furthermore, a survey of Egyptian young people by the International Organisation for Migration found that the onset of protests and instability may have acted as a primary push factor for youth who reported prior intentions to migrate. The survey's results indicate that two-thirds of respondents with migration intentions who were working prior to the start of the protests were negatively affected by the events: 26 percent lost their jobs, 20 percent were asked to take unpaid leave, and 19 percent witnessed a reduction in their working hours.²⁴

The security situation in Libya—which hosted around 1.5 million migrant workers in 2010, mostly from Egypt and Tunisia—is also expected to have negative effects: according to OECD interviews with stakeholders in the region, around 100,000 Tunisians have returned to their country following the conflict in Libya. However, the Libyan National Transition Council's territorial and political successes and its recognition by many countries and the UN are seen as signs of hope for the reconstruction of Libya and the stabilisation of emigration from the country.

Fighting corruption and strengthening the rule of law are essential for economic growth and development.

Along with high unemployment levels and limited economic opportunities, the main drivers of the Arab Spring have included pervasive corruption, cronyism, and the absence of democratic representation. And, although these concerns can be generally identified as the “political” demands of protestors, it is undeniable that they can also have significant effects on economic activity and investment decisions. Widespread corruption, for instance, hinders a level playing field for businesses and obstructs

transparency and clarity in business environments. Similarly, cronyism, or the granting of special privileges based on relationships, distorts markets and competition, (e.g., by granting business contracts to a privileged few) and prevents government efficiency (e.g., by appointing government officials based on relationships and not on merit). The World Economic Forum (2011) has confirmed that corruption is a problematic factor for doing business in the Arab World, especially in the Levant and in North Africa.

High levels of corruption and the misuse of political power have existed for some time in the MENA region. According to Transparency International's Corruption Perceptions Index (2010), the MENA region is widely perceived as very corrupt, with an average score of 3.1.²⁵ The only two MENA countries to perform well in the index are Qatar (7.7) and the United Arab Emirates (6.3).

The Arab Spring and the reform process that it has unleashed in some countries constitute an invaluable opportunity to fight corruption and to promote the rule of law. The Egyptian and Tunisian transitional governments have pledged to investigate corruption and abuses by former regimes, and expect to introduce measures to improve governance and transparency, including addressing conflicts of interests, abuse of power, and the realisation of private gains from a public position. The MENA-OECD Working Group on Corporate Governance is placing a particular emphasis on good practices related to state-owned enterprises (SOEs), such as transparency and disclosure, the organisation of the ownership function, and regulatory functions. Positive results, however, cannot be expected quickly, given the entrenched character of corruption.

A bloated public sector has distorted labor markets and crowded out the private sector.

Another key challenge facing the region is bloated public sectors, including both government agencies and SOEs, that employ significant shares of the labor force. Employment in the public sector ranges from 22 percent in Tunisia to around 33–35 percent in Syria, Jordan, and Egypt. Worse, if only non-agricultural employment is considered, the share of the public sector reaches 42 percent in Jordan and 70 percent in Egypt.²⁶ The public sector in the MENA region acts as a magnet for young graduates attracted by high salaries, employment protection, and a special social status, in particular with SOEs. The position of the public sector as a prime target for employment may create incentives for individuals to acquire knowledge and skills in areas demanded by that sector, thus reducing the pool of qualified candidates for the private sector.

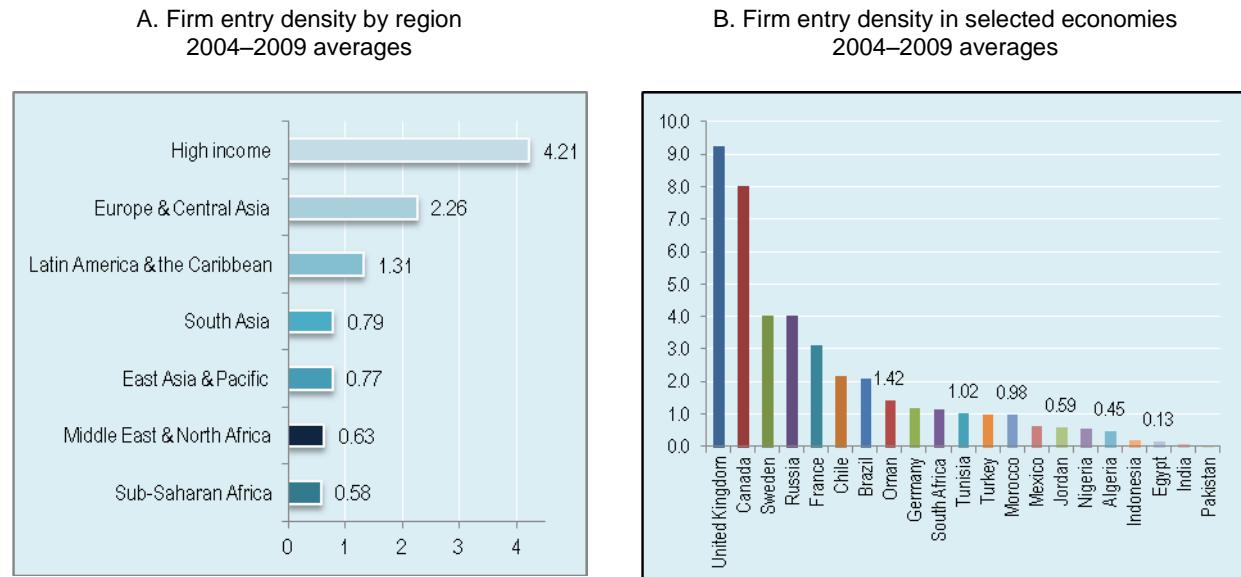
In crisis situations such as the Arab Spring, the first reaction of governments is to increase salaries and jobs in the public sector as a short-term response to social discontent. The government of Egypt, for instance, has announced a 15 percent increase to the base wage of all civil servants (5.8 million employees) and “incentives schemes” for the lowest-paid government employees (around 1.9 million people, working mostly in municipalities). Tunisia’s transitional government has also announced an employment plan, which includes the creation of 20,000 jobs in the public sector. Similar measures have been undertaken by many other MENA governments. Although such measures are helpful in mitigating unemployment in the short term, appeasing social discontent, and contributing temporarily to revitalising the economy through increased consumption, they also add pressure to already strained public budgets in resource-poor countries. In a context of diminishing public budgets, these policies are not sustainable. Furthermore, such measures do not help to advance the sustainable development of the private sector. Addressing the issue of public sector dominance will require not only government policy but also a change in deeply embedded cultural norms—which could take at least a generation.

Entrepreneurship is very low in most MENA countries.

Yet another important challenge facing the region is the low level of enterprise creation. World Bank Group Entrepreneurship Survey (WBGES) data show that there is a wide variation in firm entry density across regions and income groups. High-income countries register, on average, four new firms per 1000 working-age people (15–65 years), whereas MENA countries register only 0.63 new firms (ahead of only sub-Saharan Africa). Data vary significantly from country to country; Tunisia and Oman register the highest entry rates in the MENA region, with over one entry per 1000 people of working age. However, the

entrepreneurial performance of individual MENA economies for which data are available is lower than that of large developed and emerging economies (Figure 3).²⁷

Figure 3. Entrepreneurship is lagging at the regional and at the individual country level



Source: World Bank 2010a, and Klapper and Love 2010.

Note: Entry density is calculated as the number of newly registered limited liability firms in the corresponding year as a percent of the country's working age population.

Findings from the MENA-OECD Investment Programme Working Group on SMEs and Entrepreneurship (2011a) confirm that the limited development of entrepreneurship in MENA can be explained by at least three factors: (1) high barriers to doing business, particularly for smaller firms (e.g., corruption, complex licenses, rigid labor laws, high taxes, and unfair competition); (2) cultural norms in which entrepreneurial activity is seen by young graduates as second-best compared with employment in the public sector, which offers more job security; (3) the very low participation of women in the labor force and in entrepreneurial activity.²⁸ MENA economies need to step up their efforts to provide a more enabling business environment and to promote entrepreneurship and the development of small and medium enterprises (SMEs)—with a particular focus on gender-specific barriers to entrepreneurship.

Food and fuel price volatility have contributed to protests in resource-poor countries.

Apart from the structural weaknesses outlined above, the Arab Spring has also been triggered by exceptional spikes in food and fuel prices, which have most powerfully affected the low- and middle-income sectors of society.²⁹

High inflation, the product of a high dependence on fuel and food imports, represents a major challenge for resource-poor countries. Consumer price inflation has remained high since the oil and fuel price spikes of 2007–08. As shown in Table 1, most countries registered higher inflation rates in the period 2006–10 than in 1996–2005. This is particularly the case in Egypt, which registered an inflation rate of 5 percent during 1996–2005 and a significantly higher rate of 11 percent during 2006–10. A notable exception to high inflation has been Morocco, which has kept consumer price increases below 3 percent.

Inflation rates have remained comparatively higher in resource-poor countries, which import significant amounts of food and fuel and which do not have the financial resources of resource-rich countries to implement compensatory measures, such as subsidies and lowered food import tariffs, without hurting their government finances (Figure 4). The most affected have been low- and middle-income population

segments, which devote large shares of their revenues to food and energy items, as compared with wealthier segments of society.

