

WILL ECONOMIC DISRUPTION DERAIL THE ARAB SPRING?

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URI DADUSH: Good afternoon, everybody, and welcome to this Carnegie event on “Will Economic Disruption Derail the Arab Spring?” We have, as always, but even more than always, a very expert panel today. Let me introduce them from right to left. So Caroline Freund is the chief economist for the Middle East and North Africa region of the World Bank. She formerly worked also at the IMF and at the Federal Reserve Board.

Bob Hormats, here to my right, is of course under secretary for economic, energy, and agricultural affairs and an – an under secretary of state. And he was formerly vice chairman of Goldman Sachs International. Marina Ottaway, my colleague at the Carnegie Endowment and one of our veteran analysts on the Middle East – she has taught at the University of Addis Ababa, Zambia – University of Zambia, the American University of Cairo, and in South Africa.

And last but not least, to my left is Masood Ahmed, my good friend, director of the Middle East and Central Asia department at the International Monetary Fund. And Masood has held a number of important positions both at the World Bank and in the U.K. government, in prior incarnations.

So let me go directly into the subject and ask my first question. And my first question will – I’d like to address that to Marina and to Bob in particular. And as we go along, I will encourage the panel, as much as possible, to, in a polite way, disagree with each other and, you know, chip in when they have – when they have things to add, so that we can get a conversation going.

When I visited Egypt, Tunisia, I did so in my capacity as an economist and analyst. I did not, actually, notice that in those countries, economic performance was actually worse than the developing country average. And that includes the growth performance, macroeconomic – inflation performance, and actually, even inequality. The statistics tell us they really are not much worse than the developing country average. And in many respects, they are better than the developing country average.

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And so my first question is, since we’re talking about the economic situation in these countries, does this mean – Marina, let me start with you – that economic factors played only a small role in the Arab Spring?

MARINA OTTAWAY: I am convinced that that is the case, that the economic was not the most important – the most important reason why the Arab Spring occurred. Yes, there was a lot of economic discontent, and we had been watching, for three or four years, an increasing number of protests, of strikes – wildcat strikes, small strikes, not organized by the labor union and so on – so certainly, people were discontent.

But if you look at the demands of people in Tahrir Square, if you look at the demands of people in Tunisia and so on, and certainly in Libya, most of them were not economic demands after all. They were really political demands. If something is going to derail the Arab Spring in the short run, it’s going to be the issue of the role that Islamists are going to play, and the issue of the role that the military is going to play.

Now, in the medium and long term, then economic performance probably is going to affect the stability of these countries. But it’s not the most immediate concern for me.

MR. DADUSH: Thank you. Bob, do you have a view?

ROBERT D. HORMATS: Yeah, I would say, certainly, it's not economic issues alone. I mean, there was a very important political component of dignity, of participation in the society, of being listened to, of feeling that the deck was stacked against smaller people who didn't really have a say in the way the government was run.

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But if you look at the economics, on the macro side they were doing reasonably well. And they'd had some reforms. I mean, it wasn't as if there was an absence of reforms. There were reforms, certainly, in Egypt, and certainly – I leave Libya out, but if you look at Egypt and Tunisia, there certainly were reforms.

I would say the economics made the situation more difficult. Had it not been for the economics, I think the intensity of the political response probably wouldn't have been as great. But I do think that the political component was a very strong overlay.

You know, I go back and I periodically read about the French Revolution. And you know, there's still the question as to what triggered the French Revolution. Was it the politics of France at the time? Was it economics? The price of bread went up. I mean it is still, 300 years later, debated as to what caused that. So I think we're not going to be able to identify any single cause, but I would certainly say that there was a very heavy political overlay to the dissatisfaction, the discontent, the feeling of disenfranchisement, the feeling that they were not able to play a role in their own governance.

And I'd make one last point, and that is, what was different, in many respects, among people you've talked to here, was the democratization of information. I would say we cannot underestimate the importance of the democratization of information. They had a lot of access to information, because these are bright kids – many of them college-educated – not all kids, too, others.

But they had information about what was going on. What happened in Tunisia was well understood by many other people in other parts of the world. So they had that information, and I think that made them even more discontent about the politics and about the economics.

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MR. DADUSH: Yeah, Masood, please.

MASOOD AHMED: Could I just chip in on that? I think it's true that there's a mixture of politics and economics. But the two dimensions of the economics which I think were important – one, which we haven't talked about yet, is unemployment. Actually, the unemployment numbers are much worse in the region – particularly for young people – you know, you have between 25 and 30 percent of them unemployed.

And that's partly the demographics of it. You know, a lot of people coming onto the labor market, huge numbers of young people in society. So that unemployment part there. And then the second dimension is that it's true that if you look at business environment indicators – that the World Bank puts together, for example – countries in the MENA region don't do that badly as an average.

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But if you disaggregate, and start looking at some indicators more than others, what you discover is that the averages are OK, but the disparities across firms, in terms of their ability to get access to finance, to get access to

regulatory procedures now, is much greater. So I think what bothers people – and you can call it economics or governance. I mean, it's a semantic issue, partly. But what bothered people also was the fact that they didn't have equal access to economic opportunities. So the averages hid, a little bit, that disparity. And I think that was the second dimension which was different.

And the final point I'd say is that I don't know whether it will or won't get derailed, but – the Arab Spring – but what I do see is that the economic pressures, the financial pressures in the short term on a number of countries, are actually quite acute.

So if you're not going to be able to deliver on some relief, in terms of jobs, over the next year – and if you look at the growth rates for either Egypt, or for Tunisia, they're growing at numbers well below what is required to meet the new labor market coming on – the people coming on to the labor market. So I think that will be a source of tension to manage.

MR. HORMATS: But I would say the politics stacked the economics against the average person, because economics were really about political access.

MR. AHMED: Right.

MR. HORMATS: And therefore, I would – I wouldn't disagree with you at all, but it's the political system that made it very hard for you to get economic redress. So I would say that the two of them really go hand in hand. And I'd also say that you – if you can't – you won't have a stable political process unless you create economic stability and, in a way, vice versa.

MR. DADUSH: OK. So politics was very important, but economics was also important, and unemployment, et cetera. And what we know, and Masood has already indicated that, is that the economic situation has actually deteriorated quite a bit in several of these transition countries.

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Now, Caroline, you have just produced, back in September, a major report, World Bank analysis of the economic situation in Middle East, North Africa. And Masood, too, has – Masood's department – Masood himself has led the preparation of a report on the – particularly on the macroeconomic situation in the region. And I'd really like to hear from both of you your current assessment of the economic situation in the region and how you see it going forward over the next 12 months – all of that in two, three minutes. (Laughs.)

CAROLINE FREUND: Well, the current economic situation is clearly very difficult. We've seen a drop in tourism of about 40 percent in Egypt and Tunisia. Business investment is on hold. A recent survey by MIGA and the Economic Intelligence Unit shows that about 70 percent of investors are either sitting by and waiting to see what happens, or – and a smaller percentage, maybe about 10 (percent), withdrawing. So – and consumption also is deteriorating. So conditions right now are quite difficult and unfortunately, the external economy is in a position where it's – where it's not able to help draw things out.

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That said, one thing we've done is looked at previous experiences with transition to democracy, and there are about 50 episodes worldwide that we've discovered of sustained movements from autocracy to democracy. And what you see is that pretty rapid increase in growth: Within one year – it deteriorates sharply in the year of transition; within

one year, it's back to 3 percent, and after – the second year, it's back or above the rates of growth before the transition.

So I think if political stability, security, macrostability – I mean, these are three important ifs, but if they're able to obtain these three things, we could see a rapid recovery. And with respect to the global economy, there's one benefit at this time, which is the countries and the region tend to be somewhat less integrated. So during the financial crisis of 2008-2009, the MENA region was actually one of the best-performing regions in the world, still maintaining growth around 3 percent.

