MIDDLE EAST AND NORTH AFRICA IN TURMOIL:
THE ECONOMIC AND POLITICAL OUTLOOK

MONDAY, MAY 9, 2011
9:15 A.M.
WASHINGTON, D.C.

WELCOME/MODERATOR:
Uri Dadush
Senior Associate and Director, International Economics Program
Carnegie Endowment for International Peace

SPEAKERS:
Masood Ahmed
Director, Middle East and Central Asia Department
International Monetary Fund

Michele Dunne
Senior Associate
Carnegie Endowment for International Peace

Marwan Muasher
Vice President for Studies
Carnegie Endowment for International Peace
URI DADUSH: Good morning, ladies and gentlemen. Welcome to this conversation about the “Economic and Political Outlook for the Middle East in Turmoil (ph).” And we have today with us a very expert panel: Marwan Muasher on the right – not on the extreme right – (laughter) – but on the right – is vice president for studies at the Carnegie Endowment, and among other posts, a former foreign minister and deputy prime minister of Jordan.

Masood Ahmed next to him is the director for the International Monetary Fund Middle East and Central Asia department, so he is directly, personally involved today in the assistance programs and analytical work on the Middle East in that institution.

And then here to my immediate right is Michele Dunne, who I’m sure is known to many of you. She is the editor of the Arab Reform Bulletin and a specialist on Egypt, has had a long career in the U.S. government on Middle East issues.

And we are going to start with a conversation in the panel along a set of questions, a structured set of questions, which will go on for about, oh, I don’t know, 45 minutes or so, or an hour, and then will be followed – we’ll open it up to the floor. And we have to finish at exactly 10:45 because some of us have to go on to other things.

So with that, let me begin by asking – let me start with Marwan to give us a little bit looking back over the momentous three months, last three months, what is your assessment of the situation? What happened – what is your assessment of the situation to date?

MARWAN MUASHER: Well, thank you, Uri. What I thought I would do this morning is maybe try to tie the economic issues with the political issues, realizing fully well that I’m not an economist. And so whatever I’ll say about the economy will, I’m sure, be corrected by Masood – (chuckles).

But I do want to make some general points, I think, that are important. The first one is that the uprisings that we have seen might have been triggered by economic issues, but certainly economic issues alone don’t even begin to explain these uprisings. They have been very much about dignity and about a low degree of governance in the Arab world that people are no longer willing to accept as much as it is about economic conditions. And I think this is an important fact that needs to be realized.
And therefore, the challenge after four months of uprisings – the challenge today is how to carry on with an economic reform process which has lost credibility in the Arab world. Today, the public are asking for increased subsidies for states to run and manage the economies again, and it’s going to be very difficult to convince such a public that you cannot stop economic reform processes, but that this time you are serious about conducting economic reform, you know, coupled with a political reform process; to show the seriousness is not going to be easy.

And the last point I want to make is, everywhere I go, whether in Europe, United States or elsewhere, what I want to say is political conditionality is back. Political conditionality has taken a very bad word in the last decades because it was associated with the Bush doctrine of imposing reform from the outside. But people now are saying that reform processes, home-grown reform processes in the region have not worked either. And the challenge is going to be, how does the international community support reform without imposing it?

No one wants to impose reform from the outside; it doesn’t work anyway. But what is the magic formula that will result in supporting reform without imposing it? The European Union talks today about more for more: OK, more aid for more reform. But more reform this time is different than before in the past; this time, I think, we will see an insistence of a more serious reform process – political reform process than we have done before.

MR. DADUSH: Good. Thank you, Marwan. Michele, is there anything you want to add on the ongoing assessment today?

MICHELE DUNNE: Yeah, thanks, Uri. Yeah, I would like to add a couple things to what Marwan said, with which I completely agree. I completely agree that the whole concept of reform, top-down reform, now is very much challenged throughout the Middle East. I mean, the credibility is just extremely low, and we see this, you know, for example, in Syria and other places with governments making reform promises that would have once been welcomed but now enjoy zero credibility.

People just feel – I think this whole idea that authoritarian regimes would implement reform from above has lost credibility. There may be some of the systems in the Middle East, some of the monarchies that are still able to at least try this. And we’ll see whether it will succeed.

I also agree with you, Marwan, that the whole question of economic reforms that are free-market oriented and oriented toward facilitating investment in creating a good business climate, whether that was for domestic investment or foreign investment, are troubled now as well. And there’s this tendency, a strong social justice imperative – I was in Egypt a few weeks ago, and I really – I had a lot of economic meetings, and I found a lot of unrealistic thinking about the economy and
a sense that people knew what they didn’t want, which is the corruption and cronyism of the Mubarak era. But they didn’t know what they did want.

[00:09:47]

And I’ll give you an example of what I think is unrealistic thinking: I had a meeting with a member of the Muslim Brotherhood who is a former member of parliament. And I was asking him about the Brotherhood’s view on the economic situation and on foreign direct investment. And he said, oh, well, of course we know that we need foreign direct investment as well as domestic investment to generate these hundreds of thousands of jobs we need every year for our growing labor force, but something has to change. From now on, when foreigners want to invest in Egypt, they will have to invest according to our national priorities, not according to the investors’ own interests.

Well – (chuckles) – good luck with that. Good luck in attracting investment that way. So I think there is – there’s a lot of confused economic thinking. And there’s much more emphasis, of course, on the political transition. That’s where most of the energy is going, toward the political transition. And as is so typical in political transitions, there’s an enormous economic vulnerability and possibility that economic problems will eventually start to undermine the political transition.

And also social problems: For example, we see now in Egypt the sectarian problem flaring up very much that’s – you know, and there’s an economic edge even to social problems like that because economic competition and jealousy between Muslims and Christians in Egypt has been an issue over time. So these economic and social problems do endanger the political transition.

MR. DADUSH: Let me ask both Marwan and Michele – I know it’s difficult, and the track record of political forecasting over the last year or two – (chuckles) – has not been stellar. But nevertheless, you’re the best place to at least try this question: A year from now, what’s your best guess of what the political constellation in the region is going to look like – how different politically the region will be from today a year from now?

MR. MUASHER: Well, I don’t think the implications of the uprisings will be measured, frankly, in a year, Uri. I think more likely they would be measured in decades. Having said that, I think that, you know, you can at least classify groups of countries from now till next year – one, that already are undergoing the transitions, like Egypt and Tunisia – and we can talk about what kind of support can we give these transitions so that we ensure that they are as smooth as can be; two, countries that are, I think, going to stay in turmoil for a long period of time, like Libya, Syria and Yemen. These are countries that will not have – will not undergo – they are not undergoing already any smooth process where you have, sometimes, minority regimes like in Syria ruling over the population.

[00:13:19]

So any talk about serious reform means that the regime is out, and therefore there is less of an incentive for countries like Syria to undergo any serious reform process because for them, it’s a zero-sum game.
And then there are countries who have a chance, if they do it right. OK? So far, frankly, I don’t see – maybe with the partial exception of Morocco, I don’t see other Arab countries so far drawing the right lessons. I think that what we have seen so far is either a tendency to sort of continue to buy off loyalty with money, with favors in countries that can afford them, and sometimes in countries that don’t afford such.

[00:14:08]

And in other countries, what we have seen so far is continued rhetoric. No one has yet, you know, tried to present a holistic reform process that does not talk about ad hoc programs here and there but looks at a comprehensive process over time, of course, and to an inclusive process. Because from now on, I think the era of governments handing over, you know, plans to their public and saying, this is our plan of reform, and all we need from you is to support it, is over. OK? As Michele said, there is just about zero credibility of any government handing a process of reform for publics, and asking them to support it.

