The Arab Spring Can Bring a Demographic Dividend That Is Good for Business and Investors

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G8 Governance Working Paper, September 21, 2012

One of the greatest triumphs and ongoing challenges of G8 governance in recent years has been its role in fostering the democratic transition and ensuring development in the Middle East and North Africa (MENA). While the G7 and then G8 summits have recurrently dealt with these subjects almost since the first G7 summit at Rambouillet, France, in 1975, they have taken centre stage in the twenty-first century. This happened first with the Broader Middle East and North Africa Initiative that U.S. president George Bush launched when he hosted the Sea Island Summit in 2004, then with the "Deauville Partnership: Helping the Arab Countries in Their Transition to Free and Democratic Societies" with reforming regional countries at the summit hosted by French president Nicholas Sarkozy in 2011, and, most recently, the Deauville Partnership's extension at the Camp David Summit hosted by U.S. president Barack Obama in May 2012.

As German chancellor Angela Merkel (2012) put it on the eve of the Camp David Summit: "Events in North Africa and the Middle East have brought home to us the enormous potential for economic and political development in this region. The aim of the Deauville Partnership is, in short, to enable this potential to be realised through cooperation with the G8. Therefore, our task at Camp David will be to give this cooperation more substance and to come up with concrete projects." Writing from the region at the same time, Hisham El Sherif (2012) of IT Ventures focused on the key challenge: "The total estimated investments needed to build a new Arab world exceeds $8 trillion. This is an attractive market for companies and countries in the region and around the world."

At Camp David, the G8 leaders responded to these calls. They understood that economic and social development was needed to strengthen the democratic reforms now underway, and that such political reforms, with their promise of the rule of law, elimination of corruption, and a market economy could, in turn, offer regional and international investors the opportunity to take the lead (Kirton and Kulik, 2012). But just how well did the G8 governors, and the private sector investors they were appealing to, understand the deeper demographic potential of the region and the opportunities that they breed?

The causes and determinants of the political revolutions sweeping the Arab world are still too complex and nascent to explain with the definitiveness of an academic analysis. Yet there is an overwhelming belief that economic factors are a key part of the puzzle. The Arab Spring was not instigated by the poor, underclass of the Arab world; instead, it was the educated, unemployed, disenfranchised, and likely lower middle class youth of the region who took to the internet and the streets to protest. The Arab Spring started in countries that had economic growth and that were leading economic reformers — Tunisia, Egypt, Libya, and even Syria were "successfully liberalizing" their economies. But the revolutions hit these same countries where the elite did not distribute the economic growth to the masses at a pace that met the rising expectations of the educated youth.

What does this say to foreign investors who want to invest in the Arab world? Undoubtedly, the Arab world needs foreign investment to provide technological know-how and innovation in short supply throughout the region's production value chains and energy facilities, to create labour-intensive jobs, to augment the technical and post-secondary education sector, and to invest in infrastructural development projects needed in meeting urbanization challenges such as transportation, housing, food security, and sewage systems. Moreover, there is simply not enough domestic capital and know-how to generate the kinds of employment and productive capacity needed to meet the needs of the Arab masses. Foreign investment is key to the kinds of economic growth sought by the Arab masses, but not all foreign investment is created equal. The lesson for businesses: invest in increasing the productive capacity of the Arab world. There is immense opportunity with an educated and eager workforce ready to become a powerful force of consumers and producers in the global economy.

While the region is in a period of difficult transition, there is reason to be hopeful and optimistic that the Arab Spring will lead to progress. The Arab Middle East is going to experience a demographic dividend: economic growth due to its educated, youthful population. The challenge for policymakers will be to ensure that this is productive economic growth and to not repeat the errors of past mal-investments into non-productive sectors.

Hope after the Arab Spring: A Demographic Dividend

Despite the socioeconomic difficulties facing the Arab youth today, it is argued that the Arab world will likely experience a demographic dividend. Arab societies are young, increasingly modern, and increasingly more educated; this can be ***a future asset and not a liability***. The Arab world's younger demographic suggests that those youths will likely become the main catalysts of a growing economy. In contrast, a very young or very old population means a high proportion of income goes towards consumer spending, leaving less to national savings and to national investments in productivity and innovation. "Economic growth improves only when the growth of the working population is almost double that of the total population" (Economic and Social Commission for Western Asia [ESCWA], 2008, 7). In contrast to the Arab world, the West, Europe, Japan, and even China — have a future of high dependency ratios. Hence today economic growth is shifting from one economic pole to the emerging market economies.