MR. DADUSH: Thank you, Caroline. Masood, do you want to add there?

MASOOD AHMED: I think Caroline summed it up nicely. I – maybe just add a couple of points. One is that if you look at the next 15 months or so, say, through to the end of 2012, what you get is that the political transitions are taking a little longer. Europe's in a more difficult situation, so the recovery that people had been – and we and others had been anticipating come in in 2012 is probably going to come in a little bit later.

And, you know, we have in our regional economic outlook this time a little chart which shows how we've been marking down our growth numbers for the region, for the oil importers. The interesting thing is that compared to October 2010, when we did our outlook in April, we marked down the 2011 numbers (quite a lot ?), for obvious reasons, because you can't throw the – what had happened in Tunisia and Egypt. But 2012 numbers was very rapid recovery, exactly along the sort of trajectory of previous transitions. But in – now, what we've come with, the October numbers, all our country teams, which are working sort of country by country, are marking down 2012 numbers (quite a lot ?). So I think we should be prepared for a somewhat more drawn-out process than we had initially envisaged.

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And the second point I'd make is that, you know, they need about \$50 billion in 2012. The oil-importing countries in the region need about \$50 billion, a little bit over, of external financing.

Historically, they've managed to get quite a lot of external financing, but mostly from private capital markets. But private capital markets are only going to supply a very small part of that financing for the reasons that Caroline said. I think there's a lot of uncertainty. Markets are, in any event, a bit more risk-averse right now. They're not going out there providing financing. So official financing is going to be quite important for the next 15 months or so (to tie them ?) into the phase when they can begin to draw more domestic and other (such things ?).

MR. HORMATS: Can I – can I – that's very interesting. I was going to get to just the point you were segueing into, Masood. That is official financing.

The tragedy, the historic tragedy of the timing of these events cannot be underestimated in the following sense. If you go back to the developments that occurred during the fall of the Iron Curtain, the West – U.S., Europe – were in a much stronger fiscal position. And when the United States or Europe were called upon to respond, they were much better able to, in effect, go to their legislature and ask for money, and for money directly and ask for money for multilateral institutions.

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So one of the very serious consequences of the current timing of all this, tragically, from a historic point of view, is that this came at a time when the country that had been most strongly advocating these kinds of changes – that is, the United States – supporting democracy, supporting participatory government, supporting market-oriented reforms, supporting inclusionary growth, supporting all the kinds of things that many of these countries want to do internally and that the revolutions were designed to support, which is, government should listen to the people, pay attention to the people, they should have a greater role in the government – at this very time, the United States and Europe find themselves in a much more difficult fiscal position, making it much more difficult for them to mobilize the kinds of resources that they would have done under such circumstances a decade ago and that they, in fact, did after the fall of the Iron Curtain. So it makes it harder to respond in a constructive way, both – certainly economically, and the lack of a quick economic response has had political signals too that have been – have been negative in terms of what would have been the case had we been much more able to be forthcoming.

This doesn't mean that we're not doing anything. In fact, we're trying to reprogram funds within existing pipelines. We're supporting the Deauville Partnership, which is designed to mobilize money. We're supporting multilateral institutions – the IMF, the World Bank, the EBRD, the African Development Bank, and many others represented here. We're also trying to utilize other resources like OPIC to support small- and medium-sized enterprises, to support our – we have an institution that does – that's designed to provide support for infrastructure projects. We're also utilizing OPIC to a greater degree than before. We're trying to be more – utilize our resources in a more effective way that go beyond aid to utilizing resources that support investment, support exports, support trade and do a number of things.

So it's not that we're not doing anything; it just – we have to be a lot more creative about what we do, and we have to go to the Congress to get money that was programmed for other things to be reprogrammed for this region – much more complicated than it would've been 10 years ago when money would've been readily available and the congressional (mood ?) would've been very different and our budget would have in a – and our overall deficit would have been in a much sounder position to react. And this is an historic challenge that we face now that we didn't face during the fall of the Iron Curtain.

MR. DADUSH: Let me pick up on that, and I want to go to Marina, because, you know, as a sort of innocent bystander here watching this develop, I kind of say – forgive me for being a little provocative here – so we've got – we're spending \$700 billion on defense, and part of the reason we've the \$700 billion on defense is because, you know, we have huge issues in the Middle East and, you know, a history of war, et cetera.

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And so politically, I'd like to understand a little bit better why, at this – at this moment of historic change, one cannot do more, sort of rationalizing it as a cost benefit, an investment – an investment in the future – in a future of stability in the region and, therefore, in the United States and Europe. So I want to ask Marina that, if she wants to pick that up.

And also, politically, I'd like to understand better whether, on the other side, the transition countries actually want to receive this money. I mean, are they ready to be helped, politically?

MS. OTTAWAY: OK. Lot of – lot of questions – (laughter) – rolled into one.

First of all, I just wanted to make a quick comment following up on what Masood said about the revision downward of the growth rates. I don't think we can expect – except perhaps in Tunisia, I'm more optimistic about Tunisia – but that in Egypt and in Libya, the situation will stabilize before 2013. There is no – the presidential

elections in Egypt are not going to take place until early 2013. Until then, it's going to be extremely iffy, the situation.

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If we look at Libya – it's difficult to make prognostications, but Libya is a bit in the situation Afghanistan was a few years back, and that is not a reassuring comparison. Essentially, there are no institutions. There is going to be a – I'm not saying that it cannot settle down and – you know, I don't want to prejudge the case, but it's not going to happen overnight. There is going to be a long protracted period of – protracted period of instability.

Now, why aren't we doing more? Why isn't the United States mobilizing more to help these countries? I would divide the question in two parts, or the answer in two parts, one which I will not answer, and it is: You have to look at the gridlock in Washington and the political situation in Washington. Now, I don't want to go down in that direction.

But there is also another question concerning the countries of the Middle East. And there are two – and there are two issues here. One is the ambivalence of some of these countries and particularly Egypt. It's too – a little early to know what – how Libya is going to (shake ?) out, but there is a great deal of ambivalence of Western aid in Egypt. You know that a few months ago, Egypt declared that we're not going to take IMF loans, that they – that they did not need IMF loans, that they were going to do it on their own. Clearly, this was a political statement. It was not an economic statement, and they're beginning to sing a different song because they are realizing that there is not as much money as they thought coming from the Gulf countries, from the oil-producing countries. But I think there is no doubt in my mind that the decision of whether or not these countries want U.S. aid and, therefore, are going to put the pressure on Western aid in general depends on what the Qataris and the Saudis do more than on anything else. So it's – you know, there is this ambivalence.

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And the second point of this ambivalence is the fact that we are still not very sure about the outcome of these transitions. One of the reasons why the United States, in the past, has always supported the incumbent regime was the fear of Islamist political parties, the fear that we (will ?) have a new, you know, Islamic revolution as the one that took place in Iran. That fear is still very much there. The fact that, in the elections in Tunisia, Ennahda – that's the Islamist party – got about 40 percent, and 40 percent of the seats does not reassure anybody.

Now, I don't think we should be – my perception of Ennahda is that it is not a party we should be terribly afraid of. But I think that fear of which direction these countries are going in is certainly tempering the desire to jump in with massive amounts of aid.

MR. DADUSH: Let me ask Masood and Caroline: Is it a shortage of money here? I mean, why is it – not more money is flowing? I keep reading in your reports, Masood, that you've got I think \$50 billion in your left pocket, if I remember correctly – (chuckles) – or is it 35? – that you could – you could send – so why aren't you – why aren't you sending the money? And Caroline, is – can the World Bank – you know, it has deep pockets too. Can the World Bank do a lot more? One of you want to pick it up? Both of you? Go ahead. Yeah.

MS. FREUND: Well, I think the World Bank is prepared to do more. And already in Tunisia, in coordination with the Africa Development Bank, we have a one and a half billion dollar program there that really, I think, showed the World Bank at its best, going in quickly – it's a development policy loan and it contains a lot of governance reforms, transparency, openness to data, et cetera. So I think the World Bank is prepared to do more.