Unless the reform process is inclusive, meaning that there is a buy-in from the general public through some form of a national dialogue aimed at producing reform processes in the future, unless that is done, then I’m afraid that one year from now we’re going to be talking about more turmoils (ph) rather than more stability.

MR. DADUSH: Well, Michele, I’d like you to pick up on that question too, but more specifically, do you see Egypt as the linchpin of this process, or will every country have to find its own path?

MS. DUNNE: Well, yes and yes – (laughter) – I do see Egypt as the linchpin, and I do think every country will have to find its own path. But I just wanted to comment briefly on something that Marwan said about the lack of credibility of reforms.

And I think one thing we have to look at is, in this region, governments, you know, simply did not deliver enough economic prosperity, economic opportunity and quality of governance under authoritarian systems to buy people off, right? It just – that’s exactly what we saw over the last few months, that this formula fell apart, that what they – you know, the idea that they could somehow avoid real political participation by buying people off with other things, it just hasn’t worked. And so I quite agree with Marwan that it’s a very dicey outlook, and there’s probably going to be a lot more instability over time.

[00:16:39]

Regarding Egypt – yeah, of course. I mean, look, Egypt, as we know demographically, it’s one-quarter of the Arab world. And whether it succeeds or fails in a democratic transition, and also whether it does, you know, at least reasonably well economically, if the economic situation is at least good enough not to undermine a political transition, is going to be tremendously important. And there’s a tremendous demonstration effect and ripple effect; as we know, Egyptians are everywhere in the region and so forth. So this is going to be huge.

If Egypt were to fail, and if it were to fall into authoritarianism or some kind of extremism or instability, it’s really difficult to think of democratic transitions succeeding in other Arab countries.
in the short term. So that doesn’t mean that others are going to copy Egypt exactly, but the demonstration effect and the ripple effects are tremendous.

[00:17:55]

MR. DADUSH: And Egypt is one of the countries that has the biggest economic challenges confronting it. So let me ask Masood to give us his view of how the turmoil has affected the economies of the region, which have been worse-affected and less-affected – what’s happening there.

MASOOD AHMED: Thanks, Uri. I think if you look at the countries that are most affected, you know, pretty obviously, the ones that have been most directly affected in the short run are the ones where there’s been the greatest amount of disruption. So clearly, you know, Egypt, Tunisia see their growth rates have come down quite dramatically, probably around 1 percent or so this year, maybe even lower; it depends a bit on how the transition proceeds.

Libya – difficult to say, but clearly there’s going to be a big contraction. You can see the economy is only a small part of the issue there. Same thing in Yemen; you’ll see the same thing in Syria. So there is this sort of direct effect in the first instance, which is predictably where there’s the most unrest.

Second, I think if you look at all of the oil-importing countries, in a way they’ve been affected through different pressures. So first of all, they’re paying more for buying oil and food; price of wheat has doubled; Middle East has some of the largest importers of wheat. So on average, they’re paying about 3 percent more of GDP, $15 billion or so, for imports of food and fuel.

They’re being affected by reduced tourism. So obviously, tourism has gone down in Tunisia and in Egypt, you know, but it’s also being affected – tourists are pulling back from other countries in the region. FDI is being held back – same reason: uncertainty. Then you see also in these countries, borrowing costs are going up.

[00:19:52]

So a variety of things they’re under pressure – and then, to pick up on Marwan’s initial comment, while the problem was originally maybe largely political, the response to it across the region has been largely in terms of trying to buy peace through spending.

So virtually every country in the region is now spending on subsidizing food and fuel, more jobs, promises of housing, cash transfers, on average, about 3 percent of GDP in terms of fiscal spending.

So combination of higher spending and all these external pressures means that the impact on growth is actually less because the extra spending is kind of holding up the growth in the short run, but you see a worsening of the fiscal situation across the board in the oil-importing countries.

And this is where – I will come back again to the point that Marwan, then Michele were making – which is that the dialogue so far, in most countries, is about how to keep people from feeling the worst of the current turmoil. So it’s a sort of, you know, let’s buy peace for a year. And
it’s great to do that, I think you need to do that – the social – extra social spending is necessary for consensus this year.

But the time that we are using – this next year – also has to be the period to initiate a more fundamental discussion about the nature of the economic model and how you generate the jobs that you’re going to need over the next 10 years.

[00:21:44]

And I don’t yet see the same kind of energy and attention being devoted to initiating that discussion as I see to the discussion about how to protect people in the short term during this transition and, in some countries – obviously, Tunisia and Egypt being the leaders – a discussion about the new political model. But to my mind, you can work – you can buy your way through spending for a year, maybe for a bit longer than a year, but you can’t substitute spending for a discussion about how to create a new economic model.

And the last point I want to make is that the oil importers obviously are being affected in one way, but the oil exporters being affected another way, which is that they are being – they’re also spending a lot more, and some – Saudi Arabia is spending over a hundred and some billion dollars, spread over a number of years, in extra spending for housing, jobs, et cetera. They can afford that for longer, and it’s interesting that this year, despite this extra spending in the oil exporters, the higher price of oil means that, in fact, their financial numbers improve virtually across the board.

So their fiscal balances are better despite the spending; their current accounts are obviously much better; they have more than doubled their current account surplus this year to about $380 billion or so. So they are going to be doing well, but they also have to have the same discussion, which is how to create a new economic model that will generate jobs, which is important for a number of the oil exporters and which, again, requires some of the same kinds of issues being challenged.

MR. DADUSH: Thank you. It’s quitestriking that when you look at your economic outlook, Masood, which you just issued – your quarterly economic outlook for the region – that actually the broad growth numbers for the region are, if anything, higher in 2011-2012, precisely because of this acceleration of growth and revenues in the oil-exporting countries.

So in a sense, I mean, it’s rather strange and counterintuitive, but this turmoil in the region is actually helping the oil-exporting countries accumulate wealth at a faster rate. What does that mean for the internal dynamics of the region? I mean, can the oil exporters in the region somehow help the oil importers and thereby mitigate the effects of the turmoil, at least, you know, make sure that the adjustment is somewhat smoother?

[00:24:47]

MR. AHMED: I think they can, and I think they do. I mean, there’s an interesting box in the regional economic outlook we’ve just put down, which actually looks at how are oil importers affected by an increase in the price of oil. And clearly they’re affected negatively on balance, and in the first instance, by paying more for oil. But there is a positive feedback loop, which has been growing after the last decade – or more than a decade now – which is that because the oil exporters
do better, there’s more remittances from there – because, remember, a large number of people from
the oil importers go and work in their neighbors, they buy more in terms of imports, but more
importantly they invest more, they have more tourism now – so there are growing links between
importers and exporters. It helps to mitigate a little bit, but the net impact is clearly a negative one
on importers and the net financial impact is clearly a positive one for exporters.

Now, the challenge going forward is, as you reconfigure and restructure the economies in
the region, particularly the oil-importing economies, they are going to need external financial
support as part of that. And with the financial challenges in Europe and the rest of the world, the
role that the oil-exporting countries in the region can play as part of that is going to be a key one.
But to achieve that, I think, you can’t – it’s a little bit a bottle of, how do you organize this process?
You can’t go to them with a bill and say, you know, this is the cost; can you please finance part of
the share?

I think it has to be a process where people are engaged together in designing what is the
nature of the strategy, and it won’t necessarily be public money being given to governments; it may
well be lots of investments by government-owned companies in the oil exporters, whether they’re in
telecoms or other businesses who come in and invest in the oil-importing countries.