A young, modern, educated society can provide a demographic dividend. Throughout the Arab world, the first age band (0-14) is shrinking; the aged group band (65+) is growing only negligibly; but the age band (25-64) is expanding. Economic history and the notion of demographic dividend tell us that this is an opportunity for economic growth and development (see Appendices).

Given this young demographic (with ages ranging from 25 to 64), low dependency ratios and rapid economic growth can be expected for at least the next 25 years. As the Arab world will have increased both individual and national savings, it will become more hospitable to foreign and domestic investments. It is forecasted that by 2015, 62 per cent of the population will be in the labour force, in which case the growth rate is at 4.7 per cent (or an increase of 105 million people). By 2050, almost three quarters of the Arab region will be urban. This development is promising for the creation of economies of scale, because urban areas spark consumption and innovation.

Seeing the Arab Middle East as a potential for economic growth and success has not always been easy for business. As Vijay Mahajan (2012) in *The Arab World Unbound: Tapping into the Power of 350 Million Consumers* points out, the region is a flourishing market place that is ripe with business opportunities. According to Mahajan, the Arab Middle East has 350 million consumers and, when seen as a region, ranks as the world's ninth largest economy. In contrast to common misperceptions, he sees the region's cultural uniqueness not as a barrier to business, but as an opportunity to create vibrant and innovative new products and services. These sectoral opportunities are discussed here in turn.

Middle East stock markets were seen as a "new frontier" for economic exploration (Meric, Ratner, and Meric 2007: 61). Today they provide attractive portfolio diversification and optimization opportunities for investors (Meric, Ratner, and Meric 2007; Abumustafa 2008; Mansourfar, Mohamad, and Hassan 2010). Notably, the impact of the financial crisis on Middle Eastern markets has varied by country, depending on the level of market maturity and openness (Neaime 2012: 269; Onour 2009: 2; Mansourfar, Mohamad, and Hassan 2010: 417). Moreover, although the Dubai debt crisis seems to have slowed market recovery following the global economic downturn, and fluctuating oil prices often create volatility in localized economies (Onour 2009: 2-3), interest in Middle Eastern markets, while relatively constrained, is likely to increase given increased market integration (Abumustafa 2008: 229-230; 235-236).

Greater liberalization has made the banking sector in the Arab Middle East one of the fastest growing industries in the world (Al Shaher, Kasawneh, and Salem 2011: 101-102; Imam and Kpodar 2010: 14; see also Neaime 2012: 269). The expansion of Islamic banks during the 1980s and 1990s (Bashir 2003: 31) has also allowed what was once a niche market to develop into a key sector of emerging economies throughout the region (Imam and Kpodar 2010: 6; Čihák and Hesse 2008: 3; Hell 2006). Since the Arab world has generally been characterized by a lack of well-functioning financial institutions, Islamic banking — governed as it is by Shariah law and thus removed from the problems plaguing poorly functioning institutions — has proven to be a welcomed and innovative solution that complements conventional, interest-based banking (Imam and Kpodar 2010: 20; Ali 2010). According to one IMF study, “because Muslim populations are underbanked, and given the tremendous need for infrastructure projects like roads and housing across the Muslim world, development of Islamic banking can spur growth in these regions and can be part of the solution to the slow development process” (Imam and Kpodar 2010: 20).