I would like to pick up on what Marina said that it's not clear at this time during the transitions that this is the right time for huge amounts of money to flow in. I think there is some waiting to be done – and ensure that the money is going to be well spent. That said, we also have a large program – ongoing program in Egypt on infrastructure projects which is still continuing. We have some new projects on funding civil society organizations in Egypt, which is very important during this transition.

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So there's – there's a lot we can do right now, but the large funding needs haven't become apparent yet. And there is significant money in the region to fund itself. Libya certainly can fund its own transition through its sovereign wealth fund. And ultimately, it would be great if the GCC were to step up and put together a kind of Marshall Plan which has been discussed in the past that could be – could work through some of the international financial institutions already in place.

So I think the funding is there; the needs and the politics just haven't made it readily apparent on how to spend, and it will – it will come to pass.

MR. DADUSH: Masood?

MR. AHMED: For the IMF, it's 35 billion (dollars) –

MR. DADUSH: Thirty-five billion, sorry.

MR. AHMED: – just to be clear.

But I think the substantive point is that if you look at how the countries approach this issue – (because ?) my understanding is that their initial reaction was that almost all of them wanted to use up some of the resources that they had, the reserves that they had built up, (because ?) these are countries that, by and large, prudently manage – they've had good reserves coming into it. And they weren't that hit by the global crisis, for the reasons that Caroline mentioned.

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So first reaction, trying to use up your own resources. And what you see now is that, in fact, during the course of 2011, external reserves have gone down in a number of countries. So Egypt, Tunisia, but also in Jordan, in Morocco. You see a little bit of toning down of the reserves because they've been using those.

Second line, try to get grant financing, mostly from the neighbors – so GCC. Actually, GCC countries have come in and provided – Saudi Arabia, Qatar, UAE have been providing financing in varying degrees and in various forms to Egypt, to Tunisia, to Jordan. Size of the economy – compared to the size of the economy, actually, Jordan has received quite a lot of financing from Saudi Arabia this year, to help them finance a growing budget deficit.

But now, you're at the point – kind of almost a year or eight months, 10 months into this event – that you see that the transition is going to be longer. Next year is also going to have the same difficult flows, in part because most of these countries have stepped up spending on subsidies; subsidies for food and fuel have gone up across the board. So budget deficits now are running at about 8 ½ percent on average for these countries.

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MR. DADUSH: In the transition countries.

MR. AHMED: I'm talking about the oil-importing countries – (inaudible).

MR. DADUSH: (Inaudible.)

MR. AHMED: So I'm thinking of Morocco, Tunisia, Jordan, Syria, Lebanon. So if you look at these countries and you kind of add up the numbers, they – on average, running about 8 ½ percent. And next year, now, the numbers don't look like they're going to get a lot better because politically right now, big news on subsidy reform is hard to undertake. You don't see commodity prices coming down too dramatically.

So now, you've used up the reserves. You've gone and got around one round of support from the GCC, and many of them are thinking about, what's the financing strategy for the \$50 billion that I mentioned, which is the external financing need for next year. So some of that will still come from the GCC; some of that will come from the multilateral institutions like the World Bank and IMF. And some could come – in some cases, you know, by the end of the year, you might even get some market financing. But I think that next year's financing pattern will not likely look like the financing pattern of last year because some of the margin of maneuver has already been used up in the first year.

MR. HORMATS: Can I – can I –

MR. DADUSH: Yes.

MR. HORMATS: I think it's important to make a distinction – as, I think, the others have made, but let me just try to draw it down a little bit – between the types of financing and the purposes of the financing. There is – the current circumstance requires a response to exactly the point Masood just made, and that is, they're losing reserves and their budget deficits are widening – both. So they need – and remittances have become almost nothing. Lot of remittances used to come from Libya. That just is not resumed. And tourism has just not picked up in most places, although there are – people are going back to Upper Egypt, but not a lot. And when you go there, you can – it's palpable, in any hotel you go to.

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So one hand, they need to obtain resources for stabilization purposes. If they don't have that, then their fiscal situation, their financial situation will deteriorate further, and it will be a lot harder for them to do the kind of basic things that a government needs to do – like, they need to provide a certain level of subsidy just because to withdraw that subsidy now would just add to the instability and the unrest and the – and the feeling that governments are not delivering anything for them and are not responding. So the first issue is, how do you deal with the – what I would call, the broader stabilization issue? At the same time – and that's basically the international institutions, because governments (bilaterally?) are unlikely to do that.

The second relates to – there are two more parts; the second part and the third part are partially related. The second part relates to, how do you deal with the structural issues that are designed to enable them to create jobs, particularly jobs for younger people? And this came up in a conversation we had; we were in the Black – the Dead Sea together and talking about this. And that means trying to find an economic model that is not so focused on a few large, well-connected institutions, and provides more support for such things as small- and medium-sized

enterprises and for local infrastructure projects. And the United States has actually had a program in Afghanistan that has done that, so there are a lot of ways of doing this, and the Egyptians and the Tunisians themselves have some ideas. But you have to create jobs through infrastructure and you have to create jobs by creating a better environment for small- and medium-sized enterprises and providing them with financing.

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The problem with the old model is, it was awfully difficult for small- and medium-sized enterprises to get licenses, to get – to start companies, to get bank financing – which banks are still not readily providing – and there are, as we've seen in the United States, opportunities for creating growth, but the institutional and the economic governance practices are simply not there in sufficient magnitudes to allow that to take place. And it's not an overnight thing, but it certainly would help to get the economies going and the job creation going again.

A related point is to have people trained to do the jobs that might become available if this were to occur. And there was a huge gap in the educational systems in these countries between what people learned and what people needed in order to do productive jobs. And there were a lot of very well-educated people, which is what – a lot of them, you saw, out demonstrating, but they were frustrated because while they had education and they had information about what was going on – this democratization of information that I mentioned – they found it very difficult to get – they were not trained to do some of the jobs that a modern economy or even a submodern economy required.

And the fourth point relates to development assistance. From an American point of view, it's not so much the amounts that are provided – although, as I say in an earlier set of circumstances, we would be able to provide more money. It is that that money, in the eyes of many of these countries, symbolizes a level of political commitment to their reforms. And the absence of it raises concerns as to how much and how robust the American support for their reforms is going to be.

So it's not just the amount of money – although if the amount of money were used effectively, as we hope it will be, for vocational education, junior colleges, infrastructure, that could be very helpful in job creation – but it also has – conveys an important signal about American support – or, if it's Europe, European support – for the process of reform and for modernization. So I wouldn't look at the money as just money, although the money is important; it is the money-cum-the-political-support that goes – or the visible political support that goes with it that we have to think about. So these are all factors on the way this process operates.

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And the educational system, just to revert to that, is critically important because you have – these countries had very robust educational systems for people at the top, but they didn't create jobs for the – for many of those people because many of them weren't trained for the jobs that existed. So a lot of these are systemic issues, and they have to go hand in hand.

MR. DADUSH: Let me back out a second from Tunisia, Egypt, Libya, the countries where the revolution has already progressed, and come to the nontransition countries or – well, I like to think of the whole region as being in transition – but the countries where the revolution has either not started or not been completed, because there have been very important economic changes in those countries as well.

So I want to ask Marina and I want to ask Caroline – Marina, on the political side, what is your assessment of the state of reforms driven in the nontransition countries? What are they really doing? Or are they just paying lip service to the changes? How real is it?

And then Caroline, if you want to elaborate some on what sort of changes, from an economic perspective in particular, you see happening in the nontransition countries. And what does that imply for the future of the region?

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MS. OTTAWAY: OK. If you look at the nontransition countries, I think political reform is largely absent. I mean, I think it was –

MR. DADUSH: Largely what, sorry?

MS. OTTAWAY: Absent.