Given the rising incomes and expanding middle class in major emerging countries and the continuing instability in the MENA region, it is likely that recent fuel and food price peaks signal longer-term price increases. Moreover, the implementation of compensatory measures as a result of the Arab Spring, particularly the increase in food and fuel subsidies, will add further pressure to the already negative fiscal balances of those countries (see the following section on economic performance and the impact of the Arab Spring).

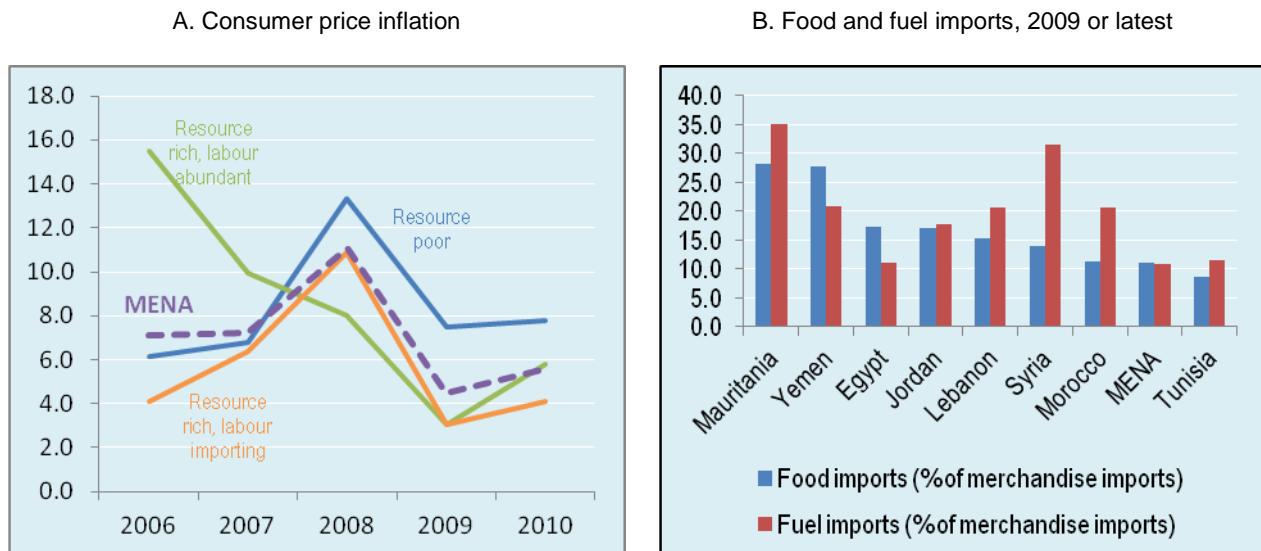
Table 1. Inflation, average consumer prices

Percentage change

| Economy | 1996–2005 | 2006–2010 | Difference |
|--------------|-----------|-----------|------------|
| Algeria | 4.6 | 4.1 | -0.5 |
| Bahrain | 0.7 | 2.7 | 2.0 |
| Djibouti | 2.0 | 5.2 | 3.2 |
| Egypt | 5.0 | 11.0 | 6.0 |
| Iraq | n/a | 17.4 | n/a |
| Jordan | 2.6 | 5.8 | 3.2 |
| Kuwait | 1.8 | 5.4 | 3.7 |
| Lebanon | 2.5 | 5.2 | 2.7 |
| Libya | -0.6 | 4.7 | 5.3 |
| Mauritania | 6.1 | 5.9 | -0.2 |
| Morocco | 1.6 | 2.2 | 0.6 |
| Oman | 0.1 | 5.7 | 5.6 |
| Qatar | 3.6 | 6.7 | 3.1 |
| Saudi Arabia | -0.1 | 5.3 | 5.5 |
| Syria | 2.3 | 7.5 | 5.2 |
| Tunisia | 2.9 | 4.1 | 1.2 |
| UAE | 3.1 | 7.0 | 3.9 |
| Yemen | 13.2 | 10.5 | -2.7 |
| MENA | 3.0 | 6.5 | 3.4 |

Source: IMF 2011d.

Figure 4. High dependence on food and fuel imports has led to high inflation rates in resource-poor countries



Source: OECD staff calculations based on IMF 2011d and World Bank 2011a.

Note: Weighted averages based on GDP

3. Economic Performance over the Past Decade and the Effects of the Arab Spring

Although the MENA region has registered relatively high economic growth during the last decade, the absence of a vibrant private sector, able to create more and better jobs, has meant that economic performance has not been reflected in improved living standards for the majority. As has already been noted, some factors causing this deficiency are rigid labour markets, skills mismatches, the crowding out of private enterprise by SOEs, high corruption levels, and cronyism, among others. But there are also other economic and structural factors, such as low levels of competitiveness in manufacturing sectors, lack of export-market diversification, and low intraregional integration. Furthermore, although the Arab Spring provides an important opportunity for economic reform, its immediate effects will be negative for those countries most affected by social and political instability.

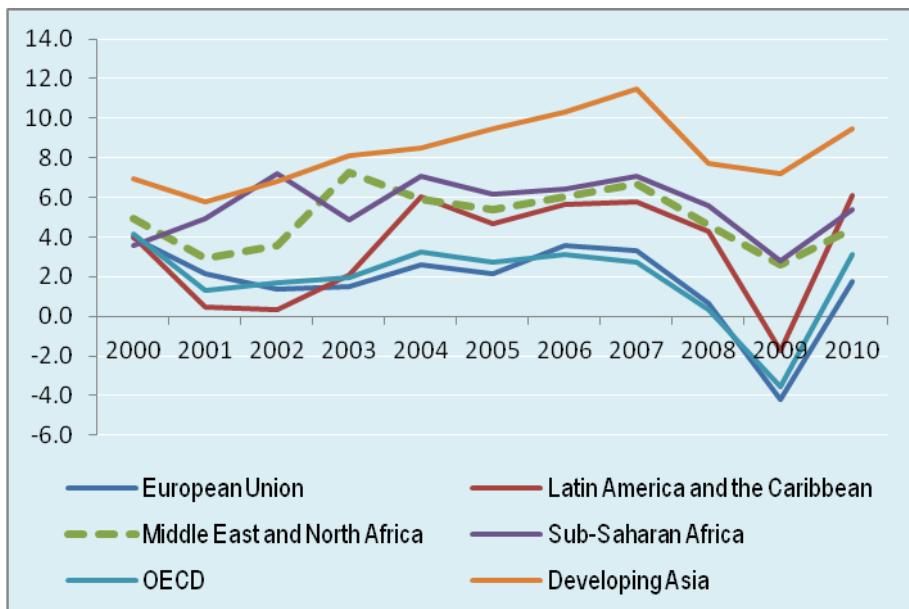
Economic growth, which has been high over the past decade, will be affected by the impact of the Arab Spring.

Economic performance in terms of GDP growth in the MENA region has been mostly positive, although volatile, during the last decade. As a group, MENA countries (including Iran) grew 5.2 percent from 2000 to 2008, compared with only 2.4 percent in OECD economies. Furthermore, although economic growth decreased in 2009 as a result of the global economic and financial crisis, the MENA region, together with Developing Asia and sub-Saharan Africa, were the only regions registering positive growth in that year (Figure 5).

Comparatively high levels of economic diversification in resource-poor countries have resulted in relatively high and stable economic growth.³⁰ During 2000–10, all resource-poor countries, except Djibouti and Mauritania, grew at an average yearly rate of 4.5 percent to 6 percent, a level on par with resource-rich, labor-importing countries and above that of resource-rich, labor-abundant countries.³¹ These rates were also less volatile than in the oil-rich, labor-importing countries (Figure 6).

Figure 5. GDP growth in the region has been comparatively high during the last decade

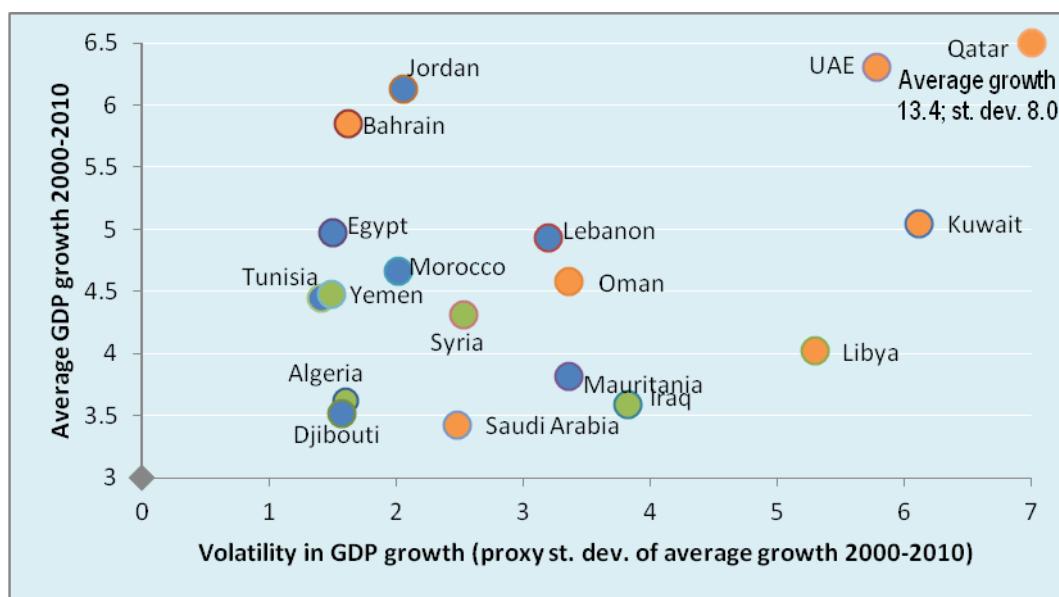
A. GDP growth by region, percent change, constant prices



Sources: IMF 2011d and OECD 2011c.