Across the Arab Middle East, intergovernmental organizations have a role to play (Mirow 2012). But it has indeed become clear that the public sector alone cannot meet the demands of current infrastructures (Shah 2010: 40-42; Woods 2011; Imam and Kpodar 2010: 20; Barkatali and Pring 2009: 53). Constrained by limited finances, demands for private-sector employment and pressure from citizens to improve the conditions of their cities, many states have began to encourage private sector investment in the development of basic infrastructure (Woods 2011; Barkatali and Pring 2009: 53-54; Shah 2010: 40). To be sure, the emergence of Middle Eastern airlines as serious competitors on the world stage has been impressive, and there is little doubt that Middle Eastern carriers are steadily redirecting international traffic flows (Vespermann, Wald, and Gleich 2008; Murel and O’Connell 2011). Similarly, the Burj Khalifa, the world’s highest skyscraper, is a testament to Dubai’s architectural ingenuity (see Murel and O’Connell 2011: 37). However, projects well suited for public-private partnerships (PPPs) can ease the economic burdens of these larger scale developments (or “mega projects”) and range from construction, water management, and mass transit to education and healthcare (Barkatali and Pring 2009: 54; Woods 2011).

When implemented with proper institutional frameworks in mind — in areas such as financing, bidding and evaluation processes, risk allocation and institutional capacity (Woods 2011) — PPPs inject much-needed revenue into local economies and help close funding gaps in infrastructure development projects (Woods 2011; Shah 2010: 42). As Shah notes, “PPPs in other countries have already demonstrated their ability to create jobs in the private sector, [and] provide higher quality services and facilities for citizens and stakeholders” (2010: 40). Success stories of Middle Eastern PPPs include developments in the power and water sectors in the United Arab Emirates, Saudi Arabia, and Oman (Woods 2011) and, notably, the multi-billion dollar modernization of Madinah Airport in Saudi Arabia (Woods 2011; International Finance Corporation 2012).

The Arab Middle East is also home to some of the world’s most important reserves of oil and natural gas. Great, however, though these reserves may be, they are not distributed evenly throughout the region and have not come out unscathed from the credit crisis (Barkatali and Pring 2009: 53). Here, too, the trend has been to explore PPPs (Shah 2010: 42-43; World Economic Forum 2005: 28-29, 37, 47). Sources of sustainable or “green” energy are also now being explored with PPPs in mind. These include wind projects in Morocco and Jordan and Abu Dhabi’s Shams 1 solar power plant project (Barkatali and Pring 2009: 53). Others state the case more strongly, arguing that in order for sustainable energy to remain competitive, more privatization is needed (Aslania, Naaranojaa, and Zakeri 2012).

The Middle East's telecom industry is now approaching maturity; revenue growth in this sector is slowing and the mobile penetration is near saturation (Booz and Company 2011: 4). With saturation come higher demands for better services and products (Sabbagh et al. 2010: 1). In fact the demarcations between telecommunications and the information and communication technology (ICT) market are becoming increasingly difficult to make given the overlap of the technologies involved (i.e., smartphones). Current indications are that ICT market in the Middle East has one of the highest growth potentials in the world; in 2010, the ICT sector was valued at $81 billion seems on track to reach $173 billon by 2015 (Booz & Company 2011: 2). Many observers have recognized that the ICT sector has emerged a key industry for the region's social and economic future (Booz & Company 2011: 4-5; Dutta and Coury 2003: 117). The Middle East, for example, has one of the fastest growing communities of online gamers in the world, and demographics mean this is likely to remain true for many years. Indeed, despite differing levels of engagement with and awareness or importance of ICTs across the region (Dutta and Coury 2003: 126), for public and private actors alike, development of the ICT sector remains a top priority given its potential for job creation, technological innovation, content development, and (as seen in the events of the Arab Spring and its ICT-savvy youth, but also more generally in terms of enabling civic engagement) its capacity to help bring about social and political reform (Booz & Company 2011: 4- 5; Dutta and Coury 2003: 117; Gianfranchi and Keramane 2005).

Finally, the significance of the hospitality and tourism in the Arab Middle East cannot be overlooked, given that investment in these sectors has proven to be a lucrative strategy for economic development and diversification (Imani-Kalesar 2010: 106; Abu Aliqah and Al-rfou', 2010: 173; Hazbun 2004: 313), and particularly given the diversity of the region's historical, cultural, and natural resources (Hazbun 2004: 323; Imani-Kalesar 2010: 106). Studies have shown that in addition to infusing local economies with hard currency and supporting infrastructure development, the hospitality and tourism sectors provide important employment opportunities to precisely those most in need of it: minorities, women, and youth (Abu Aliqah and Al-rfou', 2010: 173; Imani-Kalesar 2010: 106).