MR. DADUSH: Absent.

MS. OTTAWAY: That they're not doing very much.

I – it was very interesting, there is a consciousness that reform is needed. If you look at the statement that came out of the Arab League last week about – on Syria, what Syria should do, it denotes a recognition, essentially, that these political steps have to be taken. We know very well that Syria is not going to take those steps, and we also know that the countries we talked about, those steps – are not going to take them at home. So there is a – there is a split personality here between the consciousness that something has to change and the unwillingness to really – you know, to do it, essentially.

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I think we are going to see, in this general situation of lack of – or, lack of reform – there are two countries that are partial exceptions, and we don't know how far it's going, and they are Morocco and Jordan. Morocco, Morocco came out with a new constitution, with – have elections later this month. And the new constitution in Morocco has the – sort of (holds up ?) the possibility of a move toward what – not – certainly not a constitutional monarchy, essentially, but towards a bigger role for the parliament, for the political parties and so on. The problem is that the constitution is a very ambiguous document. And whether or not we are going to see reform depends on how much of the political parties are going to be willing to push for reform. That is something that all Moroccans acknowledge. So that – there is a potential for some steps there, but there is no certainty that it will happen.

I think Jordan is – I almost hesitate in talking about Jordan with Marwan Muasher in house, I fear I really – (laughs) – should refrain from talking about Jordan. But it seems to me that Jordan is a bit in the same situation, but two steps behind Morocco.

Elsewhere, I don't see – I don't see any reform, but – despite the fact that in some countries, you can be sure that a crisis is going to come sooner rather than later. I think we are almost certain to have a crisis in Algeria. This is another very old president who is about – you know, probably he died before he's overthrown, essentially, but there is going to be a transition there, whether or not anybody likes it. And probably it's not going to be an easy transition. So I think we should be prepared to – you know, for that – for that to take place.

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If I can add something that's going to make it much more difficult, the fact that there are – you know, for example, for a country like Tunisia to stabilize – because essentially, it's sandwiched in between Libya, that's already in bad shape, and Algeria, that's likely to be another mess. And I'm not sure that from the point of view of foreign investment, that it's a particularly happy situation to be in.

MR. DADUSH: Caroline, there may not be that much political change, but there sure is a lot of economic change in these – or at least in the economic policy change, right?

MS. FREUND: Well, I think there are a couple things I want to point out. One word that we haven't mentioned so far that's come up a lot before the uprisings is corruption. So I think there is a huge recognition in the region that the former systems that worked in an environment with the insiders and the outsiders, both socially and economically, cannot be sustained for a long period. And this is throughout the region.

So I think there is a general movement towards more transparency and accountability, and especially in Morocco and Jordan, where the – both kings are sort of saying all the right things and it remains to be seen if they're going to follow through. But so far, I think a lot of the right things about legitimacy, transparency, accountability, the environment for business to be better and this has all moved in the right direction. So that's one thing.

On the other side, in terms of economics, I think there's a danger in the region which is that the private sector and privatization in particular have been – become, to some extent, a bad word, so that we've seen recently, last month, these three reversed privatizations in Egypt. And while we can argue about whether or not that was the right thing to do, it does give investors a bit of fear.

[00:45:18]

And in general, I sense from discussion with people in the region an increasing reluctance to endorse the standard types of economic reforms that we've – that had been proceeding in the past. So I think, at this point in time, there is some danger of moving towards more socialist policies that might not – social measures that might not facilitate growth in the longer run – and, as mentioned by Masood, the increase in subsidies we've seen. So this is something we've been documenting in our reports. And almost every country in the region has increased subsidies, has – many of the countries have expanded the civil service. Many of the countries have raised civil service wages. So these are kind of measures that are difficult to reverse. They're very costly fiscally. And they – in some sense, they're completely untargeted, so they're not helping the least advantaged. So the amount of spending on social protection in the countries is actually among the highest in the world. It just really needs to be redirected towards the most – the most needy.

So I guess – what I'm saying is, when we look back to the Eastern European transitions, there were two transitions that happened. There was a political transition and a clear move away from socialism towards free market. This transition, on the political side, is very clear. On the economic side, it's much less clear.

And this isn't just a phenomenon in the region. We see unemployment higher around the world, and we see these Occupy Wall Street protests spreading around the globe. So there's some sense in which the current economic system needs to be changed. And I think this is a point of discussion where inclusion, both social and economic, have become sort of the key ways of thinking about moving forward.

[00:47:38]

MR. DADUSH: So Masood and then Bob, I want to hear your views on Occupy Wall Street as well at some point. (Laughter.)

The – Masood, is – I know you have a point, but I also have a question for you. Is – so is the – is the consensus behind these market reforms eroding globally and specifically in the region? How do you see it?

MR. AHMED: So I'll come to your question (in a moment?). I just want to make one point on the previous conversation, which is that, I think if you look at the countries that have not been explicitly going through the political transition, there are two links between – two kinds of links between them and Egypt and Tunisia and Libya. The first is that there's real spillovers. So what's happened in Libya has actually probably had a bigger effect on Tunisia than any other external factor in terms of just migrants who are working there, remittance flows as a result of that, spending by Libyans, et cetera, in Tunisia. And that comes all the way through into Egypt. It comes into Sudan. And so there's lots of links of that kind.

And what happened in Syria, the uncertainty that stems from the political difficulties and conflict in Syria now are affecting confidence in the neighboring countries too. So there's that link, which is one.

And the second link, if you like, has been, the expectation of people for change is being measured by what's happening in the neighboring countries. And I think of it in two ways. One is, the response on subsidies is very interesting. You know, why have all countries, even those that have not been going through the political transition, responded in the same way with huge increases in subsidies? And I – somebody was telling me from Jordan, who was making these decisions, that people were comparing the subsidy level and the price levels in Jordan with the price levels in the neighboring countries. And so they were under pressure to kind of match. It was a little competition of matching subsidies. So there is that expectation.

And Bob's point about the democratization of social media means there is kind of real time information being shared on what is and isn't an acceptable level of (movement ?). So I think there is that dimension as well, which is a sort of contagion, if you like, or spillover effect.

[00:50:19]

Now, as to what is the consensus around market-based reforms, I think what you see in a lot of countries in the region is a little bit of a reaction against liberalization and privatization as it was implemented. So for many people, privatization is associated with capture of the benefits of privatization by a few, by assets being sold at what they consider to be below market prices for – to well-connected people. And they see also that the benefits of liberalization, globalization have been disproportionately captured by a few. And their access to it hasn't grown.

I don't think that there is enough discussion, trying to separate out the fact that implementation done in a particular way of privatization may be a problem, but keeping public enterprises that lose a lot of money is not a solution. So at the moment, people are conflating the implementation problem with the conceptual design of privatization. And I think that debate and discussion will have to proceed.

But right now, people are so preoccupied with – the public debate space in these countries is preoccupied at the moment with the political issues, the big constitutional issues, the design of society. And I don't really yet see a big discussion about economic choice. What kind of economic model will you have? What will be the role of the state? How will you design an effective social protection scheme?

[00:52:06]

So there is a lot more, if you like, commentary about what people don't like about the past, many of – much of which is well-founded, but there isn't yet enough discussion about the shape of the future in an economic sense. And I think that's the next phase of the debate.

MR. DADUSH: Yeah. Bob, please, (pick it up ?).

MR. HORMATS: I think Masood's point is exactly right, that there has been a lot of discussion of when you have parliamentary elections, what the parliament looks like, what powers they have, how the transition is going to occur – a lot of discussion. This is – when you go to the region, this is front and center in every article that's written – very little debate on what the economic structure and economic governance should look like. This is not to say it's zero, but it is not nearly as prominent as the political – who's on top, what the political process is going to look like.