Figure 6. Average economic growth has been relatively higher and less volatile in resource-poor countries

Average GDP growth and volatility in GDP growth (proxied by standard deviation of average growth) in MENA countries, 2000–2010

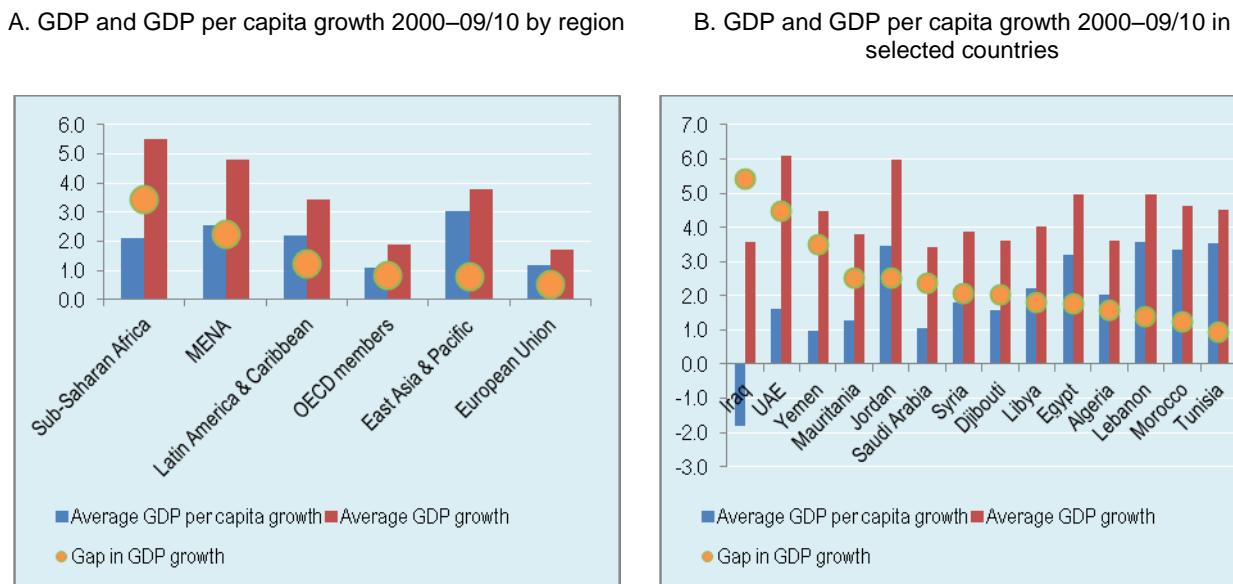


Source: OECD staff calculations based on data from IMF 2011d.

However, high GDP growth rates have not been reflected in GDP per capita growth, which indicates that economic growth has not kept pace with population growth.³² Economic growth during 2000–10 in the MENA region has averaged 4.8 percent, whereas average GDP per capita growth for 2000–09 (the latest

year for which data are available) has been only 2.5 percent. This gap between GDP and GDP per capita growth is one of the highest in the world, below only sub-Saharan Africa. But performance among countries differs, with Tunisia, Morocco, and Lebanon registering the lowest gaps between GDP and GDP per capita growth, and Iraq, the United Arab Emirates, and Yemen registering the widest gaps (Figure 7).

Figure 7. Overall economic growth is not keeping up with income per capita growth



Source: World Bank 2011a.

The widespread political and social instability product of the Arab Spring and associated uncertainty in several MENA countries has had direct negative economic effects in those countries most affected by turmoil. It has also indirectly benefitted the more stable resource-rich, labor-importing countries, notably Saudi Arabia and, to a lesser extent, Kuwait, where rising energy prices and increasing oil production fuelled GDP growth. However, the degree of economic loss for the most affected countries and the likely length of the transition-induced recession will depend on the degree and duration of uncertainty caused by the events, as well as on the impact on economic fundamentals.

Egypt and Tunisia are expected to register low economic growth during 2011 given the substantial levels of political and social uncertainty, the cancellation or postponement of investment and consumption decisions, and the temporary shutting down of banks, stock markets, factories, shops, and ports (Box 2). However, the economic fundamentals of these two countries are not expected to be significantly affected, and economic growth can be expected to resume if a successful political transition is achieved and if economic reforms continue to be implemented. While Morocco and Jordan have experienced more limited social tensions than other MENA countries, their economies have also suffered from negative spillover effects from instability in other countries in their respective regions.

Other countries registering higher levels of violence and instability, such as Libya, Syria, and Yemen, can be expected to suffer more in the short and medium terms, given the likely dents on their infrastructure and economic fundamentals, which have already begun to materialise.

As a result of the Arab Spring, forecasters have already revised their economic growth projections for 2011. Egypt and Tunisia, which are currently in a wide and far-reaching process of political transition, have seen their forecasts for 2011 sharply reduced. When the IMF published its economic outlook in October last year, it was expecting the Egyptian economy to grow at a rate of 5.5 percent, in line with previous years. By contrast, projections from September 2011 have been cut by more than 4 percentage points, to

1.2 percent (Table 2). Similarly, back in October 2010, Tunisia was expected to grow by almost 5 percent in 2011. These projections have now been revised to 0 percent.

Saudi Arabia and Kuwait, on the other hand, are expected to benefit from the significant increases in oil prices to which the unrest contributed and from increased oil production to compensate for lost Libyan oil output.³³ The IMF has thus revised its growth forecasts for 2011 for Saudi Arabia to 6.5 percent (+2 percentage points) and Kuwait to 5.7 percent (+1.3 percentage points). Furthermore, recent reports also point to increased economic activity in the United Arab Emirates during the first half of 2011 as a result of its stability in comparison to other countries in the region.³⁴

The weaker than expected economic activity in major OECD economies during the first half of 2011, and the fall in consumer and business confidence (mostly caused by weak economic growth, fiscal gridlock in the United States, and the euro area sovereign debt crisis)³⁵ is likely to have negative repercussions in those MENA countries with meaningful links to OECD economies (notably Tunisia, Morocco, and Egypt). Furthermore, the negative outlook for the OECD in the second half of 2011 will likely have effects in the economic performance of those countries.

Table 2. IMF economic growth forecasts

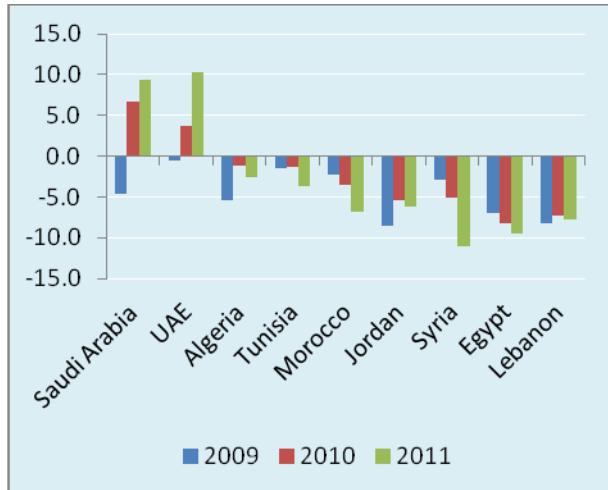
| | Forecast in October 2010 | | Forecast in September 2011 | | |
|--------------|--------------------------|------|----------------------------|------|-----|
| | 2011 | 2012 | 2011 | 2012 | |
| Algeria | 4.0 | 4.1 | 2.9 | 3.3 | ↓ |
| Bahrain | 4.5 | 4.8 | 1.5 | 3.6 | ↓ |
| Djibouti | 5.4 | 6.1 | 4.8 | 5.1 | ↓ |
| Egypt | 5.5 | 5.7 | 1.2 | 1.8 | ↓ |
| Iraq | 11.5 | 11.0 | 9.6 | 12.6 | ↓ |
| Jordan | 4.2 | 5.0 | 2.5 | 2.9 | ↓ |
| Kuwait | 4.4 | 5.1 | 5.7 | 4.5 | ↑ |
| Lebanon | 5.0 | 4.0 | 1.5 | 3.5 | ↓ |
| Libya | 6.2 | 6.4 | n/a | n/a | n/a |
| Mauritania | 5.1 | 5.4 | 5.1 | 5.7 | = |
| Morocco | 4.3 | 5.0 | 4.6 | 4.6 | ↑ |
| Oman | 4.7 | 4.1 | 4.4 | 3.6 | ↓ |
| Qatar | 18.6 | 9.3 | 18.7 | 6.0 | ↑ |
| Saudi Arabia | 4.5 | 4.4 | 6.5 | 3.6 | ↑ |
| Syria | 5.5 | 5.6 | -2.0 | 1.5 | ↓ |
| Tunisia | 4.8 | 5.0 | 0.0 | 3.9 | ↓ |
| UAE | 3.2 | 3.9 | 3.3 | 3.8 | = |
| Yemen | 4.1 | 4.1 | -2.5 | -0.5 | ↓ |

Source: IMF 2010b and IMF 2011d.