MR. MUASHER: May I

MR. DADUSH: Yes, please, yeah.

[00:26:48]

MR. MUASHER: – inject a political component here. What we might be seeing now is
because of the high prices of oil, oil exporters are trying to buy stability not just domestically, but
regionally in their neighborhoods.

So there are now sort of efforts to help Yemen or to help Bahrain, or to help Jordan, or to
help maybe Egypt, which is a mixed blessing because if these countries then use this sort of fresh
money as a way to mitigate the crisis while they embark on a political reform process, then the
money is fine and good. If they see the money as a way out, while ignoring the political reform
process, the issues that came out of the box – the political issues, corruption, for example – are not
going to be helped just through a fresh injection of money into their economies.

These issues are out in the open and will stay out in the open, and my concern is that this
money, like I said, will be a false sort of – give a false sense of security that everything is fine for
now; we now have money we didn’t have before; and we don’t need to do anything on the political
front. That is going to be extremely short-sighted.

[00:28:20]

MS. DUNNE: Yeah, I agree with what Marwan is saying and, I mean, I think in –
particularly in Bahrain – this is a very, very sharp and difficult issue right now with the Bahraini, you
know, uprising being put down, and I – but I don’t think permanently. I really think the problems
in Bahrain will be back and sooner rather than later. But even – I would make it a little broader.
I am concerned about whether the oil exporters in the region – in the Gulf, Saudi Arabia, etc. – are going to have the same set of interests that we in the United States and Europe might have in terms of fostering successful democratic transitions, for example in Egypt and Tunisia. And whether, through investments and aid, they’re going to willing to support that or are they going to have a different agenda of wanting to minimize – do whatever they can to use their money to promote less change rather than more change.

MR. AHMED: Can I ask Michele a question?

MR. DADUSH: Yeah, yeah, go ahead – please.

MR. AHMED: But do you think, Michele, that it is feasible, in Tunisia and in Egypt, to move with minimal change and sustain that for more than the short term?

MS. DUNNE: No, I don’t think it is. But I – but that doesn’t mean that those in the Gulf maybe won’t try that. I’m concerned that various external players – we in the West and those in the Gulf – might be a loggerheads a little bit in what are the goals we’re going after in the region and in these countries under transition.

I mean, we already saw, for example – I mean, there were many rumors, you know, that Saudi Arabia tried to prevent the – and maybe is still trying to prevent the prosecution of former President Mubarak in Egypt with – using money and investments and so forth as an incentive. And it’s still not absolutely clear, but it seems as though the military leadership in Egypt said, “Sorry, we can’t do that; the domestic pressure is too great.” So they may – those in the Gulf who want to use their money to prevent change – they might not succeed, but I think this creates a confusing picture where various external investors and donors may be coming at this with conflicting goals.

MR. DADUSH: Yeah, let me ask Masood to elaborate a little bit on the policy angle. You made a very telling point that, in a sense, the macroeconomic management of the region has become more complicated for the oil importers in turmoil and, in a sense, a little bit easier for the oil exporters. We’re talking about the short-term macroeconomic management because they have so much more money.

But equally the turmoil has underscored the need for long-term structural reforms in both groups of countries. Can you elaborate a little bit more on both what you think is needed on the macro side in terms of changes? You know, what are the big challenges confronting particularly the oil importers that are more interesting at the moment on the macro side? And also, elaborate a little bit more on the sort of structural reforms that you think are needed in the region in both camps.

MR. AHMED: I think on the macro side, particularly if you take the next 12 months, look at the oil importers. They have a combined budget deficit of about $40 billion. So the $40 billion is about – used to be more like 32 (billion), 33 (billion) or something like that last year; now it’s about 40 (billion). So there’s a big increase, but still a manageable number, right? Forty billion dollars in the global scheme of things right now is – should be a manageable number.
But they are going to have difficulty financing it from their domestic sources now because their domestic sources just don’t have enough capacity to generate that, without straining it. And that’s why I do think that, over the next 12 months, a high priority will be to make sure that these countries don’t run into fiscal instability and, consequently, for the rest of the world to come in and help provide some of the financing for the next year. Same situation over the year after. So, over the next two years, think they will need financial help in order to be able to see through the transition.

The IMF can do part of this; it’s natural business for the IMF and we’ve already said that we can make available about $35 billion or so for countries in the region if they want it. Other people would need to come in and provide some help, including the oil exporters. So for the next couple of years, one part – if you like in some ways, conceptually easier part to deal with – is to help them finance the financing gap that they have on the budget side.

I think the more difficult part of the conversation, which really needs to be started now, is what are the kinds of reforms that will create a new narrative on why economic reforms are not just efficient and important in a kind of narrow economic sense, but actually equitable and just? And part of the issue has been that people have not seen privatization/liberalization as bringing widespread benefits, and there is today a sort of – in many minds – a sense that going back to state control of the production system would be fairer when in fact we know that, in fact, state-controlled enterprises are often as discriminatory, as unfair, as inequitable for poor people as public enterprises. So introducing contestability and competition to replace privilege and connections in the enterprise sector is one part of the reform agenda, and that narrative is a national narrative that has to be developed country by country.

Another part of the discussion is going to be to try and see what you can do to move from generalized subsidies and price controls to fairer and more efficient targeted systems of social protection. So when we talk about removing subsidies, historically people see this mainly as a fiscal austerity issue: You have to cut subsidies because you can’t afford them. I think you have to cut subsidies because they’re not fair.

Two-thirds of the benefits of fuel subsidies in Morocco go to people who are not poor. So the reason you need to move from cutting those subsidies to replacing them with targeted social protection is because you want to use your money for the people who need the help, not the people who don’t. That’s the new narrative as well. And I don’t think that that discussion has yet been internalized in many countries as well. They probably won’t move on doing subsidy reform in the next 12 months, but we should certainly do the work that is needed to put in place cash transfers that are more focused on poorer people over the next 12 months to try and get the discussions started.

So I think there’s the enterprise sector and then there is the social protections/subsidy reform agenda which is part of this. Then you can get into also discussion about whether the education system is providing the right set of skills – in many cases, it is providing diplomas, but it is not providing skills that people need – whether you have an underpinning of this accountable governance structures, and then how do you keep the macro stable when the structure is changed?
Because these countries have been very good at keeping their macros stable, but without structural change. Now you’re going to have to keep your macro stable while you’re going through a lot of changes in the economy, and that’s a more complicated management task.

[00:36:23]

MR. AHMED: Uri, can I add to that?

MR. DADUSH: Yeah, please.

MR. MUASHER: Speaking as somebody who was in government, the argument that you keep hearing from the public – and, I mean, I totally agree with what Masood said – the argument that you keep hearing from the public, though, is: Look, guys, every time you are in trouble – the government in trouble – the first thing you think of is raise prices. The first thing you raise up is cut subsidies, OK? What about corruption, OK? Why don’t you do something about corruption in government? Corruption alone, in their view – OK – corruption alone would take care of all these issues and maybe even more.

Now, you can have an argument about that but unless people once again – I keep going back to the political argument – unless people are convinced that government also is doing its part when it comes to the budget deficits that keep increasing, when it comes to fighting corruption – and after all, how can you fight corruption effectively without a political system of checks and balances? I mean, corruption is not fought just by administrative orders. So how can you do that? If you are able to do that effectively, then in my view, people will accept the sacrifices that come with, you know, a globalized energy crisis or food crisis if they at least know that there is a plan to take them out of this.

