

The Middle East and the World Bank, Post-September 11

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Brief Analysis

Even prior to September 11, the World Bank emphasized the links between economic development, hopelessness, acts of desperation, and terrorism. To be sure, there is no one-to-one connection between poverty and terrorism, but surely poverty feeds hopelessness, which then creates an enabling environment for terrorism. Living in a society with such despair, terrorists can perceive and present themselves as champions of the poor. The acts that were perpetrated on September 11 proved that building a wall around the prosperity of a particular region of the world simply does not work. The world is truly globalized and unified; events and problems know no borders.

Sluggish Economic Performance

The events of September 11 have brought into sharper relief some of the problems in the Middle East and North Africa. The region is suffering from rapid demographic growth and sluggish economic growth. In the latter half of the 1990s, when the world economy was growing vigorously, the Middle East and North Africa grew slowly. At present, the entire region's non-oil exports are less than those of Finland. Leaving oil out of the picture, the region is only minimally integrated into the world economy. Consider foreign direct investment, which is a sign of how investors view the economic environment. Foreign direct investment in the Middle East totals just 1 percent of the region's gross domestic product (GDP). This is the lowest proportion in the world, even lower than that of sub-Saharan Africa, where foreign direct investment constitutes 1.6 percent of the GDP.

During the 1970s and 1980s, the countries of the Middle East relied on oil and geopolitical money to build huge public sectors. Social cohesion was maintained by expanding public employment; conflicts in the region were used as an excuse for officials to avoid making domestic reforms. This dynamic of a large public sector paid for by oil and geostrategic money is not sustainable, especially as the population expands.

The problem of unemployment in the Middle East is quite complex. The unemployment rate of many countries in the region is reported to be around 15 to 20 percent. These figures often understate the problem because there are large numbers of women who would like jobs but are not included in the data. The Middle East suffers from the world's lowest level of female participation in the labor force, even though women constitute the majority of those holding university degrees. High levels of unemployment are a source of recruitment for terrorist organizations, which often appeal to those who have lost hope that they can somehow improve their economic situation. The unemployment rate in the Middle East may yet grow worse; large numbers of young people entering the labor force cannot be fully absorbed, and the rate of growth of the labor force far outstrips the growth of the economy.

The combination of demographic growth and economic sluggishness has increased poverty in two significant ways. The poverty of income has increased -- eighty million people in the Middle East and North Africa (30 percent of the population) live in absolute poverty, on less than two dollars a day. The poverty of participation is also on the rise. Most Middle Eastern and North African countries do not allow their population to participate in deciding their economic and social future.

Furthermore, the public sector is inefficient even when it is generously funded. The regulatory frameworks, the financial sector, and the legal and judicial systems rarely function smoothly. In many Middle Eastern countries, spending on social services like health and education is quite high by international standards, yet the results are not positive.

The Need for Reform

Economic and social reforms are urgently needed in order to rectify the problems in the Middle East. The economies of the region have to move away from import substitution and embrace export-led growth. The September 11 attacks have naturally exacerbated all of the economic and social challenges mentioned above. Countries like Egypt and Jordan, whose economies are dependent on tourism, have experienced an enormous shortfall in revenue. This has had a direct, negative impact on the balance of payments and on the exchange rate of the Egyptian pound. Foreign direct investment, which is already feeble in the region, is not likely to grow under the current circumstances. Thus, the World Bank predicts reduced growth for the region as a whole in the near future.

The events of September 11 have also had a few positive effects. Debates about education, democracy, and the role of religion have increased in both the Middle East and Washington. The World Bank has been able to discuss issues that were difficult to discuss before, such as the quality of education and the role of religious fundamentalism. The Middle East has received greater attention from the rest of the world; for instance, the United States has shown a deeper interest in understanding the region without preconceived ideas and in looking carefully at the nature of Middle Eastern regimes that are friendly to America. Leaders have also shown a new attentiveness toward the need to create jobs and facilitate economic growth.

The educational systems in some countries of the region must also be restructured. In many of these countries, schools have long served as a battlefield for conservative and modern forces. Reform should be focused not only on curricula, but also on the pedagogical training of teachers. Such steps are increasingly recognized as the paradigm for development changes.

What is missing in the region is not finance, but rather an alternate way of viewing the economic situation and possible solutions. A few years ago, a proposal was set forth for the creation of a Middle East and North Africa bank. The proposal failed in large part because Spain was not in favor of it. Now that Spain is presiding over the European Union, it is offering a similar proposal, probably as part of the European Investment Bank. The effort to create a new affiliate of the European Investment Bank specializing in the Mediterranean countries is likely to succeed, even though there is little evidence that the region needs more financing.

The Middle East has experienced many political and cultural consequences of the attacks on the United States. Yet, the centrality of the Israeli-Palestinian conflict -- and the way that intellectuals, the press, and the public perceive it -- cannot be understated. Because of this conflict, many in the Middle East seem more selective about advice coming from the West. Even the World Bank's advice on economic reforms is heard through ears that tend to discount any counsel originating in Washington. In the current context, no decisionmaker is eager to put people out of work and onto the street in the name of reform, making them potential recruits for radical movements.

This Special Policy Forum Report was prepared by Mohamed Abdel-Dayem.

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