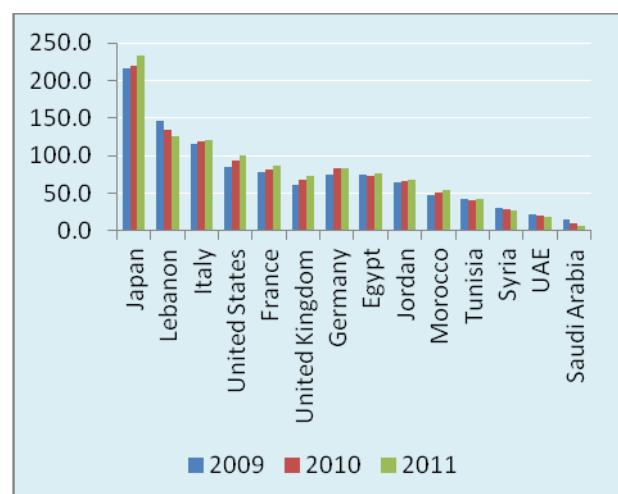
Slower economic activity and higher government spending are expected to put additional pressure on already negative fiscal balances of resource-poor countries (Figure 8, chart A and Box 2). And, although gross government debt is lower than in OECD countries (except in Lebanon), this debt is likely to increase in 2011 (Figure 8, chart B). Furthermore, downgrades in sovereign credit ratings will drive up borrowing costs.

Figure 8. Resource-poor countries are expected to register higher fiscal deficits and government debt in 2011 as a result of the Arab Spring

A. General government fiscal balance (revenue minus total expenditure) as percent of GDP



B. General government gross debt as percent of GDP



Source: IMF 2011d and national sources for fiscal balance in Egypt.

Box 2. The Economic Impact of the Arab Spring on the Egypt and Tunisia

The Egyptian Ministry of Finance estimates that the January 25 revolution caused a slowdown in economic growth, leading to just 1.9 percent growth in the fiscal year (July 1 to 30 June) 2010–11 (the lowest growth in a decade). The Ministry expects a figure of 3–3.2 percent growth for 2011–12, a rate well below the average GDP growth of 5 percent for the period 2000–10. This slowdown will be driven by the cancelation of investments; the decrease of consumption (which has been the engine of economic growth); and impacts on key economic sectors. The overall economy is estimated to have contracted by 4.2 percent (year on year) during the third quarter of fiscal 2011–12 (January–March) because of sharp declines in investment expenditures (-25.9 percent), tourism (-33 percent), construction (-9.1 percent), and manufacturing (-11.4 percent). The Ministry of Finance notes early signs of a slow recovery, especially in the tourism, construction, and communications sectors. However, it also notes a still weak performance in investment and consumption.

The response of the Egyptian government to these events has been the execution of exceptional spending programs, which are estimated at 2.9 percent of GDP and which have consisted of increased spending on food and fuel subsidies, healthcare, housing, and education, as well as the rise of public sector salaries and employment. This, however, has pushed the fiscal deficit target for 2011/12 to 9.5 percent of GDP, against a previous target of 7.5 percent.

The Finance Ministry of Tunisia has also estimated the negative effects of the revolution and expects an economic growth of only 0.2 percent in 2011 (well below the IMF forecast of 1.3 percent) if the emergency economic measures announced in March and June help reduce the negative economic impacts; if they do not, the government reckons that economic growth could even be negative. As in Egypt, the tourism sector has been one of the most affected, with a revenue decrease of 51 percent and a drop in visitors of 39 percent. On the other hand, the manufacturing sector is estimated to have suffered much less, with an actual increase on exports of 15 percent during the first semester of 2011.

In terms of public finance, the Ministry of Finance has estimated that the Tunisian fiscal deficit will be four times higher in 2011 than in 2010, given the loss of economic activity and the significant increase (20 percent) of government expenditure attributable to rises in salaries and subsidies.

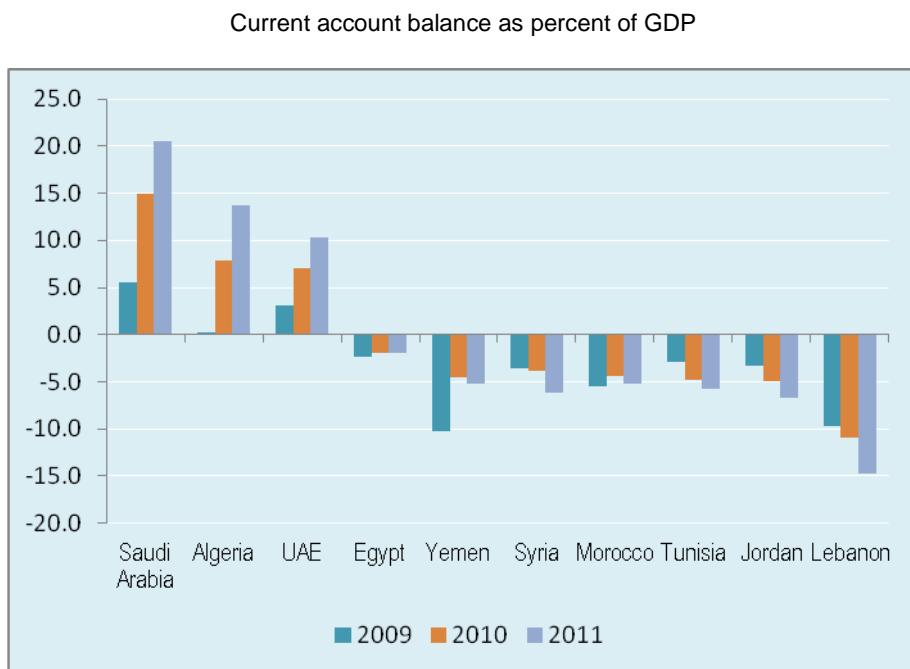
Box 2 in chapter 1 includes an overview of how the Arab Spring has affected some Arab countries in terms of competitiveness.

Trade diversification and intra-regional trade are low.

Exports from the overall MENA region have increased considerably over the past two decades, partly as a result of growing economic openness and the signature of trade agreements, but mostly because of higher oil production and exports. The region's volume of total exports as a share of GDP grew from around 35 percent in 1990 to 39.2 percent in 2000 and to around 53 percent by 2009. At first glance, this represents higher exporting levels than in other regions. However, a closer look reveals the weight of resource-rich countries, which account for almost 85 percent of all MENA exports, and whose exports are mostly hydrocarbons. Furthermore, without the export engine of hydrocarbon resources, and in the absence of a competitive exporting industry, many resource-poor countries register persistent deficits in their current account balances (Figure 9).

Given lower levels of economic activity in the context of the Arab Spring, exports are expected to decrease in 2011, and the deficit in the current account balance is expected to worsen (Figure 9). However, recent estimates by the governments of Egypt and Tunisia seem to point to better-than-expected results. According to the Tunisian Ministry of Finance, the manufacturing sector has had a better-than-expected performance, with exports actually increasing by 15 percent during the first half of 2011. Similarly, the Egyptian Ministry of Finance has recorded better-than-anticipated results in the balance of payments due to higher Suez Canal receipts, strong private remittances, and a nominal depreciation of the Egyptian pound vis-à-vis the US dollar and the euro. In this light, the current account deficit for fiscal 2011–12 is anticipated to be around 2 percent of GDP (in line with the forecasted deficit of 1.9 percent by the IMF in 2011).

Figure 9. Resource-poor countries register current account deficits



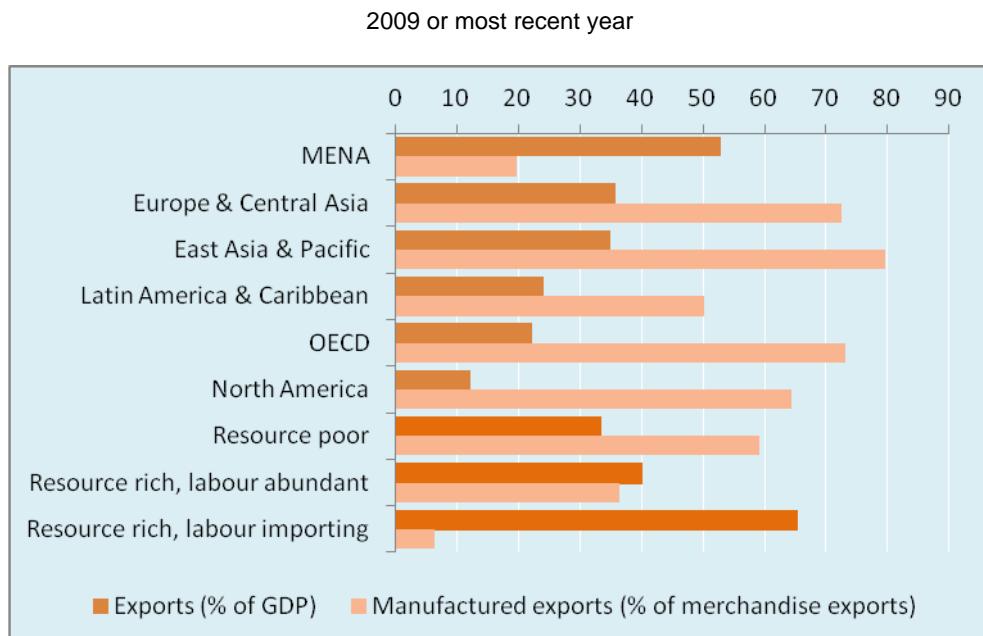
Source: IMF 2011d.