[00:37:50]

If they feel, as they do today, that all what government does, whenever a crisis emerges, is, you know, increase prices that the average citizen who no longer can take any more, you know, increased prices – if this is the feeling, then people are not going to subscribe or support any serious economic reform process.

So my main point is the two, from now on, have to go together. That the IMF, the World Bank, all bilateral countries will have a very difficult time, if not an impossible time, convincing these countries to do economic reform, you know, prior to January of 2011 in the same way. It is not going to fly. From now on, people will need to know that there is an accompanying political reform process – one that might not produce results tomorrow morning, but one that, in their view at least, this time, is a serious one.

[00:38:58]

MS. DUNNE: Hey, I’d like to raise another question and ask Masood as well about the connection between political and economic reform, and that is this: So we know that governments – for example, the Egyptian government – was contemplating this shift in trying very, very slowly and cautiously to make this shift from subsidies to direct social welfare payments, but that they were
Transcript Not Checked Against Delivery

afraid to do so because they feared exactly what eventually happened would happen. (Chuckles.) You know, they feared a popular reaction and so forth.

So now if we look forward to elected governments – elected presidents, elected parliaments, in Egypt and Tunisia, let’s say, within the next few months, by the end of this year – are those elective government in your view – although certainly subsidy reform won’t be the top – at the top of their list – but will they be – will they be more able to take difficult decisions because they enjoy more of a popular mandate? Or will they be less able to do so because they are more responsive to public opinion?

MR. AHMED: I think that the answer is what you just gave to Uri: Yes and yes – (laughter) – like, you know, which is – I think it’s going to be – they clearly will have more of a mandate, but they will also be more responsive to what public opinion – I think the key is to go back to what Marwan was saying, which is that the narrative on both reform and on subsidies has to shift from a top-down narrative to one that actually emerges from a broader conversation about why these things are sensible and fair, rather than why these must be imposed.

Because, you know, otherwise, people say, look, this is the only thing I’m getting out of the state right now – is I’m getting at least my food and fuel cheap. I don’t care whether it’s fair or it’s not fair. If this is all I’m getting, I don’t trust how you spend the rest of the money, and I don’t believe that my taxes are being well used, and maybe I don’t actually pay too many taxes or if people who are richer than me don’t pay taxes – I’m not going to give this up without a fight.

So it has to shift from a kind of zero-sum discussion to a broader common agenda of how you get a fair – and also an economic model that will generate the jobs you need, because ultimately I think jobs trumps everything else. So when young people are coming on the street every year not getting jobs, that’s a shared concern everyone has and right now even more than before. So I think you have to lead with jobs and then follow with the others.

MR. DADUSH: Let me ask a question of all of you that puzzles me a little bit. You know, corruption is not a monopoly of the Middle East. Corruption is widespread in the developing world; I’ve even heard that corruption is present in the United States in some instances. (Laughter.) And when you look at corruption indicators – I haven’t looked at them recently, but I don’t think there’s a huge difference between Middle East, Latin America, East Asia, China, et cetera, correct me if I’m wrong.

So my question is this: Why suddenly is corruption such a huge issue in the Middle East? Why isn’t it elsewhere? Is it the fact that it’s not just corruption, it’s the combination of autocracy and corruption that somehow it’s easier to have corruption, for the people, if they feel there’s some sort of democratic process going on, but the combination of the two somehow seems very tough to swallow?
MR. MUASHER: That’s exactly right, Uri. It’s the combination of the two. It’s the feeling that corruption exists in an environment that doesn’t do anything about it, not that it doesn’t exist elsewhere in the world. But if you look at the indices, international indices – Transparency International, for example, publishes a yearly, you know, perceptions of corruption index. Of course it is subjective, of course all indices are, you know, subjective in nature but at least they’re indicative.

Out of 21 Arab countries, OK, 12 – 12 – have a score of 80 or more in a scale of one being the best to 180 countries that are surveyed. Twelve Arab countries of 21 have a score of 80 or more. That’s not good. (Chuckles.) That’s not good. So there is a perception that corruption is widespread but the main point is that it is – nothing is being, you know, done about it.

Now, this has been compounded by the global food and energy crisis and the global financial crisis as well, because what people are saying is, you know, the pie is getting smaller because of all these crises, but the corruption slice is getting bigger. You guys are taking more, you know, out of a shrinking pie that doesn’t have anywhere enough for everybody. This combination is lethal – is lethal.

Many – let me also say this, many Arab regimes make the point that if you ask people, you know, whether political reform in the Western sense is a priority of theirs, they say no. And that is true. But if you ask people if they care about corruption, that is way high on their priority list, and once again, how can you fight corruption without a political system of checks and balances? That’s not possible.

So it is – it might be – it might be true that people today are not thinking of political parties as a priority, but only because they don’t make the connection that you can only fight what is a priority to them through political reform.

[00:45:03]

MR. DADUSH: Masood, can I ask you – I mean, your empire spans outside the Arab world, right? You cover many countries outside –

MR. AHMED: I don’t use that term. (Laughter.) I work on a number of countries – (Inaudible, cross talk.)

MR. DADUSH: Your portfolio spans many countries. What’s your – how come the people in Central Asia are not up in arms about corruption but the people in the Middle East are, or in Pakistan or – and so on?

[00:45:37]

MR. AHMED: I don’t know. I don’t really understand fully why it is that people in Central Asia aren’t as concerned. Maybe they are, maybe they haven’t shown it in the same way. But I do think that, in addition to what Marwan was saying, I think one other dimension of it is that over the last few years two things have happened.
One is that the visible – although the indicators of inequality, if you look at broad indicators, like Gini coefficients, they haven’t changed all that much; they don’t normally change very quickly anyways. But the episodic perceptions of inequality and of ostentatious differences in styles of living have become much more visible in many parts of the world, including in the Arab world, the Middle East.

So you see many more visible signs of a few people doing very well. And in a way, this is a little bit linked with liberalization in the sense that they are able to import and demonstrate the consumption of goods which previously would not have been so easily visible to ordinary people.

And the second part is that I think people’s perception, of what is the relative cost of things and what is the world as a whole about, have become much sharper because so many more people are connected through the Internet, through social media, through just being part of a global network.

So in a way people know now what it costs to have a particular kind of car, or whatever, and then you see people who have six of these in the middle of Cairo or somewhere else and it shocks people more than it might have done 15 or 20 years ago because they’re more connected into the global network.

[00:47:35]

MR. DADUSH: Good.

Michele, you want to add anything?

MS. DUNNE: Yeah just a point, you know, about why, you know, if corruption in the Arab world isn’t worse than it is in other places, why has it emerged as such a problem, just to return to what I said earlier. I think if these systems, if these government systems, had been delivering a better level of economic opportunity, even if it wasn’t fair, but if it was better for everybody than it was. If they had been – if human rights practices had been better, you know, if torture and police brutality and so forth hadn’t emerged as such problems, maybe people would have lived with the corruption.

But you know, it was all of these things coming together. I mean, that was the thing that was really noticeable, I thought, in Tunisia and then later in Egypt was that there were all kinds of disconnected grievances that people were unhappy about and at least in Egypt that there had been a lot of different protests about.

What happened a couple of months ago is that they all came together. The economic grievances, the labor, the human rights grievances and the explicitly political and democracy oriented grievances all came together and became pointed at a single goal which was, you know, regime change.