The second point – and this goes to the question of Eastern Europe – there are various kinds and degrees of privatization. If you look at the experience of Eastern and Central Europe, there is the Russian model, where you transfer big companies to a few relatively wealthy who get enormous benefits from the fact that they got these shares and were able to use the shares to buy big companies. In other parts of Eastern Europe, the privatization process was much more equitable. The benefits were much more widely distributed.

So it does seem to me that if you're taking Eastern Europe as sort of a template, in a way, there are degrees of privatization and there are methods of doing it, some of which are very oligarchical and others are very, I would say, distributional or at least participatory.

So at some point, getting people who were engaged in that debate to start helping to educate people in the region who (need ?) to get into that debate, as Masood has indicated, would be very useful. And instead, it's all tarred with the same brush, that if you privatize, a few people gain and the average guy gets nothing, and it preserves the one-tier society that a lot of them have had.

[00:54:23]

A third point is, why are they doing this? Why – the way they can create jobs most rapidly is because private enterprises are so, in many cases, stigmatized, and in other cases, are not hiring. The governments figure, if they want to hire, if they want to create more jobs, they have to do the hiring directly. So they are – a lot of them are doing this. And then one way they can provide immediate benefits is to provide all these social benefits that they're providing by raising subsidies or raising wages for civil servants just to keep a measure of unity and stability in the – in the process.

One other point that I think is – well, two other points. One, so they're using – in effect, using the state model – in a different context, but it's still a state-centered model of creating jobs and providing a lot of benefits. And until we can get them to think of another model that creates jobs through the private sector, the state is going to continue to dominate the process, and it'll distort finances and is essentially the wrong way to go, but it's the most convenient and the most immediate.

[00:55:36]

The – one of the differences between Eastern Europe – and I think it's worth bearing in mind – is, why did these countries move to reforms, market reforms and political reforms and anticorruption measures relatively quickly? Not all of them; you still have certain countries which will go – that will go unnamed that haven't learned yet. But

there are many of them that did. Why? Because they wanted to be part of the European Union and they wanted to be part of NATO. And they knew that there were certain criteria that were established for them if they wanted to do this. And they certainly did because they had the big bear to their east and they didn't want to be dependent on the big bear for an indefinite period. So they wanted to be part of the EU, and they wanted – or NATO. To do that, it was fairly clear what kind of things they needed to do. There – that was the magnet.

There is no – there is nothing quite like that today that would establish this sort of template of what they need to do in order to become part of some other entities. In this case, it's obviously not the EU or NATO. But if – to be part of the global community, we have to begin to sort of work on them, in things like the Deauville Partnership and elsewhere, to establish the kind of standards which are going to enable them to participate in trade agreements or – and other kinds of things. And those changes are very important.

And the anticorruption part, I totally agree with that. That is, in a way, critically important because – it's not only important because it's intrinsically important, but it's also important because one of the reasons people feel disenfranchised is because a certain group of people got the benefits of the system because of corruption and paying people off and getting certain things from the leader or the government or the companies that were in power, and the other people felt totally disenfranchised.

So cleaning up corruption – when you talk to the Egyptians and others, addressing the corruption issue is just a critical part of regaining legitimacy. And the economic system won't work unless that's done. But also, the political legitimacy that these governments want to build will not be done without that either. So that – I think that is a critically important process – easier said than done in this environment, but nonetheless something that we have to continue emphasizing – the multilaterals have to do also.

MR. DADUSH: OK. Before I open it up to questions from the audience who have been very attentive and very quiet, I'd like to give a word to Marina and then come back to you.

[00:58:16]

MS. OTTAWAY: Yeah, I wanted to address this issue of, you know, whether or not there is this economic debate. And I agree that certainly, there has not been a real discussion at the level of the government, government institution about what are the best economic policies.

There are a lot of interest groups – and after all, that's what – that's how policy is made – that have very clear ideas of the economic policies they'd like to – they would like to have, and that is part of the debate. The military in Egypt does not – that has huge economic interests of their own – likes the statist model. There are no two ways around it. And that is certainly a very important, very powerful political actor.

The people who probably would be most in favor of the kind of – of more privatization are keeping their heads very low. That is, the old business establishment that took – that is behind the corruption and so on, and very tied to the government, they're missing in action in terms of this debate, that – they don't dare speak.

The ones that don't receive sufficient attention, because, in a sense, they are the ones that in a quiet way, support more privatization, are the Muslim Brothers or the Islamist parties in general who are cut off from the – cut off from the taking advantage, because they never really had access to the privatization and so on. And by and large, they're taking varied – variable positions in terms of economic policies. I think we need to pay more attention to what they are trying to do in many ways, that – because I think that's very interesting.

And finally, and this is really my last word, we see a revival of the old socialist ideas. Again, you see – I don't know how far they will go, but certainly there are attempts to – you know, the left is trying to make a comeback. I'm not sure it will succeed, but it certainly – it's bubbling there.

MR. DADUSH: Over to you. Yes, sir.

If you would introduce yourselves, that would be very nice. Thank you.

[01:00:23]

Q: Oda Berdin (ph), Capital Trust.

Bob, when you talked about Eastern Europe, there was less poverty in Poland than in Egypt.

MR. HORMATS: Sure.

Q: Today, in Egypt, the poverty level is 42 percent.

MR. HORMATS: Sure.

Q: You'll go to Yemen, which we didn't talk about. Over the last year and a half, over a million private jobs were lost because of the political disturbances. Now, if you go on to Syria – the situation, because of politics, because of sanctions, and, as you said, its impact on the region.

So unless you have a fast political transition, it's going to be difficult to address the economic issues. When Arabs look at what happened in the last two decades, there was reform, which benefited the crony capitalists. There was reform that basically gave way to corruption. And who benefited? The friends of the dictators. So it's going to take a while to show people, look, if you really want to have empowerment, if you want to have better jobs, if you have to have prosperity, you have to look at examples of Poland, you have to look at Brazil as an example.

But short term, if – Egypt, to me, is very strategic. If Egypt fails, the whole region fails. Yemen is very strategic. Short term – (inaudible) – the GCC countries could at least give the Egyptians some food, some oil to stabilize the situation, to buy time for at least the next nine, 10 months. And I don't think this is an amount that can break the international community or the GCC. And finally, the people in the GCC must remember, if Egypt did not stand by Kuwait when Saddam went to Kuwait in 1991, Kuwait would still be occupied. So I think they owe to Egypt a big debt.

[01:02:18]

MR. DADUSH: Very good. I will come back to the panel. I'd just like to take a couple more questions. If you could keep them quite brief, your comments, I would appreciate it. Yes, at the back. There, the –

Q: Thank you. Mona Yacoubian, from the Stimson Center.

Two issues I would like the panel to address: The first is the role of the informal sector, which is fairly significant in the Arab world. And indeed, part of the reason that the macroeconomic indicators might have been healthy, but we saw so much turmoil, is precisely because the informal sector plays such a big role. If you look at the man who self-immolated in Tunisia, he is an icon of the informal sector.

And the second – so there are challenges that are inherent with that, and I'd be curious as to the panel's views on how to address those challenges.

[01:03:13]

And then the second question is, what role can intraregional trade play as an engine of growth, and also regional trade? And how should we be thinking about that? Thank you.

MR. DADUSH: OK, we'll take one more and then come back to the panel. The gentleman there in the back?

Q: Ken Miocordo (ph), Worldox (ph).

There is one protest movement that's only tenuously linked to the Arab Spring, but geographically is linked. And that's the one that's been taking place in Israel for the last few months. There were people camped out in downtown Tel-Aviv months before Occupy Wall Street. They were even protesting in the tens of thousands during the latest exchange between the Israelis and the Palestinians in Gaza. What are likely to be the ramifications, if any, of what happens there in Israel on the Arab world?

MR. DADUSH: OK. Let's come back to the panel. So we have a question about poverty and the difference with the East Europeans. We have a question about the informal sector, a question about trade and a question about the links between the Israeli protest movement and the rest of the region. And why don't we just go from Masood to the right, and – you pick up whatever you want.