In the MENA region, manufactured exports are a smaller share of merchandise exports than in any other region. Moreover, while the share is higher in the subgroup of resource-poor countries than in that of oil-rich countries, it is still below the levels in other regions, except for Latin America (Figure 10). Indeed, growing exports in the MENA region have been driven mostly by hydrocarbons, whereas non-oil exports growth has remained low. Furthermore, MENA oil importers have fallen below the emerging market average in terms of per capita export growth since 1990.³⁶

In terms of trade diversification, resource-poor countries' exports are mostly concentrated in the European Union market. Intra-regional trade, on the other hand, has been increasing in importance since the 1990s, although it is still modest when compared with trade with other countries, particularly the European Union (EU) (Figure 11). Furthermore, despite the increasing global economic weight of BRIC countries (Brazil, Russia, India and China), they still account for a small share of resource-poor countries' exports.

Export market diversification, however, varies from country to country. Chart B in Figure 11 shows that exports from Tunisia and Morocco are greatly concentrated in the EU market, and in Mauritania most exports are destined to BRIC countries (mainly China, which accounts for over 40 percent of the country's exports, primarily consisting of iron ore). Lebanon and Djibouti, on the other hand, send their exports mostly to other MENA countries. These variations are mainly attributable to the different composition of goods exported from resource-poor countries and the demand characteristics in the importing markets (e.g., China imports mainly raw materials). Morocco and Tunisia, for instance, are mostly exporters of manufactured products, whereas Mauritania is a large producer of raw materials. Exports from Egypt are relatively well diversified in terms of geography: 35 percent of total exports are dispatched to other MENA countries, 30 percent to EU markets, 11 percent to BRIC countries, and over 6 percent to the United States.

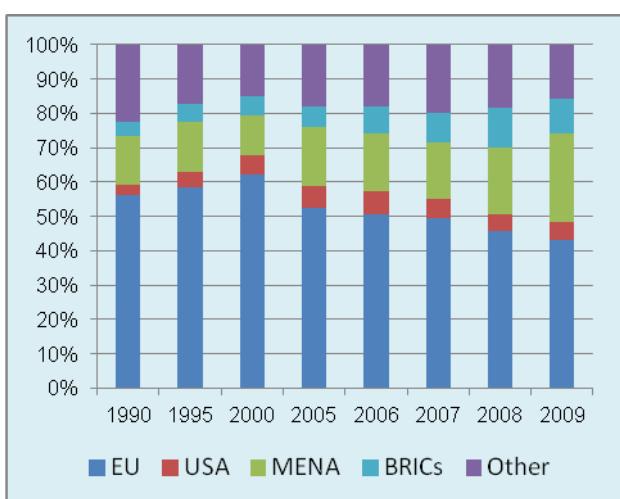
Figure 10. Exports as a share of GDP are high in MENA, but manufactured exports are comparatively low



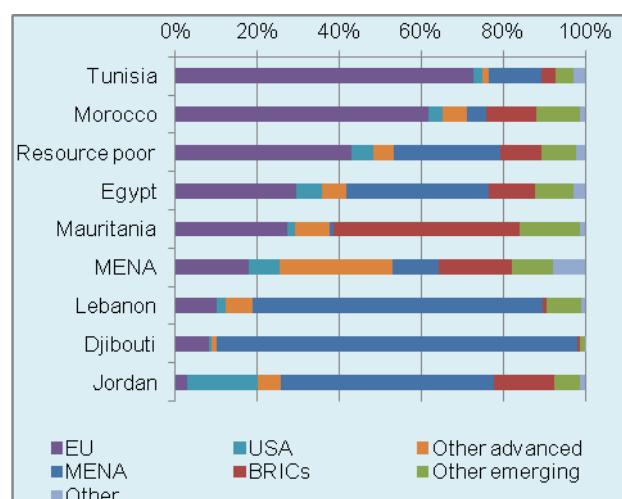
Source: World Bank 2011a.

Figure 11. Resource-poor countries' main export market is the EU, but to varying degrees

A. Goods exports destinations, resource-poor countries



B. Goods exports destinations in individual countries, 2009



Source: IMF 2011a.

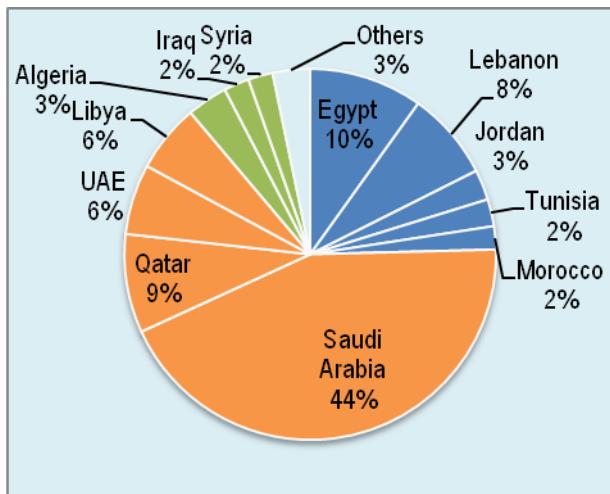
Foreign investment in the region has increased, but is still concentrated in resource-rich countries and is expected to decrease in countries suffering political instability.

Of the US\$64.5 billion of foreign direct investment (FDI) inflows to the region in 2010, two-thirds went to resource-rich, labor-importing countries, with Saudi Arabia alone accounting for over 44 percent of the MENA total (Figure 12). The resource-poor group of countries, on the other hand, received about 25 percent of FDI flows (US\$16 billion), with Egypt and Lebanon as the main recipients.³⁷

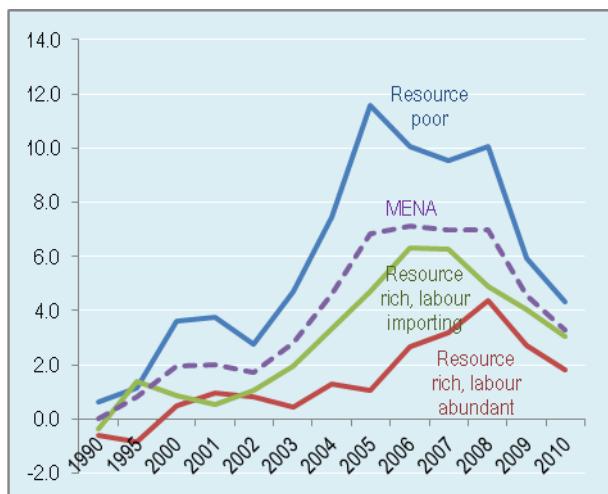
Although in absolute terms (i.e., in US\$) FDI inflows to resource-poor countries have remained below the levels of inflows to resource-rich, labor-importing countries, in relative terms their performance has been stronger. FDI as a share of GDP has increased over the past two decades, which points to the increasing attractiveness of resource-poor countries as destinations for investments. As shown in chart B (Figure 12), FDI inflows to resource-poor countries soared from around 0.6 percent of GDP in 1990 to over 12 percent in the mid-2000s, well above the levels in resource-rich countries and developed and developing economies. These levels decreased again during the 2008–09 global crisis, but they remained above the regional average.

Figure 12. Resource-rich countries are the main recipients of FDI in dollar terms; and resource-poor countries are the main destinations in terms of FDI as a percent of GDP

A. FDI inflows to the MENA region, 2010



B. FDI inflows as a share of GDP

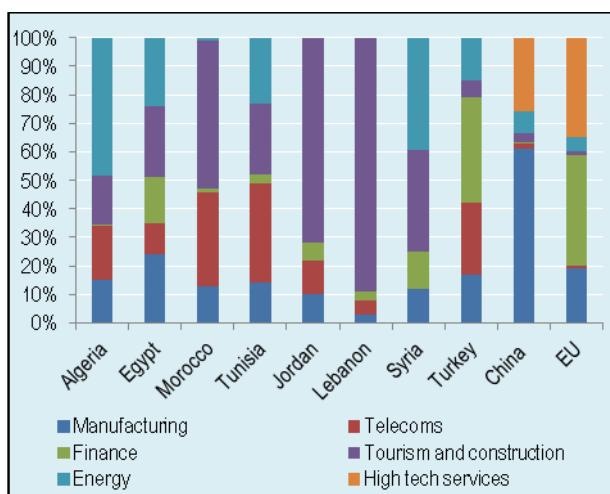


Source: UNCTAD 2011.