[00:48:51]

MR. DADUSH: OK, very good. Let me ask now about what the rest of the world can do. There really two dimensions to this. One is somehow political support and diplomatic support,
whatever that means. And the other is economic help. And so I’d like to ask Michele and Marwan, to begin with, is there a political, diplomatic dimension to this that is important, or is it all about money and trade?

MR. MUASHER: Well, the first thing the international community can do, as well as the Arab world, is to stop playing games with each other. I think we all played a very sad game that has got us to where we are today. The international community first tried to impose reform from the outside and then when that did not work, because Arab countries said reform, and I agree with this, reform has to be a homegrown process, then Arab countries proceeded to do no reform. Just used this as an excuse to do little.

And the international community pretended as if, yes, that was reform because they favored stability over democracy. And the end result has been, you know, a process of supporting ad hoc reform programs in the Arab world economically that did not add up to a serious reform process. And when I say serious reform process I mean at least one thing, power sharing, OK?

Any reform process that does not lead to power sharing, to the dilution of the executive’s powers, to strengthening parliaments, is not a serious reform process. I don’t care how many women you put in parliaments, I don’t care how many, you know, training programs you have in rural areas, if you don’t end up with power sharing that’s not a serious reform process.

So that’s the first thing we need to do, is Arab governments need to be serious about reform and the international community needs to be serious about what constitutes reform and what does not.

[00:51:29]

The second point I want to make is, yes, like – you have to find a formula of supporting reform without imposing it. OK. You cannot impose it from the outside. If the governments, if the countries are not serious about reform there’s nothing you can do. But if they are serious, then I think we need a coordinated effort, OK, international effort, where everybody plays a part. Because no one, not the U.S. not the E.U., no one has the necessary funds to support this process in a sustained way over time.

But then the, you know, international – the IFIs like the IMF or the World Bank are also not in a position to talk about political issues. And so how do you – how do you come up with a formula where political issues are addressed, you know, by, let’s say bilateral countries and then IFIs can come in and support the process economically but only after there is a political reform process in place? Requires a coordinated effort.

My view is that we need a multidonor sort of effort but this time that does just look at economic issues alone, but looks at a holistic, comprehensive reform process where there must been milestones for political reform and then you can bring in economic support.

[00:53:10]

MR. DADUSH: Michele? I know it’s a tough question. Yeah?
MS. DUNNE: Well, yeah, I agree with what Marwan is saying. Let me say it in a slightly different way. I think that outsiders, the United States and Europe, need to be unambiguously in favor of democratic change in the region and also what Masood was talking about, economic change that—in which these countries formulate new economic philosophies. And they’re going to have to figure out for themselves the balance between sort of free market economy and social welfare and so forth, that works for them, but something that we, you know, as outsiders think will work.

Now, one of the things is—and of course it’s quite different, making clear what we as outsiders stand for, in working with countries that already are in transitions versus those that are not in transition. I mean, this is—you’ve got to work this out a little bit differently case by case, and I think that the countries that already are in transitions, we’ve got to figure out a whole new way of working with these governments.

We’ve got a completely different situation now. Before we had a situation with governments that want to do the minimum in reform and we as outsiders were trying to urge them along, but we had limited leverage, we had other interests, et cetera. Well, now you have, in at least a couple of countries, a situation where they’re kind of wide open and say they’re going to do reform.

But there’s also a significant degree, I think, of national pride and prickliness and not wanting to be dictated to, and so, you know, as outsiders I think we need to find a way to offer incentives that we are going to have to employ a kind of conditionality. But it will have to be skillfully done in order to—you know, offer incentives, offer benefits, I mean, trade and so forth, perhaps debt relief, but making it clear that this is somehow—making it clear at least privately, that this depends on a political transition that proceeds and doesn’t get stuck along the way.

MR. DADUSH: Let me ask Masood a relatively easy question and a relatively difficult question. The relatively easy question is the dollars and cents question. So what can the rest of the world do to help these countries in terms of trade, aid, et cetera? That’s the easy question.

The tough question is the following: we got these IFIs, World Bank, IMF, et cetera, that are wonderful instruments but some people think they’re wonderful instruments operating in the wrong direction which is, you know, essentially buttressing corrupt and authoritarian regimes. And what do you do about that, if anything?

MR. AHMED: So I think on the first one, as you say, for the next couple of years the magnitudes are relatively clear, probably somewhere—total financing needs about 100 billion (dollars) and then try and figure out in that how much comes domestically, how much comes from the rest of the world.
Now, longer term there’s also a financing requirement associated with the transformation of these economies. My hope is that a large part of that will actually be financing that comes from the private sector and to the private sector in these countries so that you’re actually creating incentives for straight – to move away from a state-based model of economic growth. But they’ll also clearly be a need which will be a need for public investments, and that needs to be financed.

My sense is that that task is best done by doing a sort of country-by-country assessment which needs to be carried out over the next year, again, under the leadership of the countries because of the points that everyone has been making earlier in this panel, which is that for these reforms to work, they have to emerge from a dialogue and a narrative about why they make sense for the country rather than why they make sense for external partners.

And so that’s one part. Now, I will make one other point, if I may, which is that often people think about the parallel with 1989, you know, and if you read newspaper articles on what’s happening in the Middle East, you know, is this a 1989 moment, I personally think that these parallels can be a little bit stretched because there are quite a lot of differences – in my mind, more differences than similarities with 1989.

[00:58:24]

But one important lesson to draw from 1989 is that there was a recognition on the part of, in that case primarily the European Union, but applies more broadly, that the partnership with countries coming out of the former Soviet Union going into a transition process had to be a long-term partnership. And it had to be a partnership that covered a broad spectrum of engagements, of trade, in that case labor movements, financial aid, et cetera. And it had to be a partnership that recognized that they were slightly incentive-based, as you were saying, Michele. So in a way the more countries did on particular areas, including in that case political reform, the more support they got along the different areas.

So I think there is – there are some lessons to draw from that and I do think that what you need to think about now is a long-term partnership. And a long-term partnership then requires some mechanisms for supporting it which one needs to think through in that regard. As for your throw-away easy question – (laughter) – which is, you know, what do the IMF and World Bank do in supporting – I think you said corrupt and authoritarian –

MR. DADUSH: Corrupt and authoritarian regimes.

MR. AHMED: Yeah. Look, I think every – this audience knows, both the IMF and the World Bank, and for that matter all of the IFIs, work with all of their members, and some of them are authoritarian, some of them are democratic, that’s the nature of the world today. And nobody’s either given these institutions a mandate to go around and pick and choose which countries they’re going to work with.

[01:00:13]
And I think, in a way, while its important, as Marwan has been saying, and Michele, that you need to think about the political dimension, it’s not obvious to me that the best way to think about that is to internalize that in the discussions of the IFIs. I mean, I think that’s something that they’re not equipped to do and they don’t have the mandate to do, and I think it’s right that they should stay out of that.

Now, within each country though, are there things that we could be doing more explicitly to look at issues around corruption, look at the business environment, look at whether or not growth – the macro numbers, what lies behind the macro numbers – should we be looking at how the benefits of growth are being shared? Can we be – and even in the IMF reports, reporting more systematically on some of these indicators. Where you have indicators, you can do it, but often some of this stuff actually doesn’t lend itself so easily to indicators. And that’s where I think it becomes a little harder for institutions like the IMF to be reporting on, you know, perceptions or rumors about certain things because it does create a sense of what is the analytical and, if you like, the informational base on which you’re making these statements.

MR. DADUSH: Good. Let me ask the last question, and then open it up to the audience. My last question is this: It’s obvious that a good resolution in the Middle East – North Africa has vital international implications. OK? Whether it’s stability of oil prices, migration into Europe, you know, and macroeconomic stability and political stability in general.