[01:04:35]

MR. AHMED: Let me pick up on two points. One is the issue of the informal sector.

I think it is the case. And actually, the report that we've done this time around, which is sitting outside, has a particular focus on the informal sector for that reason. It is the case that the informal sector is a larger part of the economies in this region than it is in many other parts of the world. And the reason for that is that – in our view, is because it's so much more difficult for small enterprises that are not connected to get into the formal sector. So it's important, when you look at the informal sector, not to think of it as a problem but rather as a symptom of how people are trying to deal with a problem elsewhere, which is why it's so complicated to get into the formal sector.

Now, there's a few items that are listed actually in the report – I won't go into them now – of things that could be done relatively quickly to ease conditions of access entry, enterprise creation in the formal sector that would make it easier for people to get in there and then enjoy some of the benefits from that.

Now, the second question that I want to pick up on is the issue of intraregional trade. You know, this is a region that does very little trade within, particularly if you look at countries in North Africa, Maghreb countries – I think it's about 2 percent of their trade actually goes to other Maghreb countries when, by most models of trade and gravity, you would expect a larger share to be intraregional.

There is a growing body of trade, however, between – of commercial links, I should say – between GCC countries and other countries in the region – remittances, investments, direct flows or financing flows. And that's good. It should be nurtured. But what – the benefit of looking for more intraregional trade is not simply the intraregional trade itself, but that by having more common norms and fewer barriers across these countries, people looking at

any one of these countries as a place to invest or as a market will think of a larger market and a larger economic space in which they could operate. So it's actually economies of scale that come about from it as much as the actual flows that would happen between the countries themselves. So from our point of view, that's another reason to push it.

[01:07:03]

We haven't talked about trade actually more generally. And I know Uri has been working on this issue. But one part of the international response is money, as Bob was saying. For various reasons, maybe it's harder to mobilize that bilaterally.

But market access is the other form of supporting economic dynamism and growth in these countries. And market access for their exports is something that can't be delivered from international institutions. Ultimately, countries have to make those choices. It's their markets.

And that's where we and the Fund do think that one could actually identify, even for a relatively short horizon, over the next 18 months or so, things that could be done by the European Union, things that could be done here in the United States, that would have an appreciable impact on enabling these countries to export more of the things that they produce. Some of the exporter – the trade arrangements at the moment basically allow countries to export the things in which they don't have a comparative advantage. And, you know, if you're – if you're to export tomatoes from Morocco and you can't export those, well, it's kind of hard, then, to sort of export, you know, electronic components.

So I think we have to start looking a little more at some of the trade agreements and seeing how you can improve those in the short term. And for the medium term, think more ambitiously, even about how you can have more of a free trade area, because ultimately, that's where you want to go rather than on official financing.

MR. DADUSH: Good. Marina.

MS. OTTAWAY: Yeah. On the informal sector, I have not seen any discussions of how to sort of facilitate activity – or how to facilitate the transition from the informal to the formal sector and so on. And this is very interesting, because if some of these countries, particularly Egypt, stay afloat – and I think Yemen is very much at the same thing – is because of two things: One is the informal sector – (inaudible) – subsidies. Essentially, that is – subsidies – that is where you have – you know, that's what keeps the people, you know, in a position where they can eat and more or less pay their rent, essentially. A lot of the unemployment is in the informal sector. I am not aware of any discussions going on.

[01:09:23]

Now, concerning intraregional trade, I totally agree with what Masood said in theory. I'm very pessimistic in practice, because I think the obstacles to the formation of these, you know, border trade agreements within the region are really political. Maybe I have been too influenced by having watched for – probably since Algeria became independent – attempts to form a Maghreb union, which has gotten absolutely nowhere, despite all this, that I really don't think that it's likely to happen anytime soon, particularly at a time when countries are so wrapped up in their internal problems.

MR. HORMATS: I'll comment on two elements of it. One is Oda's (ph) point where he talked about the poverty and then what role the GCC countries could play.

And I totally agree that the level of poverty in, say, Egypt is very, very different and much worse than in Poland or any other country in Eastern Europe, for that matter, during the period after the fall of the Berlin Wall, no question about that. I was really using the analogy just to demonstrate that they had a magnet that they could climb onto if they made any internal changes, but their poverty levels are different.

I would add that the point was made earlier when we were discussing the notion of a Marshall Plan for the region. One of the interesting things about this is that while the probability of getting money from the United States, which put up 3 to 4 percent of its GDP to support the Marshall Plan, that's not likely to happen now.

[01:11:16]

But the big difference – and the big difference for Europe then is that unlike Europe at the time where there was really no money because they were out of money, there is money in the region, as Oda (ph) has correctly pointed out. And the money is largely in the hands of the GCC countries. And they do have a stake in the stability of the region, particularly, as you very articulately presented, in the case of Egypt.

And I would – and this sort of blends in with the second point about regional cooperation. I think it is desirable that there be more regional trade. It's very low at this point. But the genius of the Marshall Plan was not just the money that the United States – (inaudible) – mentioned, is quite formidable.

The really interesting, the really innovative part of the Marshall Plan was that he said these countries have to work together to strengthen their economic futures. They have to work together to build their economies and that started the coal and steel community in the European common market – (inaudible) – and others.

[01:12:30]

And these were people who said, we're not going to survive. We're not going to get American money. But more importantly, we're not going to survive and deal with the Cold War pressures and the (recovery pressures ?) unless we work together to develop some common approach to deal with our recovery. Now, they did that and they did that in quite an exemplary way.

And it strikes me that what is missing in the region is a much greater degree of that sort of Marshall Plan spirit of working together to figure out how do we collectively – and underscore the word collectively – get together to create, A, greater stability in the short-term and, B, more jobs and more opportunity over the medium term and therefore a much more stable political environment.

And there may be funding from the bank and the fund, but I think there is also money from – that is available but has not come in very large numbers yet from the GCC countries. So finding a way in which these countries work together is a very important part of the process, not only of mobilizing money but of mobilizing it in a way that encourages these countries to work together. And trade is one way of doing it.

I agree that the prospect of dramatically increasing trade amongst themselves is very limited. They've tried and it hasn't worked very well. On the other hand, I do think it's worth trying again. The broader point is how do they – how do we improve opportunities for access to the major markets of the world, and that's the United States for sure, the EU even more so because it's much more closely related. Turkey is playing a very active role and I think very constructive role in the region. But there are many other countries that are prosperous in the region and we could be buying more of their goods. So looking at this thing from a broader context of, A, how do they interact

better and trade with one another, recognizing the limitations of that, but, B, how do they develop the supply chain relationships with other countries that are either current or potentially substantial future markets. And that's going to be a major concern.

[01:14:46]

The OECD has been very helpful. The WTO has been very helpful. But it does strike me as very important.

The last point is there are devices for doing it. One is we have these qualified investments zones – QIZs – qualified investment zones with Egypt and the opportunity under the right circumstances for expanding opportunities for those we regard as important.

But there are other things. There are free trade agreements with some countries, like Morocco and Jordan for instance, where there could be more opportunities. So trying to find a comprehensive set of trade policies both regionally – (inaudible) – makes a lot of sense and it could be a relatively quick way of increasing jobs.

MR. DADUSH: Thank you. Caroline?

MS. FREUND: I'll pick up on some of the things the other panelists have said and also respond on informality. We have a report that will be coming out very shortly. It's just in the final stages right now. And I think there is really sort of a couple of important lessons from that, which one is don't crack down on the sector. Clearly it's a great job creator and we need it for people to have employment.

[01:15:56]

Currently, the formal private sector on average is only 10 percent of the economy. What this also says is that if you're in the private formal sector and you're not well-connected, there's a huge burden from the state of being in that sector because ultimately the revenues have to come from somewhere.

So you have to think about what is the distortion that's creating this large informality, the small private formal sector and a large government sector that's larger than in other regions. And I think the distortion, exactly as Masood mentioned, is what are the constraints to doing business in the private sector.

