Middle East: Current Economic Performance and Challenges

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Chairman Roh, Distinguished Panelist members, Colleagues, Participants, Ladies and Gentlemen,

Good Morning!

I am delighted to be with you and to see so many of you in this beautiful city of Montego Bay.

Let me thank Chairman Roh for organizing this plenary session and for invitation extended. I would also like to commend the program Chair and others for the excellent sessions organized.

Let me first give you a very brief overview of the global economy and then elaborate on the Middle East region, its economic outlook and challenges ahead.

Financial conditions have improved markedly since our last meeting and global recovery is on the rise and based on projections made by IMF, it is expected to expand at a rate of 2% in 2014, from that of 1 1/4 % in 2013. U.S economy is expanding, thanks to monetary policy and some degree of fiscal restraint by the executive branch. Euro area will experience a slower growth and developing countries are projected to expand about 5% in 2014. Global growth rate as mentioned above is significantly below the growth rates necessary to reduce unemployment and as a result unemployment remain high in many advanced economies as well as in the Middle East.

Developing economies are experiencing challenges in sustaining their growth rate. Some face significant structural challenges in their domestic economies. Many are affected by spillover from the economic weakness in developed countries, through slower trade flows and volatility in commodity prices and capital flows. Efforts are needed to strengthen the capacity of developing countries to cope with negative spillover effects from the problems of developed economies. Their policy priorities should focus on fiscal and structural reforms, strengthening growth and providing job creation at the national level.

Now I turn to the Middle East:

Continued regional tensions and difficulties internally and externally have contributed to mixed growth performance across the Middle East region. Lower global demand, disruptions in domestic oil supply in Libya and Iraq, reduction in oil production in Saudi Arabia and falling oil export in Iran are to affect the growth rate of oil exporting countries to about 2%.

(Oil exporting countries consist of Algeria, Iran, Saudi Arabia, UAE, Qatar, Kuwait and Libya).

The civil war in Syria and continued turmoil in Egypt and their spillover effect has resulted in a large decrease in tourist revenue and foreign direct investment. The economic recovery in oil importing countries remains weak with growth rate of about 3% in 2014. Political uncertainty, security concerns and delays in reforms are some of the other factors contributing to slower growth rate. External environment (i.e. lower growth rate in Gulf Cooperation Council GCC) and BRICS (Brazil, Russia, India, China, South Africa) and slower growth rate in Europe could further deteriorate the growth prospects and reduce trade, tourism, capital flow and remittances.

(Oil importing countries consist of Afghanistan, Djibouti, Egypt, Lebanon, Mauritania, Morocco, Pakistan and Tunisia).

The growth rates projected for both oil exporting and importing countries is significantly below the growth rates necessary to reduce persistent unemployment and improve living standards. In other words, the recovery in economic growth has not yet brought a comparable recovery in employment. It has been estimated that about one million people in the Middle East entered the job market for the first time in 2011, and of these, only about 200,000 found employment-the result is large scale unemployment.

Unemployment rate in the Middle East run from below 10% in Saudi Arabia to over 30% in Iran, the West Bank, Lebanon and Yemen. Some estimates put the unemployment rate in Gaza as high as 50%.

The lack of decent work is one of the most pressing problems identified by participants in the global consultations on the post 2015 development agenda which have been facilitated by the United Nations Development Group (UNDG).

The share of working-poor remains relatively thigh in the developing world, leaving large number of workers with little job security and social protection and vulnerable to increase in food and energy prices.

It is clear that economic growth while necessary is not sufficient. Growth needs to be accompanied with job growth and income opportunities and to enable all to participate and benefit.

What needs to be done?

A shift in macroeconomic policy will be necessary to promote growth and jobs creation. This will need to be complemented by labor regulatory reforms, revisiting public sector hiring practices and compensation policies as well as reforming the education system, aligning it better with the needs of private sector.

Macroeconomic policies can also make important contributions to harnessing structural change and thus promoting the long term expansion of opportunities for work. Investment in critical infrastructure, energy generation (through Solar power, Wind and other types of greener energies, and economic diversification (development of banking, tourism, light manufacturing and agriculture, could have strong and immediate employment effects, while improving long-run growth prospects.

Effective global governance is also important for addressing current challenges in the Middle East. The Arab countries face a legacy of complex and burdensome business regulations. Egypt, for example has 36,000 often overlapping regulations that affect the private sector. As a result, it is often lengthy, expensive, and complicated proposition to start a business in the Middle East. The main reason for this is corruption. It is a major problem. Although many countries have already taken actions to adapt a more ethical way of doing business, it will take continued and intensified efforts by both the citizens and the governments to improve business regulations and governance.

In times of continued global challenges, collective actions and policy coherence are vital. Global governance arrangements need to be made more legitimate, accountable and transparent.

Conclusion:

Middle Eastern countries (both oil exporting and oil importing) need to address immediate challenges as mentioned above and provide strong foundation for economic development. The oil importing countries have urgent and immediate challenges to implement economic reforms to transform the society and to bring about fundamental changes in the structure of the economy. These reforms must be planned, Arab led and the people of the country must themselves be the major participants in the development of these resources and the beneficiary of these changes.