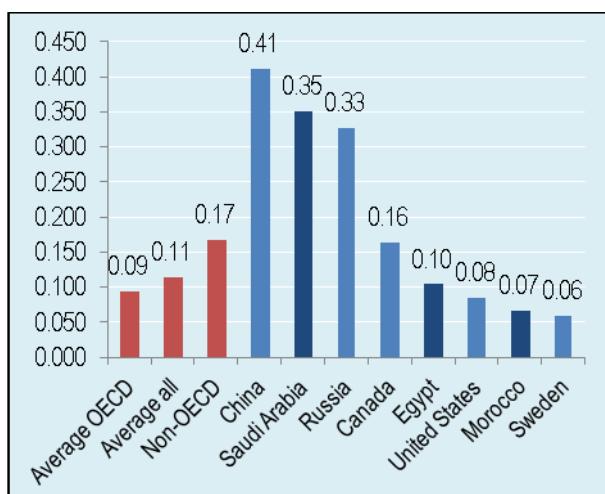
In resource-poor countries, FDI outside the energy sector has been directed mostly to non-tradable sectors.³⁸ Chart A in Figure 13 shows that FDI to MENA countries for which data are available has been mostly directed to non-tradable sectors such as telecommunications, tourism, and construction, whereas the share of FDI invested in manufacturing sectors has been comparatively low, and FDI in high-tech services has been nonexistent. This suggests that export sectors in the MENA region have not been competitive and attractive for FDI and that FDI is not driving MENA exports as it drives them in Eastern Europe and Asia.³⁹ This is evident in the specific cases of Egypt and Morocco, which register low levels of regulatory restrictiveness to FDI⁴⁰ but which have not been able to attract significant foreign investments in the manufacturing sector (Figure 13 chart B).

Figure 13. Most FDI outside the energy sector is targeted to non-tradable sectors

A. FDI by economic sector, cumulative 2000–07, percent of GDP



B. FDI Regulatory Restrictiveness, 2010
(1=closed, 0=open)



Source: World Bank 2009 and OECD 2010.

Although FDI estimates are not yet available for 2011, it is expected that the events of 2011 will limit FDI flows in the short term, especially in the affected North African and Levantine countries. According to the ANIMA Network, the number of FDI projects in the southern Mediterranean has decreased by 13 percent since the start of the Arab Spring. In particular, both Egypt and Tunisia have registered an expected decrease of 50 percent in FDI projects during the first quarter of 2011.

Along the same lines, according to official statements and news reports, the head of the Egyptian General Authority for Investment and Free Zones (GAFI) has stated that a 40 percent decline in FDI for the fiscal year 2010–11 is expected, down to US\$4 billion. Similarly, the Tunisian Foreign Investment Promotion Agency (FIPA) has stated that FDI inflows decreased by 29 percent in the first quarter of 2011 (US\$250 million in the first quarter of 2011, compared with US\$350 million in same quarter the year before).

4. Opportunities in the MENA Region and the Way Forward

Despite huge challenges in the MENA region, the Arab Spring offers great opportunities in countries such as Egypt, Tunisia, Morocco, and Jordan, which have begun to undertake significant political reforms.

The young population represents a great potential as a market and as a labor force.

The average median age in the MENA countries is 25 years, well below the average of other emerging regions such as Asia (29 years) and Latin America and the Caribbean (27.7), and well below the average of developed countries in Europe (40.2) and North America (36.9). These young populations represent a tremendous opportunity, both as a market and as a labor force.

Currently, the ratio of people aged 0–14 to those in working age (15–64), or the child dependency ratio, is very high at 48.7. This “demographic bonus” means that, in the coming years, the labor force will grow more rapidly than the population dependent upon it, which will free up resources for investment in economic development and welfare.⁴¹ The youth bulge represents a window of opportunity, but not a guarantee of economic and social development. To materialize this opportunity, governments and civil society need to create well-functioning institutions and implement effective policies to promote employment, health, education, housing, etc.

Renewable energies have the potential to become an important economic activity.

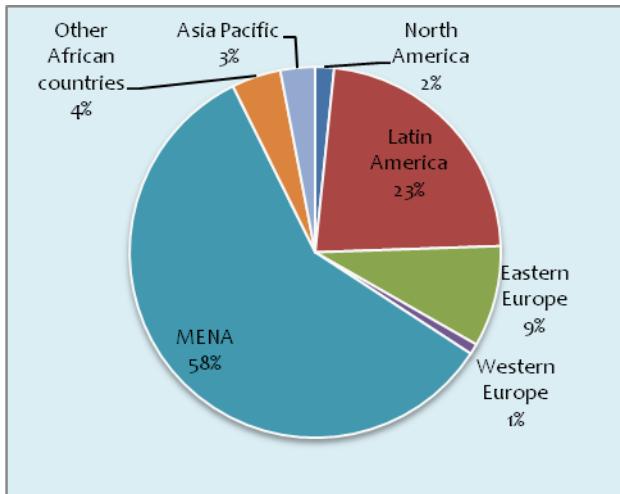
The MENA region also has great potential for renewable energies, particularly electricity generation from solar sources.⁴² Some MENA countries also have potential for developing hydropower resources (e.g., Egypt on the Nile River, Iran on its north-western plains, and Iraq and Syria in the Tigris-Euphrates basin) and wind resources (e.g., along the Red Sea and on Morocco’s Atlantic coast). Furthermore, renewable sources of energy are almost unexploited: in 2008, less than 3 percent of the region’s electricity came from renewables. Some countries did exceed this average, such as Egypt with 12 percent of its energy coming from renewable sources, Syria with 7 percent, and Morocco with 6 percent.⁴³ Renewable energies in MENA represent a great opportunity for investment and development. The International Energy Agency forecasts that the use of renewables for electricity generation could grow up to 33 percent by 2035, with investments possibly reaching over US\$400 billion by that year if policies conducive to renewables are implemented as planned. Furthermore, several MENA countries have already launched strategies and plans to promote the renewable energy sector.

Hydrocarbons still represent a great asset for many countries.

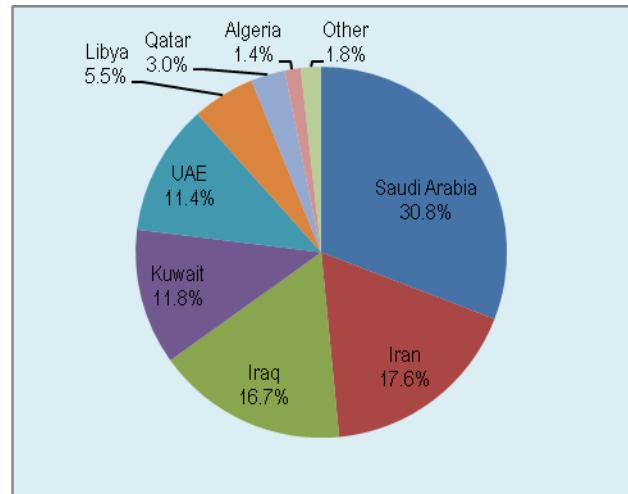
The resource-rich countries in the region are home to nearly 60 percent of the estimated 1.4 trillion barrels of proven global crude oil reserves,⁴⁴ with six countries (including Iran) accounting for 94 percent of the proven oil reserves in the region, and Saudi Arabia taking the lion’s share (at 31 percent or 265 billion barrels) (Figure 14). This same group of countries also accounts for over 45 percent of the world’s proven natural gas reserves of over 192 trillion standard cubic meters.

Figure 14. MENA holds nearly 60 percent of the world's proven oil reserves, with only six countries accounting for 55 percent of those reserves

A. World proven crude oil reserves by region, 2010



B. MENA proven crude oil reserves by country, 2010



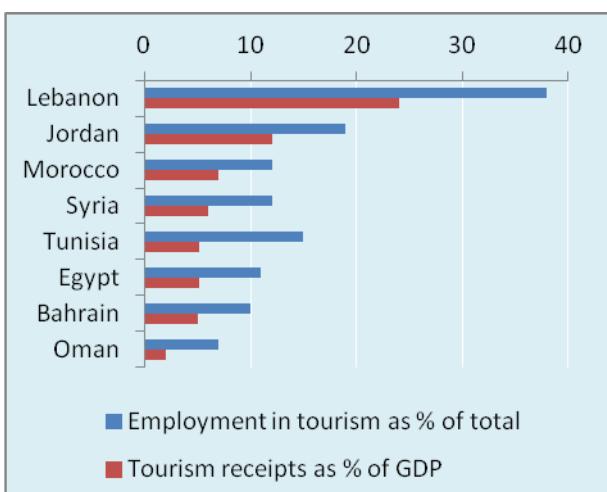
Source: OPEC 2010.

There are significant development opportunities for manufacturing and services, including agribusiness and tourism.

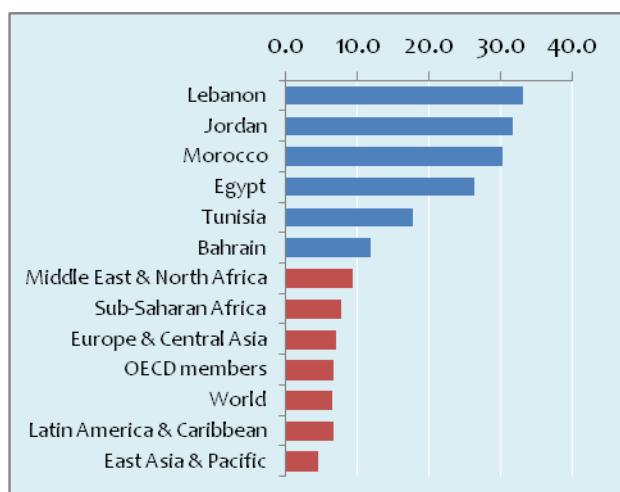
Resource-poor countries also have great development and investment potential in terms of tourism, manufacturing, services, and agribusiness. Tourism is a relatively well-developed industry in some MENA countries and provides important sources of employment and revenues. According to data from the World Bank, international tourism receipts⁴⁵ in 2009 represented 9.1 percent of total exports in MENA countries, well above the world average of 6.4 percent and the OECD average of 6.6 percent.⁴⁶ MENA countries that have benefited most from tourism are Lebanon, Jordan, Morocco, Egypt, Tunisia, and Bahrain (Figure 15). These countries have great potential to develop their international tourism industry further, given their touristic assets and geographical proximity to the European and GCC markets. High economic growth rates and rising incomes in emerging economies will also represent an opportunity for these MENA countries to attract visitors beyond the traditional European and Gulf markets.