So that's really the place to engage on the informality is on the business – constraints to doing business, not on the informal sector itself. With respect to regionalism, which is something I've spent much of my career working on, and as Bob mentioned it, the European Union started with the steel and coal agreement between France and Germany which was also to offset conflict in the region.

And I think there could be some potential, especially if there are strong economic gains as there are between Algeria and, say, Morocco in the production of fertilizers, to have some kind of agreement where the economic gains are just so clear it could bring in an agreement.

[01:17:30]

And with respect to what Masood said, having a large union – I think the biggest gain isn't from the intraregional trade as they export and import many of the same things. They're not so-called natural trading partners. But from an investor's perspective, seeing a large market is hugely, hugely important.

This is the reason we see companies building plants that have 75,000 jobs at one time in India and China, because they can do that. So I think getting that large market could be useful. But it's not clear to me that that's, you know, that with the amount of political capital people have at the moment, that that's the ideal place to spend it.

And especially with respect to the U.S. and EU markets, certainly opening up more is worthwhile but we haven't always seen the supply response. So there isn't an extreme sense of happiness about the Morocco-U.S. agreement in Morocco because what they've seen is imports from the U.S. expanding to a much greater extent than exports to the U.S.

So the market access isn't enough. There also has to be a supply response that makes those agreements worthwhile that may have to do with the business conditions and real exchange rate and other economic factors.

MR. DADUSH: I'm going to take two or three more questions. But I also want to encourage the panel to come back, or somebody to come back to the question on the protests in Israel. I'm curious myself about the question of these protests in Chile, on Wall Street, in Israel and in the Arab Spring.

Are they really disconnected? I mean, is it just a coincidence that all of this is happening and what are the links, what are the links between them? Perhaps the panel could come back to that. So we have a couple of questions. The gentleman here, yeah.

Q: Thanks. I'm Garrett Mitchell and I write the Mitchell Report, and I want to just ask a simple question about China. Which is, we've gone this far and not talked about them, and I'm interested to know to what extent and in what ways is it likely that the Chinese will play some role in the economic development and development aid efforts here.

MR. DADUSH: So, good question on China. The gentleman?

Q: I'm Srđan Darmanović, ambassador of Montenegro to the United States. I have a question referring to what Under Secretary Hormats said about the external incentive for the European countries after the – especially for Eastern Europe.

[01:20:38]

When I was a member of the delegation of the Council of Europe in Egypt after the revolution, they regretted to us that they don't have that kind of an incentive. As external incentive, we do not decide on outcome of transition but can be helpful. Do you think they will be absent in Arab Spring transitions or you can detect some external incentives?

MR. DADUSH: Any other questions before I take it back to the panel? The gentleman here?

Q: Hi, I'm Chuck Dietrich with the National Foreign Trade Council and the U.S.-Middle East Free Trade Coalition. One of the things I think that was as we were watching the Arab Spring unfold was the role of technology; especially in Egypt and in Libya. We saw the economic impact in Egypt when the Internet was shut down. We saw what it accomplished when it was up and running.

To the extent of the role of how do you – are there any organizations that are sort of specifically looking at these issues through the lens of technology and innovation and how perhaps we have some analogies to Eastern Europe? And if you look at in Eastern Europe just the advent of the cell phone and they replaced the infrastructure, the

telecommunication infrastructure was leapfrogged in Eastern Europe to be able to leapfrog through technology and to open innovation.

[01:22:04]

And I guess one other comment, I just wanted to give a plug. I thought Caroline might have mentioned – was going to mention this specifically.

But in the role – moving from the informal to the formal sector, there is a really great prescriptive list if you just look at the World Bank’s “Doing Business” reports and sort of barometers, that if you look at the criteria of where countries rank in opening up to do business, everything from the sort of boring aspects of how long it takes to register a business, how you take your business from the informal to the formal, I think that there are some lessons there.

MR. DADUSH: Good. So we have a question about technology, a question about incentives, extending incentives for reform and we have a question about China and we still have a question about the links between protest movements around the world. So why don’t we just go in the opposite order. Yeah, you don’t have to pick up any or all but you’ll get a chance. Yeah.

MS. FREUND: Let me just start with the last one since I’m very closely associated with the “Doing Business” report. Thank you for mentioning it and I couldn’t agree more. The one point I would make about it is that one thing is the countries tend to rank low. So there was this perception that countries have been increasing doing business and therefore doing business was wrong.

It’s true they’ve been increasing in recent years but in general especially you have to separate the GCC from the developing countries, but the developing countries, one, tend to rank low. But the other point I think that was brought up earlier but I want to highlight is it’s also about implementation.

[01:23:51]

So doing business is de jure, what’s on the books. We also have the enterprise surveys which show what actually happens to firms. And one thing we saw in the region was that there was a huge variation in how firms were being treated. And so it’s not just about getting the books right for registering a business and starting a business and getting financing. And being able to go bankrupt is equally important. Otherwise no one will try.

But it’s also about actually implementing what is – what is – what is on the books. In terms of the others, I’m not sure. I think there are a lot of studies now on technology and innovation. I was just at a conference where someone called Gary Bunt had a nice paper on this, if you’re interested.

But I think what’s also interesting with respect to technology and innovation is it not only contributed to the organization of the movements but to the extent that it will be able to contribute to sustaining the revolutions in a positive direction, I think this openness makes it much harder to revert.

[01:25:07]

And with protests being connected, this is something I had brought up earlier and I absolutely think they are. The increase – and I don’t have the statistic off the top of my head but in the U.S. the top 1 percent of people have become much richer over the last two decades.

And this kind of inequality that has happened around the world I think has contributed and there were certainly some comments in the UK about their protests being sort of a contagion from the Arab Spring. So there certainly is a connection. And it may also relate to a time when the world is shifting to a world that is – that China is playing a much bigger role in other economies than in the past, so shifting away from the West and to the East.

MR. DADUSH: Bob?

MR. HORMATS: Yeah, these are some very intriguing questions. Let me just touch on the last one, all these demonstrations. I think we should not regard these as just a unique phenomenon in our time. When you go back – those of you who have read about or seen the movie “Gandhi,” I mean, the demonstrations there dwarfed anything we have seen here, massive.

Millions of people walked to the sea to take the salt from the sea as a demonstration against British rule and massive demonstrations in the streets of major Indian cities. You know, you go back, as I mentioned, to the French Revolution. We didn’t have the Internet then. Hundreds of thousands of people came out.

So you know, there are periods of time when we do this. But I do think even though the causes for which they may be coming out in the streets may differ from country to country, this method of demonstrating discontent and protest has sort of caught on. And even though they may not use it for the same purpose, although there are a lot of sort of crosscutting purposes, the utilization of street demonstrations has picked up all around the world.

As one group watches and another sees that there is power in numbers, they decide there’s power in numbers for their cause as well.

[01:27:36]

The second point relates to China, which I think is a very intriguing question. And I don’t know the answer at this point. I would say a couple of things about it. One is I think the Chinese are still trying to sort out what role they can play. The second point is I think they were quite surprised themselves to learn that when all this broke out there were 30,000 Chinese workers in North Africa, 30,000 Chinese workers in North Africa, many of which they had to evacuate, which they’re not used to doing, and this is the Mediterranean.

And yet they had to do it and they got other countries to help them to do it. So I think they – and third, they do – the stability of the region is very important to them because they get a lot of oil. They get more oil as a portion of their oil imports from that region than we do. We get a lot more from our hemisphere and from West Africa. We get about 19 percent of our oil from the Gulf area, from the Middle East and the Gulf. They get a lot more.

So they have a stake in it. But it’s an area that they do not historically have – they have not historically played a very active role and I’m sure they’re trying to figure it out now. They’re certainly supporting in the Deauville meetings. They were certainly supportive with the IMF and other institutions. But they were very – I mean, not Deauville, the Cannes meeting, the Cannes meeting.