Yet, as a kind of observer outside the fray, I don’t sense any kind of coordination going on. I don’t have a feeling that there’s any real effort here to get the main players – you know, Europe, United States, China and India, to take examples of areas of the world that are vitally interested, for example, in stability in oil prices. I don’t have a sense that there’s much coordination going on. Is that just the fact that I’m not, you know, a part of it, or is this – (chuckles) – really the case?

MR. MUASHER: It is the case. And the problem is before that – you know, before, let’s say, the U.S. and Europe coordinate with each other, there needs to be coordination inside the administration here – (laughter) – as well as inside Europe. I’m serious, because I mean, I think there’s more of a realization that things have gone wrong, that the old U.S. policy of prioritizing democracy over – stability over democracy, and treating with peace, frankly, which is the third component – as if it has no linkages with the first two – there’s more of a realization that this process has failed than a serious attempt to do something quick about it.

Because after all, you don’t want to stay behind the curve. I mean, the fact of the matter is that the pace of events today is dictated by a new phenomenon in the Arab world, which is the street. And you know, you cannot afford to keep discussing this forever while things are going on the ground.

Today in the U.S., there’s still a big discussion inside the administration over what to do with this. How do you adopt a new policy that does not – that keeps the objectives – stability, democracy and peace – but change the tactics? How do you do that in a meaningful way, is not yet agreed on.
In the EU, they have the same question – 27 countries trying to agree on a new policy of also – you know, in their case, they have the Barcelona process, a new neighborhood policy that also has failed. And how do you come up with a new policy that has consensus but that does not wait forever, is still something that everybody is struggling with.

And once again, my concern is that, you know, in countries that have gone through the change, like Egypt and Tunisia, now people are still catching up to see how they support them. But in countries that have not gone through the change, if you don’t want the street to dictate the pace of events – the street, after all, is excellent at starting change but not at institutionalizing it – if you don’t want the street to dictate the pace, then you better do something sort of quick about it rather than engage in endless discussions while things are happening on the ground.

MR. DADUSH: Masood?

MR. AHMED: I think there is a certain amount of coordination, which, you know, amongst IFIs who work on this region. They have been trying to talk to each other to make sure they don’t overlap too much. There is a certain amount of established things like G-8; as you know, you read in the papers that there was a discussion on the Middle East during the spring meetings the G-8 did.

But I think that point that Marwan is making is an important one, which is that as you move forward now, there is a need to really internalize that this is a new reality in many cases that has to affect many parts of our relationships with the country.

There’s one other point, which is that I think the process of coordination from outside the region is partly dependent also on whether the countries in the region are on the same page. And at the moment, there’s a lot of different places where the countries in the region are in terms of their own thinking about what should happen next. So it makes it a little bit more complicated to coordinate with the region when the region itself has got so many, at this point, different points of view in terms of what to do about reform, where to go, which direction to move in, and how they prioritize these different attributes – stability, democracy, reform, et cetera.

MR. DADUSH: Michele?

MS. DUNNE: Yeah, let me add a word just about specifically regarding Tunisia and Egypt. I think in those cases, the thinking and the efforts at coordination are a little bit further along in the sense that – I mean, the U.S. administration made these initial offers of sort of emergency packages – 150 million (dollars) for Egypt; I think it was 20 million (dollars) for Tunisia. Those were not received really enthusiastically, particularly in Egypt.

And we saw, you know, ministers here in town asking for debt relief, asking for large-scale debt relief; and now that is under serious consideration – a relief of a significant portion, maybe not all, but a significant portion, for example, of Egypt’s debt.
In Europe, you know, they are revisiting the European Neighborhood Policy which tried to apply to, you know, all kinds of countries on the fringe of the European Union. And so they’re now looking at something that’s much more specifically aimed toward the Mediterranean region, the union of the Mediterranean, I think, being generally regarded as a failure.

And so the “Eurocracy” has produced a policy paper, which is actually pretty forward-leaning, about how to work differently with these – specifically, with Egypt and Tunisia and any other countries in the Southern Mediterranean that undergo transitions. And the idea is, how to increase access – I mean, these countries, Egypt and Tunisia, already have association agreements with Europe. And clearly, accession to the European Union is not in question. But what can be offered in between those two things that would allow both products, especially agricultural products, and also people to have much more access to Europe?

[01:08:38]

The problem here is a difference between the Northern European states and the Southern European states, the Southern European states being the ones that would directly receive the immigrants and also would be – would have their agricultural products competed with by agriculture from this region. I think we’re going to see more from Europe on this, some more decisions on this within a few weeks.

MR. DADUSH: Good. Let me open it up. Let me begin – if I may, I’ll take questions – ask Mohsin Khan, who is here from the Peterson Institute, whether he has any reactions to the discussion. Mohsin was the predecessor of Masood, so I’d like him to second-guess whatever Masood said. (Laughter.) Yes.

Q: Yeah, well, thank you very much, Uri. I think this is an excellent panel you’ve put together. I have actually learned a lot from listening.

[01:09:31]

I’d just like to make, if I may, three points: First of all, I think on this issue of what is the economic model that these countries are going to adopt, I think we don’t know, obviously. But I think here I would say – I would be led by the political scientists here. The question is, what kind of governments are going to emerge in Egypt and in Tunisia? And then, Morocco – they have the constitutional commission come through on representative elections, and so on, so forth – we don’t know the makeup of the governments that are going to be in the Middle East.

So therefore, I think it’s a bit much to be asking what kind of economic model is going to emerge because that will depend. All I do know – and I – well, do know; I could predict – is that candidates running for election in Egypt and in Tunisia will not be running on a platform of economic reforms, nor will they be running on a platform of fiscal austerity. (Laughter.) I don’t see that happening, so – (chuckles) – I think it’s a kiss of death right now in the region.

I also think – I mean, referring to your last point, I think, you know, we’re asking too much from the international community, for the same reason, to move. Because if they don’t know what kind of government is going to emerge in Egypt or in Tunisia or wherever, well, how can you move
fast, and what can you, in fact, do? And so, in a sense you can say, yeah, and they’re hanging back. But they – but there’s a good reason to.

My second point is, I think that – I was glad to hear Masood tone down the real projections for 2011; I think they’re way too optimistic. And I’ll tell you, in the oil importers, the sort of idea that only Tunisia and Egypt go into recession or semi-recession is sort of – is too strange for me because I see a number of countries going into recession in the region, Jordan being one among them. I see Morocco in serious problems.

[01:11:43]

There are all these countries that have suffering turmoil: I see Syria with a civil war; Yemen, you mentioned. All these countries are going to – I mean, this growth rate of – MENA growth rate of, you know, 4.5 percent or something that is being predicted is much too optimistic. And I’ll tell you, it comes partly because of – well, it comes mainly because of the oil exporters. And there, I see it being driven completely by Saudi Arabia. A 7.5 percent growth rate in Saudi Arabia for 2011 is – you know, I don’t know who made the projection, but – well, I can guess who made the projections in – (chuckles) – your department – (laughter) – but I don’t know, I don’t know what they were smoking when they made those predictions. (Laughter.)

But let me just – on that – that’s on projections. But I mean, we can debate the projections. But I just think it’s a more pessimistic picture for 2011, 2012 than is painted in the regional economic outlook.