Figure 15. Tourism is a key economic sector for several countries in the region

A. Employment and receipts in the tourism sector, 2010



B. International tourism receipts as percent of total exports



Sources: IMF 2011d and World Bank 2011a.

Box 3. The Impact of the Arab Spring on Tourism

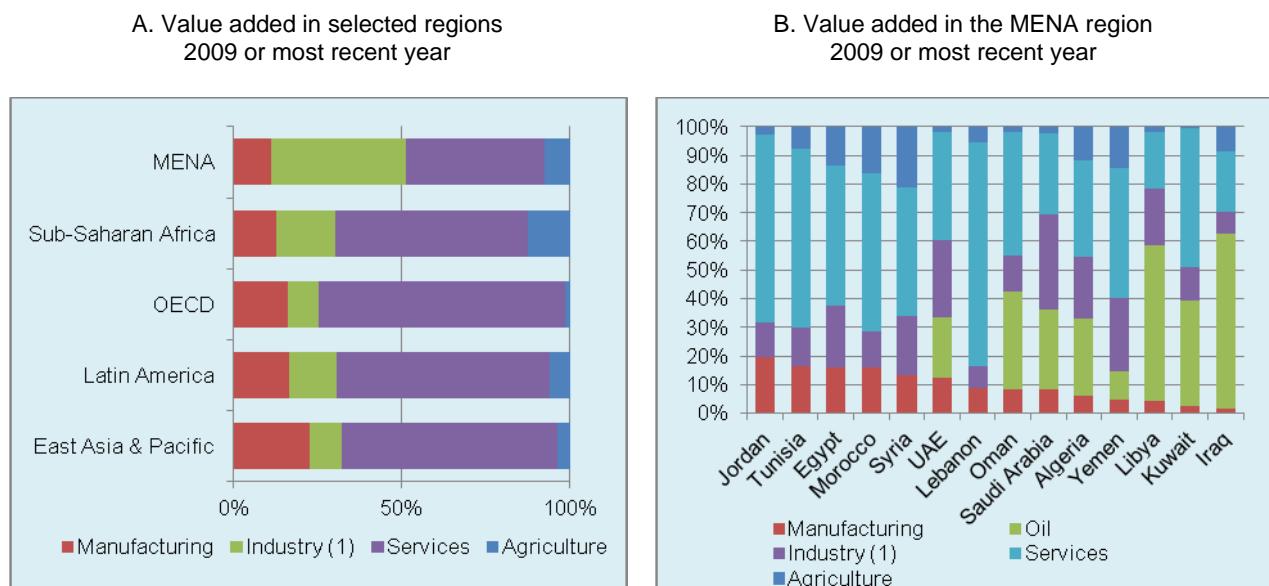
The tourism sector is particularly sensitive to political instability. The Arab Spring is reported to have caused damage to the tourism industry in affected countries already, both in terms of visitors and investment. Some initial evidence indicates that:

- During 2011, receipts from tourism are expected to decline in Egypt and Tunisia by up to 1 percent of GDP.
- According to Egypt's Tourism Minister, revenues from tourism last February were 80 percent below 2010 levels. In March, this number fell by 60 percent and in April by 35 percent. The latest available data point to an overall fall of 33 percent during January–March 2011. Tourism revenues are expected to fall by 25 percent for the whole of 2011, although recent estimates by the Egyptian government indicate a gradual recovery in this sector.
- According to Tunisian officials, tourism receipts to the end of April 2011 dropped by 48 percent in comparison to 2010. Recent estimates point to a fall of 51 percent in income from tourism and 39 percent in the number of tourists during the first half of 2011.
- The UN World Tourism Organisation estimates that, during the first two months of 2011, international tourist arrivals to Tunisia decreased by 44 percent and receipts by 43 percent.
- In Bahrain, hotel occupancy rates plummeted to only 10 percent. In addition, the Formula One Grand Prix, which contributed US\$600 million or 2.9 percent of GDP to Bahrain's economy in 2008, was cancelled in 2011.
- Although estimates are not yet available for Syria, the tourism industry, which accounts for 12 percent of employment and GDP, is being greatly damaged by the current levels of instability.

The MENA region also offers considerable opportunities in terms of the manufacturing and services industries, which already represent an important share of GDP in some resource-poor countries (Figure 16). The manufacturing sector in Jordan accounts for 20 percent of total value added, while those of Tunisia, Egypt, and Morocco account for 16 percent. This represents a higher share than the average manufacturing value added in other regions except for East Asia and the Pacific. Similarly, the value added in the services sector in Lebanon, Jordan, Tunisia, and Morocco is either above or equal to the average in the OECD, East Asia and Pacific, and Latin America and Caribbean regions.

As in the case of the tourism industry, the geographical proximity of resource-poor countries to large European markets is a potential source of economic growth and diversification and an opportunity to develop further the manufacturing and services industries. Furthermore, the growing population and labor force in MENA countries should help develop domestic markets in the region.

Figure 16. The manufacturing sector is relatively well developed in some MENA countries



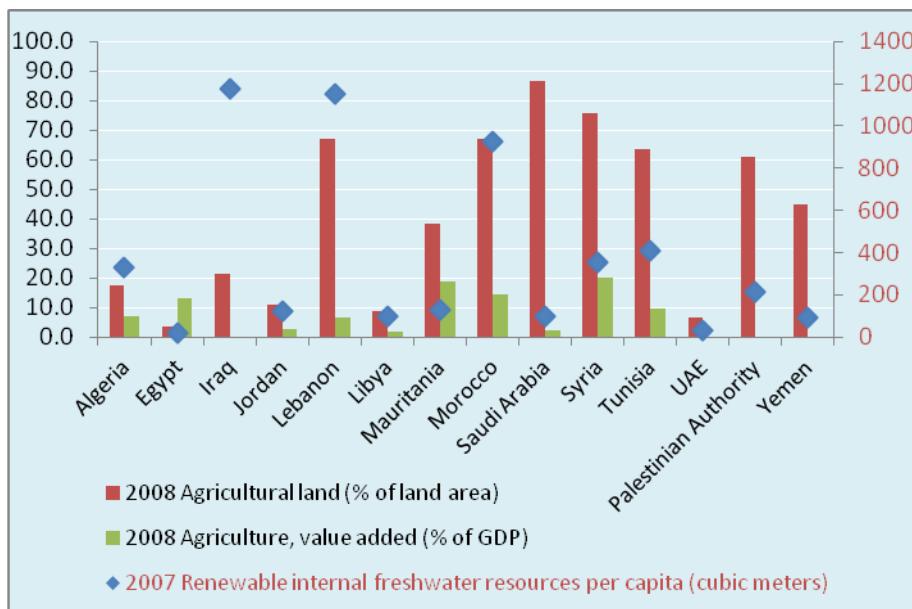
Source: World Bank 2011a.

Note: (1) Excluding manufacturing. Industrial activities comprise Mining and quarrying (ISIC 10-14), which include oil and gas extraction; Manufacturing (ISIC 15-37), Electricity, gas and water supply (ISIC 40-41) and Construction (ISIC 45). In this case, "industry" refers to industrial activities *excluding* manufacturing, which is shown separately; and oil. ISIC is the UN International Standard Industrial Classification of All Economic Activities.

Given the scarcity of water resources in the MENA region, agriculture is not a dominant economic activity in most countries. Figure 18 shows water availability, agricultural land, and agriculture value added in countries for which data are available (latest data for 2007 and 2008). A glance reveals that, of the 14 MENA countries displayed, only Iraq, Lebanon, and Morocco have water resources above or near 1000 cubic meters per capita.⁴⁷ It is in these countries and others with important freshwater sources, albeit at lower per capita levels, such as Egypt and Syria, that the agribusiness sector has the greatest development potential.

Agro-industrial activities are related to the processing, preservation, and preparation of agricultural production (including fisheries and forestry) for intermediate and final consumption. They are a component of the manufacturing sector, where value is added to agricultural raw materials and are recognised as important drivers of economic growth and development.⁴⁸ Agro-industries associate the industrial and agricultural sectors and create downstream and upstream linkages, which can have multiplier effects in terms of job creation and value addition in connected sectors such as agriculture, manufacturing, commerce, and services. They also have the potential to provide employment for the rural population, not only in farming but also in off-farm activities such as handling, packaging, processing, transporting, and marketing of food and agricultural products.⁴⁹ This is especially relevant for developing and emerging economies, where sizeable proportions of the population still live in rural areas and depend on agricultural activities.

Figure 17. MENA countries could exploit opportunities in agribusiness development



Source: World Bank 2011a.

Note: Data on agriculture value added as percent of GDP are not available for Iraq, the UAE, the Palestinian Authority and Yemen.