[01:29:04]

They were certainly supportive with the IMF and other international institutions. But in terms of playing a direct supportive role, they have not quite gotten to that yet. The Europeans, of course, as you know, were talking about supporting the EFSF. But they still haven’t reached agreement on that either. Europe is a big market for them.

So I think that they're working it through themselves. It's a very new set of issues for them. I don't think they've come to any conclusions. But it's obviously important. Chinese workers, stability of the region and oil are all very important. I think they're thinking it through as well.

The last point on – and I don't think they've come up with an answer at this point although they certainly are working on it. The last point on connections, the ambassador raises the notion, is there sort of parallel or an equivalent to the role the EU played with respect to Central and Eastern Europe to what kind of institutional or kind of arrangements can be played today as sort of a magnet or a criteria center.

I don't think there is anything quite like the EU. But I do think there are some parallel institutions, one of which is trade agreements. If there were – if you could hold out the opportunity for expanded trade opportunities and say, look, in order to do these things, in order to benefit from them, you have to make certain internal changes, A, to improve your investment environment, B, to deal with corruption issues, C, to create better economic governance.

At least trying to explain to them through various dialogues at the EU and the U.S. and the Deauville partnership and others have the kinds of things they need to do on economic governance and to a degree political governance that would enable them, A, to benefit more from these trade agreements, but B, they have to have domestic policies that make it more acceptable on the part of the EU and the U.S. and others to conclude these agreements if there's not freedom of religion, if there's a lot of corruption, if there are a lot of other internal – if women's rights are not respected internally in these countries.

[01:31:23]

It makes it a lot more difficult politically in the US or the EU to subscribe to agreements which will give them more access to our markets. I think that's a very desirable thing to do, to create jobs. But I also think that the political context for doing it is very important in terms of our own domestic political opinion in responding and as well as in getting appropriations for such things as debt swaps and other kinds of things that we would like to do.

MR. DADUSH: Thank you. Marina?

MS. OTTAWAY: Yeah, the issue of external incentives, I think it's a very interesting question. And it seems to me obviously there is no European Union but what is most important is to keep in mind that the countries are in the Middle East and North Africa, right? We talk about MENA region. MENA region is a lot of different regions, actually, with different countries really having quite a different orientation.

It seems to me that there is no doubt to me that Morocco wants to be part of Europe, such that they have this initiative on the tricontinental Atlantic. I never quite understood what it is. But it is a clear declaration that their frame of reference is not the Middle East essentially, that their – so that the incentive for Morocco would be, you know, some greater degree of access to the European Union, I mean, some sort of agreement with the European Union.

[01:32:52]

I think for a country like Jordan, their frame of reference, it's the Gulf. I mean, it's not – you know, the Gulf cooperation – the GCC offered to open membership to Morocco and Jordan. For Morocco, it's a joke. I mean, they did not say no but they did not because you never say no to an offer of that sort, from people who have money. But they never took it seriously.

For Jordan, it's much more interesting because obviously they took – these are things they would not mind being part of. So there are external – there are different external incentives for different countries, I would say. I think Turkey is doing its best to offer some external incentive to Syria. I don't think it's going anywhere, and I don't think it's their fault, but it's essentially – so it's really a much more fragmented area than we make it sound when we talk about it.

On the issue of the – you know, is there a common – a common factor essentially that underlies all these uprisings and so on, these waves – I mean, unrest always comes in waves. You know, you go back to 1848 in Europe. You can talk about the student movement in '68 that was really pretty much across the United States and most of Europe and so on.

There is a contagion effect. People look at each other, at what happens elsewhere. But then in the end, what happens in each country is really driven by domestic factors so that I think, yes, there are – there is a contagion effect but it does not go that far.

It goes into trigger – as far as triggering something but not in terms of what the consequences – of what the consequences might be. And the final question on technology, I would argue that to me that's an issue we have to be very careful about. It's easy to overdo because if you look at each wave of unrest, each revolution that we have seen, it has always been attributed to the latest technology. The revolution of 1848 in Europe was attributed to the influence of that new-fangled invention called a daily newspaper, and many (posed that the cassette that Khomeini was smuggling ?) into Iran and then it was the cellphones in Europe and now it's the social media.

People use whatever technology is available, it seems to me, and there is no particular magic to one technology or another.

[01:35:30]

Q: Marina, on Morocco, the Saudis are not just investors in Morocco.

MS. OTTAWAY: I know.

Q: They invest in oil refineries. They own a lot of real estate – (inaudible) – the Kuwaitis, there's a lot of tourism. Morocco has also provided military assistance to countries like the Middle East. So there is a lot of interaction with the government.

MS. OTTAWAY: Yes, but that's not what they want to be part of.

Q: But they're the one who asked to be members of the GCC – (inaudible.)

MS. OTTAWAY: I'm not sure of that.

MR. DADUSH: OK, Masood?

MR. AHMED: Yeah, I don't have anything to add to what the others have said. (Laughter, inaudible.)

MR. DADUSH: All right, OK, I think we'll probably bring it to a close. And what I'd like to do, however, is just ask all the panelists for, you know, a 15-, 30-second answer to the question: Will economic difficulties in fact, in your view, derail the Arab Spring? Caroline?

MS. FREUND: That's a good question. I don't think so. I think it's much more likely that security or political considerations would derail. In Eastern Europe, for example, we know that's not the best example but it's the example we have. Poverty or poor counted at \$4 a day increased by an order of – I mean, by nearly an order of magnitude and democracy persisted.

[01:37:06]

So I think it's much more about political and especially security concerns that in countries like Angola where they tried to have democracy but there were many security concerns, you end up with a period of civil strife after that, where in countries where it's a bit more you don't. So I feel especially optimistic about Tunisia. But I would say that it's not about economics for the democracy persisting.

MR. HORMATS: I think that it will not derail the Arab Spring. I do think the economic transition, like the political transition, will be a bumpy road. There will be ups and downs as they sort out the right economic model that suits their individual countries' requirements.

I think also that we can help the political transition along by supporting the economic transition. I do think that the two go hand in hand. If we are able to be more supportive of the economic transition, it doesn't guarantee by any means a successful political transition.

[01:38:21]

But it will make it considerably easier if there is an effort to stabilize the financial situation and to provide through trade and through investment and through economic assistance an environment that enables these countries to create jobs at a more rapid rate. If they can't do that and they can't demonstrate that the political process is delivering job creation, then the political reform process would become much more complicated and much more difficult.

MR. DADUSH: Thank you.

MS. OTTAWAY: OK, I don't like the term derail because it gives the impression that the Arab Spring was supposed to go in a certain direction and it's jumping the track.

MR. HORMATS: It could be a winding road.

MS. OTTAWAY: But it was very much – it was very much an open-ended – I mean, it is a very open-ended proposition. So the question is, will it impact the outcome of the Arab Spring, I think is a better way to put it. And the answer to me is no, it will not in the short run. I totally agree in the short run the issues are above all politics – security to some extent. But it's really a political issue.

In the medium and long-term, I think it very well might because if these countries don't manage to – if economic growth does not resume, if some of the social problems that need some economic growth to be addressed are not addressed, then it's going to be much more difficult for the countries to stabilize politically as well. But in the short run, I don't think that's a major – it's a significant factor.

MR. DADUSH: Masood?

[01:39:59]

MR. AHMED: I think that the positive way to think about it is that managing the economic pressures in the short-term and addressing the obstacles to more job creating and inclusive growth are necessary to realize the potential of the Arab Spring.

MR. DADUSH: OK, very good. Well, so I think our panel kind of agrees that economics will not derail the Arab Spring, the implication being we really didn't have to hold this event. (Laughter.) You know, we do this for a living so this is not going to stop us. I'd like to thank our panelists. I think they really did a remarkable job. Thank you very much. (Applause.)

(END)