[01:12:45]

My last point is a more general, philosophical one, which I have a lot of trouble with. I mean, it’s been mentioned a lot, and it sounds very good that, you know, a new economic model in the Middle East should be one of inclusive growth. I’ve heard Bob Zoellick say that; I’ve said your managing director here, I have heard him say that; I’ve heard you say that. Socially equitable growth: It sounds great. I mean, who could disagree with it?

Unfortunately, as economists, we don’t know how to do it. And that is a basic problem. You know, if you look at countries that have achieved socially equitable growth, it’s taken growth rate – sustained high growth rates for a long period of time before you get that rising tide. So you know, basically you haven’t got it in China, you haven’t got it in India, you haven’t got it yet. And they have been growing fast for a long period of time.

The way you can get it, I guess – the way people are thinking about it – is through government intervention. But that goes against what you want to do in terms of, you want to pull the government out of the economy. But tax and redistribution policies are the only way I can see in the short term of getting this inclusive growth.

And the last point I would make is, and that’s we’re going to see now – and unfortunately, the panelists have not mentioned – we’ve been focusing on subsidies quite rightly. But you know, the question of how do you create jobs in the short run in these countries – you know, I heard President Zoellick of the Bank the other day talking about major infrastructure projects in Upper Egypt to build roads and electrification and so on, so forth. The kids in Tahrir Square who are
educated, unemployed, tech-savvy city dwellers, urban – they’re not going to move to Upper Egypt to build roads. How are you going to employ them?

And I think the thing that we’re going to see now in the next couple of years, Masood, is a serious expansion of government – government employment schemes whereby – and governments were shrinking in the – over the last decade in most of these countries; governments were shrinking. And you’re going to find the government employment schemes coming into place, and they will – this is what I see happening.

[01:15:09]

So for the next two years or so, if you want to put a time frame on it, I see a real flux and a real sort of thinking. And if the IFIs want to help these countries, they have to be thinking of an economic model that will yield the kind of short-term gains while preserving the long-term strategy. And that’s going to be a tough thing to do. Thanks.

MR. DADUSH: Thank you very much, Mohsin. We’ll come back, of course, to Masood and the panel. And let me pick some questions – the lady here at the front. Yeah.

Q: Thank you. Danielle –

MR. DADUSH: Please introduce yourself, yeah.

Q: Danielle Feinstein from George Washington University. I have two questions. One is about this debate over the American administration being behind the curve. Because I’ve heard it being played from both angles, that the American administration policy has failed over the past decade, and then kind of a defense that, is it up to the administration to be ahead of the curve, or are they supposed to react to what is going on in the global climate?

My second question is, I know that Michele Dunne talked about having visited Egypt recently. And I’m assuming that probably all of you have visited different countries post-revolution. And rather than predicting what will happen next year, what were your – kind of the things that surprised you, or didn’t surprise you about the current processes that are taking place? Thank you.

[01:16:36]

MR. DADUSH: Good. We'll take a couple more, then come back to the panel. Yes, the gentleman there. Yeah.

Q: I’m Ian Bomberg from Center for American Progress. Marwan, you spoke before about the importance of having locally driven solutions, and then the importance of the outside community coming in to support them but not driving the solutions themselves. I was wondering if you can talk about the Palestinian state-building model, setting aside all the unique political and economic and security problems that they face that’s different than the other countries in the region, and just looking at the state building and what they have done, and if there are any lessons that can be learned from the Palestinian state-building for other countries in the region. Again, setting aside the political and economic problems they face which makes them different.
MR. DADUSH: Yeah, the gentleman here. Then we’ll go to the other side. Yeah. Over here, Jessica (sp). Yeah.

Q: Hossein Ebneyousef, International Petroleum Enterprises. We have been looking at this region, and the impact that these changes would have on the oil and gas globally. Basically on the political side, what we’ve been discussing is the performance, legitimacy and the relationship between the two. We’ve tried to cover the same issues, and I’ve noticed, you know, a slight difference in views. And I’d like to ask a question from each, you know, distinguished speakers here.

[01:18:05]

MR. DADUSH: Please keep it short, though. Yeah, yeah.

Q: Sure. On the foreign direct investment, it looks like the figure for the entire Africa has been very slow, but very low. It’s about $50 billion. For Egypt, which is one of the largest one, it’s been less than $7 billion. And most importantly, it’s been on the decline; for the entire MENA region, it’s been, you know, from $150 billion down to this year about less than $20 billion. So how serious is the FDI?

Yes, I heard you, the complaints that you had on Muslim Brotherhood and so on. But you know, the producing countries, I don’t think that they’re going to really make that much difference there.

On the social media that Masood talked about, I agree. You know, this is a very good source. But what I have problem with is that when we see huge penetration of this in Qatar, United Arab Emirates, we don’t really see much uprising there. On the other hand, the lowest penetration has been in Yemen, at 1.5 percent of the total population, or in Libya, about 4.5 percent. And yet, we’ve seen quite a bit of, you know, unrest there. So how do you reconcile there?

And finally, on what Marwan talked about, I agree with him a hundred percent on that, you know, we really need to look at the big picture – you know, everything, not necessarily just one segment or the other. But the most important issue in the entire region, it seems to me, that it’s been the Arab-Israel issue. It’s been very central, and for decades, and yet there was not even a mention of that issue.

Yes, you know, everything has to be done locally, but how important is the role of outsiders, such as Israel on this, to impact the entire region? Thank you.

[01:20:14]

MR. DADUSH: Yeah, I’m sure Marwan will want to take that up. Let me – because of the shortage of time – let me go to – I’m going to have time for a couple more questions. I can’t take everybody.

Jessica, on this side, the gentleman here, and then the gentleman there, in the middle. I have to hold you off. Yeah.
Q: Yeah, David Mack from the Middle East Institute. I have a very short, but I think rather hard question for Michele Dunne. What are the political achievements in Egypt that you think would be sufficient to trigger really large U.S. economic concessional assistance to that country in our current domestic political environment?

[MR. DADUSH: Thank you, the gentlemen there.]

Q: Yes, my name is Gregory Aftandilian, and I’m an independent consultant. My question deals with the actual constituencies for economic reform; where are they? And my – the reason I ask this question is that – much of the salaried middle class has really been squeezed by the high food prices over the past decade, stagnant wages. So at least in my mind, for that segment of the population, which is politically attuned, they’re much more concerned about wage increases versus economic reform. Thank you.

[01:21:38]

MR. DADUSH: I’m sorry; I can’t take everybody, but our panel is – some of them will stay back and will be able to answer questions bilaterally afterwards. Our apologies for that.

Let me come back, then, to the panel, and ask them both to address the questions and to make any closing point that they want to make. Unfortunately, again, we have to be brief. Marwan.

MR. MUASHER: Very brief. To the extent that anyone can be brief about the Arab-Israeli conflict, but – (laughter) – but let me just make the following points.

The Arab-Israeli conflict is a major component of this; it’s not the only one, of course, but it is a major component precisely – I mean, given – precisely given what has happened in the last few months. Look at the new U.S. policy, for example, that will say to the Egyptians, we will support you in your quest for freedom; and will say to the Libyans, yes, we are also with you in your support for freedom; and will say to the Palestinians, listen, guys; it’s complicated.

(Laughter.)

This is not a policy – if the U.S. is serious, of course, about regaining its credibility in the Arab world. Look at the Israeli government argument that we are the only democracy in the Arab world, and you guys should support us because we are the only democracy in the Arab world, when in few years’ time, you might see emerging democracies in the region, but an Israeli government that is continuing with the occupation. That’s also not an argument that is going to bode well.