The way forward

The Arab Spring is proving to be a turning point for some countries in the MENA region. After the fall of their previous regimes, Egypt and Tunisia are now engaged in far-reaching political and democratic reform. Both countries have lifted bans on political parties and groups, have eased restrictions on political competition, and are preparing the formation of constituent assemblies to elaborate new constitutions. Egypt and Tunisia have defined milestones for political and democratic change and have received significant pledges of support from the international community. Following the winds of change, Morocco and Jordan are also introducing reforms aimed at decentralising political powers and increasing political competition.

In Libya, after months of violent confrontations, the National Transition Council (NTC) has achieved significant territorial and political advancements, notably the recognition by numerous countries and the United Nations. This may lay the foundations of a transition process similar to those in Egypt and Tunisia. On the other hand, Syria and Yemen continue to suffer from political tension and high instability.

To respond genuinely to citizens' demands for improved living standards, MENA governments, with the support of the international community and in cooperation with the civil society, including the business community, also need to develop strategies to promote inclusive economic growth and employment, building on improved governance, transparency, and the rule of law. Those strategies need to break with a past of public sector led economies and cronyism and to center on the development of a competitive private sector, which can provide economic opportunities that correspond to peoples' aspirations.

In this context, Egypt, Jordan, Morocco, and Tunisia, in collaboration with the international community, particularly the G8 nations (under the "Deauville Partnership"), are developing wide-ranging agendas to address four closely interconnected areas:

- Improving governance, transparency, accountability, and citizen participation in economic life;

- Increasing social and economic inclusion by expanding opportunities to all and improving the effectiveness of support for the vulnerable;
- Modernizing their economies, supporting the private sector, particularly SMEs, aiding job creation, and developing human capital and skills;
- Fostering regional and global integration to reap the benefits of globalisation.

The strategies to address these areas need to be not only comprehensive but also adapted to the particular circumstances, needs, and potential of each country. For all MENA countries, raising international competitiveness and attracting more and better foreign direct investment (FDI) will be fundamental components to securing sustainable growth, employment, and better living standard.

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² Syria is classified by the World Bank as a resource-rich, labor-abundant country and by the IMF as an oil-importing country. This report follows the World Bank's classification, even though Syria's oil production (at 250,000 barrels per day) and proven oil reserves (2.5 billion barrels) are low compared with other resource-rich countries.

³ It should be noted that MENA data on employment are often incomplete and outdated. They also do not take into account a large informal sector that acts as a buffer for employment, especially for the poorer segments of the population. This point is further highlighted in Figure 2.

⁴ Unemployment rates vary among OECD countries. For instance, Ireland registered less than 5 percent unemployment prior to the crisis (2007) whereas in 2010 the figure was 13.7 percent; Spain, which had already a high unemployment rate of 8.3 percent in 2007, registered over 20 percent in 2010. And the United States, which had an unemployment rate of 4.6 percent in 2007, registered a high of 9.6 percent during 2010. Korea, on the other hand, has registered an average rate of 3.6 percent over the past ten years, with 3.7 percent in 2010. The overall OECD average unemployment rate (for the 28 OECD countries with data available for 2010) increased from 6.9 percent in 2000 to 8.8 percent in 2010.

⁵ De Boer and Turner 2007, as cited by Shochat 2008.

⁶ International Labor Office 2009.

⁷ IMF 2010.

⁸ The MENA-OECD Investment Programme estimates the number of jobs to be created based on historical annual new entrants into the labor market, taking into account demographic evolutions. Growth projection based on IMF data.

⁹ World Bank 2011. In 2009, the World Bank estimated that 40 million new jobs would need to be created over ten years to meet the fast-growing labor force. World Bank, 2010b.

¹⁰ Assuming that the ratio of jobs created to economic growth remains constant. IMF 2010.

¹¹ This figure refers to Egypt, Jordan, Lebanon, Morocco, Syria, and Tunisia. IMF 2011b.

¹² This number refers to the first quarter of 2011, compared with 7 percent of unemployment among adults (aged 25 and over). Youth unemployment rates have increased in the OECD since this sector of the population was hard hit by the 2008-09 economic crisis . OECD 2011b.

¹³ OECD estimates based on ILO data of Economically Active Population for 2005-10.

¹⁴ It should be noted that some resource rich countries, such as Saudi Arabia, have made impressive progress in reducing red tape in recent years.

¹⁵ IMF 2010.

¹⁶ Inadequately educated force is the fourth most problematic factor in the Arab World, after access to financing, restrictive labor regulations and inefficient government bureaucracy.

¹⁷ Over-qualified workers are those whose highest qualification exceeds the one required by their jobs. Conversely, under-qualified workers' highest qualification is lower than the one required by their jobs. OECD, 2011b.

¹⁸ World Economic Forum 2010. Labor-force participation rate refers to the proportion of the working-age population (15-64) that is either employed or seeking employment.

¹⁹ Based on data from the World Bank, *Genderstats*.

²⁰ See, for instance, Chamlou 2008.

²¹ UNDP and AFESD 2006.

²² See www.oecd.org/mena/investment/wbn.

²³ OECD 2011d.

²⁴ IOM 2011.

²⁵ Transparency International measures perceptions of corruption on a scale of 0 to 10 with 0 indicating the highest level of corruption and 10 indicating the lowest.

²⁶ IMF 2010.

²⁷ The Global Entrepreneurship Monitor (GEM) MENA Regional Report 2009 reinforces this point: "although pursuing entrepreneurial activity is a way of life for millions of citizens" in MENA countries, "their rates of involvement, based on comparisons with other countries participating in the GEM surveys, are generally lower than might be expected for countries at their level of development" (Global Entrepreneurship Monitor, 2010). The MENA countries covered by the GEM's regional report are Algeria, Jordan, Lebanon, Morocco, Syria, Yemen, and the Palestinian Authority. According to the report, only Lebanon, Yemen, and Algeria register higher than expected total entrepreneurial activity, an indicator of entrepreneurial activity during the firm pre-establishment and newly established phase. Along these lines, a recently launched Global Entrepreneurship and Development Index (Acis & Autio 2010), which ranks 71 countries in terms of their performance in the creation of high-growth enterprises and high-impact entrepreneurship, revealed that MENA economies lag behind most developed and emerging economies.

²⁸ When using data on self-employment as a proxy for entrepreneurial activity, findings from the OECD-MENA Women's Business Forum reveal that although female self-employment varies across MENA countries [with the highest female self-employment rates in Algeria (30.6 percent) and Djibouti (27.5 percent), and the lowest rates in the Gulf countries (less than 2 percent)], female self-employment rates are consistently lower than male rates (which is the case in most countries around the world). Stevenson, forthcoming.

²⁹ Another important triggering factor not analysed in this report is the contagion or inspirational effect of protests occurring in other MENA countries, prominently those in Tunisia and Egypt.

³⁰ Other factors also explaining this comparatively high economic growth are expansionary monetary policies, the importance of remittances, urbanisation, etc.

³¹ It is worth mentioning that for the resource-rich countries, gross national income (including terms of trade) is perhaps more relevant than GDP.

³² Total population in the MENA region has increased significantly during the last decades, growing from around 109 million (3 percent of the world total) in 1970 to nearly 200 million (3.75 percent) in 1990 and almost 300 million (4.4 percent of the world's population) in 2009. And, although the pace of growth has been decelerating from over 3 percent in 1970-1989 to 2.4 percent in the 1990s and 2.1 percent during the last decade, the population growth rate is still one of the highest in the world.

³³ There are reports, however, that Saudi Arabia actually has not increased its oil production as compared with 2010.

³⁴ Arab Financial Forum 2011.

³⁵ OECD 2011d.

³⁶ IMF 2010. The IMF analysis and figures refer to countries in the Middle East and North Africa (including Iran and Sudan) plus Afghanistan and Pakistan.

³⁷ It is worth noting that resource-poor countries are home to nearly 50 percent of MENA population, whereas resource-rich, labor-importing ones account for less than 15 percent.

³⁸ Tradable goods or services can be sold in locations distant from their place of production, for instance, manufactured goods, as opposed to non-tradable goods and services.

³⁹ World Bank 2009. A few exceptions of sectors that are competitive for exports are noted in the sector section of chapter 3.

⁴⁰ In terms of limits to foreign-owned equity in firms, land ownership, international movement of people, etc.

⁴¹ Lee and Mason 2006.

⁴² IEA 2010a.

⁴³ IEA 2010a.

⁴⁴ OPEC 2010.

⁴⁵ International tourism receipts are expenditures by international inbound visitors, including payments to national carriers for international transport. Their share in exports is calculated as a ratio to exports of goods and services. Source: World Bank, World Development Indicators.

⁴⁶ When comparing the MENA region with other regions, it must be considered that, in absolute terms, international tourism arrivals are significantly lower in MENA (77.4 million) than in the OECD (492 million) and Europe and Central Asia (468 million). Similarly, international tourism receipts in current US\$ are 75.4 billion, compared with 479 billion in Europe and Central Asia and 673 billion in the OECD.

⁴⁷ But even in these countries, water availability is below the levels of other regions such as Latin America (over 23,000 cubic metres per capita), the OECD (8,600 metres per capita), and East Asia and the Pacific (4,765 cubic metres per capita).

⁴⁸ Da Silva and Baker 2009.

⁴⁹ Da Silva and Baker 2009.