[01:23:29]

So for all these issues and more, you know, the need to solve the Arab-Israeli conflict is now. It’s not waiting until the dust settles because, if you wait until the dust settles, I am positive that with the continuation of the occupation, the dust will not settle on the side of peace.

If people assume a passive attitude and just sort of hope for a miracle that somehow the dust will settle on the side of peace, while there is an occupation continuing, that is not unfortunately being – going to be the case.
I will tie that to the question on the Palestinian state-building model. I think the Palestinians, you know, have done great under extremely difficult circumstances. And while I don’t have an illusion that their model is going to necessarily result in a Palestinian state without, of course, negotiations with Israel, I also think that the Palestinian street is not going to wait three years until there is a new elections in the U.S.; until there is a, you know, a more willing Israeli government; or a more stable Palestinian one. They’re not going to do that.

I do not think that the Palestinians will remain silent for a very long time. Maybe they’ll wait for December – September and see what will happen at the U.N., but I think that those who are counting on years and years before we pick up the Arab-Israeli conflict again might be very surprised that things will not stay at the same slow pace that they are at today.

Should the U.S. be ahead of the curve? Well, it depends if they – if the U.S. wants to preserve its interests of stability, democracy and peace, then yes, they should stay ahead of the curve. If they don’t care about their interests and want the parties to simmer in their own juices, then they shouldn’t be ahead of the curve. But if the U.S. wants to preserve its own interests in the region, then, you know, it cannot but be ahead of the curve or else deal with the consequences.

[01:25:44]

The question on inclusive growth – I think Masood has a point. I would rather use the term “inclusive decision-making,” rather than “inclusive growth.” Inclusive growth might not happen overnight, but inclusive decision-making, at least, will have the buy-in from the population so that if inclusive growth does not happen overnight, at least people will feel that they were part of the decision-making process. Now the blame is all on governments who are not inclusive in their decision-making and certainly do not result in inclusive growth by any means.

Let me stop there.

MR. DADUSH: Thank you very much, Marwan.

Masood.

MR. AHMED: So I think that on projections for the next couple of years, this is as uncertain period as any other, and if you think that political analysts don’t do well – we can have some competition on this. (Laughter).

[01:26:38]

But I think the important point is that, you know, for oil exporters – Saudi Arabia or others – Masood knows well that the big drivers is how much of it is oil production, which is driving the growth rates. And so if Libya goes down and Saudi Arabia picks up the difference, you see a big increase in Saudi oil production, and that kind of drives the aggregate growth number. The more interesting numbers is the non-oil part of the economy, and the non-oil part doesn’t actually increase by a whole lot this year.
But I think the fundamental point is raising – which I agree with – is that even the 2 percent number that we have for oil importers on average, for this year, you know, may turn out to be lower. I think the trick here is going to be – or the balance, rather – is going to be how much they’re spending this year provides an impetus to demand, which kind of holds up the growth rate for this year, but which creates a liability for the future.

So you might be able to hold up the growth rate this year for a lot of oil importers by spending – public spending – but that kind of – you know, essentially is then creating problems down the road. If they don’t spend as much, then the growth numbers for them might be a bit lower than the average of 2 percent that we have for them.

I think the second point also I want to pick up on is this issue of socially inclusive growth – and the next two years, you know, it’s going to be a big challenge because – I don’t – I agree with Masood – to me, it’s self-evident. And, right now, nobody’s going to come in and be elected by saying, we’re going to cut budgets. But, I mean, I think – I haven’t yet seen anybody come in with that platform even in the rest of the world, you know, except for the U.K. maybe, where they came in saying we were going to do it.

[01:28:17]

But here, even more than normal, the question will be, how do you manage to respond to the social pressures over the next two years – creating temporary jobs for the right kinds of people, intelligently spending the extra money so that it has a maximum political payoff – without creating long-term liabilities?

Because if you take people on the government payroll forever, I mean, basically you’re buying liabilities down the road; there may be other things you can do which are more timebound, and that’s the challenge that I think we have to help countries work out.

And then, after – I don’t rule out that, after the elections, you have governments in place whose initial reactions will be – as Michele, I think, asked this question earlier – will be just be more responsive to the popular sentiments about actually saying move away from reform, and it takes a bit of time to build that narrative. And that’s why I’m convinced that this process is a multi-year process. There’ll be many twists and turns along the way, not all the countries are going to follow the same path. I’m not even convinced that all the countries will end up at the same destination, but the irretrievable change that’s taken place is that I think that this – the model of having a kind of top-down imposition of economic and political structures has to be replaced by one where people want to be more engaged in the design of it and more accountable for the outcomes and therefore, more involved in the decision-making process.

MR. DADUSH: Thank you. Michele.

[01:29:57]

MS. DUNNE: Okay, just a few quick points. To the question about whether the United States should be – try to be ahead of the curve of change or following it – what’s frustrated me is I thought the United States has not – just consistently made clear what kind of change it stands for. Not that we have to be – have to be ahead or behind, but just be clear what we’re in favor of.
And that doesn’t mean that we can make it happen or that we’re obligated to apply military force or any other kind of pressure necessarily, but just be very clear what kind of change we’re in favor of.

And regarding the question of – you know, what surprised me when I went to Egypt – I think it’s very useful to go to Egypt right now to understand the extent to which this revolution is still in motion and which – the extent to which there are many revolutions going on inside of all kinds of institutions in Egypt, OK? There is an ongoing process of change, and I don’t think Egypt has actually moved yet from a revolutionary stage to an actual political stage. That’s what the military leadership wants, to move to that stage, but it’s still uncertain.

How serious is the need for foreign direct investment? I mean, Egypt – my understanding is they need to generate 700,000 new jobs a year just to keep up with the increase in the labor force – and everyone, including my interlocutor from the Muslim Brotherhood, will tell you that domestic investment will not be enough to do that, that they have to have foreign direct investment in order to do that.

[01:31:34]

And finally, regarding David Mack’s questions, what would be the political achievements that would trigger really large U.S. assistance? OK, I mean, look, you know – what would – the political trajectory, I think, that we’re looking for is that Egypt would hold free and fair parliamentary elections, presidential elections, the military would then step back.

Egypt then is obligated to – by its interim constitution – to begin writing a new constitution. There’s going to be more change. There may be more change in the shape of the political system in Egypt. They might possibly move towards a parliamentary rather than a presidential system.

I think one of the things the United States will be looking for is they move towards a system that can function and that also will still allow protections for citizens, that they won’t be looking towards a kind of majoritarian system where the majority tramples on the rights of minorities whether they’re religious minorities or the rights of women, and so forth. Also, undeniably, there’s a role of foreign policy here.

[01:32:40]

A very interesting story going on now with an evolution in Egypt’s foreign policy. So, obviously I think the United States will be looking for – understanding that Egypt is going to play a more independent role, and a role in which the foreign policy of the country is more responsive to public opinion in Egypt and where public opinion wants that foreign policy to be – but that it’s still a responsible role. I mean, all of that, I think, would create a good feeling, for example, in the U.S. Congress about assisting Egypt more. How that’s going to intersect with our budget and our ability to give more aid is a separate question.

MR. DADUSH: Well, thank you very much. I’m not going to attempt a summary, in part because I have a long track record of drawing the wrong conclusions about the Middle East from these discussions.
MR. AHMED: I thought you just said what you thought at the beginning of this thing.

[01:33:33]

(Laughter.)

MR. DADUSH: Well, if you’ve been to these sessions before, you know how many mistakes we have made. So – the – but I would like to thank the panel for, again, doing a – just an outstanding job. Thank you very much.

(Applause.)

(END)