Here, in the opportunities presented by these various sectors, the Arab Spring is a positive political force. Elected governments will need to shift their focus on improving domestic affairs: specifically, jobs, jobs, jobs. Fostering skill formation and having education curricula work in tandem with market needs will help to address the ailing problem of youth unemployment. In many countries, the quest for improvement begins in trying to respond to the needs of private sector employers and focus on promoting writing skills, critical thinking, and problem solving. There are a number of recent initiatives to build private-public partnerships to enhance the quality and relevance of education, but these need to be scaled up for impact. One such promising initiative is Injaz, a partnership between ministries of education and the private sector that enables business leaders to teach marketable skills to high school and college students, including basic business skills, teamwork, leadership skills, and entrepreneurial thinking (International Monetary Fund [IMF], 2011).

Despite this core argument, policy challenges to capitalize on this “demographic dividend” do exist. For instance, Arab countries must create 94 million jobs by 2030 (roughly 5 million jobs per year) just to avoid increasing already high employment rates. Equipped with a growing consumer base of young people that are highly educated, but are a relatively inexpensive workforce, Middle East countries are yearning for (human) capital investment. Arab governments need to innovate, to promote entrepreneurship, and to channel investment into labour intensive sectors.

It has become necessary to introduce reforms in macroeconomic policy and in financial institutions to encourage individuals to save and invest. Regardless of past structural reforms, Arab economies lag in their efforts to attract foreign investment. In fact, they compose no more than 1 per cent of foreign investment at the international level and roughly 2 per cent of the developing country share. The future of investments in the region depends on the current process of privatization and economic liberalization, and of driving down the costs of capital and energy relative to the cost of labour (IMF, 2011).

Admittedly, increased integration with international markets could be the proverbial key to unleashing output and labour demand. Evidence suggests that increasing MENA’s openness to the level of emerging Asia could raise the annual per capita gross domestic product (GDP) of the region by a full percentage point. Ultimately, increased liberalization will be crucial for MENA countries should they seek to further diversify trade with rapidly emerging markets (IMF, 2011).

Labour-rich Arab countries should focus on strengthening their agricultural sector with more government investments and also look to promote non-agricultural work in rural areas by highlighting territorial development strategies. In contrast, Arab Gulf states must look to the public sector to foster diversified economies and promote entrepreneurship and innovation (United Nations Development Programme [UNDP] 2002, 34). Given the large numbers of youth in Gulf countries, they would be forward-looking if they based their labour market policies on those populations. However, the bane of unemployment hampering the youth is a consequence of a much larger problem: the outcomes of the labour market. Youth entering adulthood face four challenges; education, employment, marriage, and housing. First, the region must work on expanding the role of the private sector in order to deter the large number of youth solely intent with acquiring government employment. Second, governments need to skill workers improved quality of education, tightening university admissions, promote trades as a ‘respectable profession’, and special training initiatives especially targeting marginalized groups such as young women. Third, Middle East countries should focus on involving youth in decision making as well as prioritizing fiscal stimulus to helping them find employment. In addition to these recommendations, there is a need to reform public sector hiring practices and raise the value of informal jobs through investing in skills development as well as improving technological investments for better job information and counselling. In the long run, countries need to work towards providing social security to all workers (Dhillon and Yousef 2009; UNDP 2002, 34-35).

Clearly, Arab youth face plaguing issues of under-/unemployment that affect the region. Job creation in MENA is largely diverted to the governments, which are tasked with pivotal roles in economic management. Though the size of government in MENA is no different than that in other developing countries, government policies on labour have an important effect on both the public and private sectors.

This is largely seen in the high demand for employment with the government, as it is the "employer of first choice and last resort" (IMF, 2011). There has been a decline in the share of agriculture in GDP in Arab countries coupled with a decrease in production and efforts vested in this sector. Moreover, the seasonal nature of this sector means that workers are only temporarily employed, facing unemployment the rest of the year. Today, the services sector has grown and counts for nearly 50 per cent of employment. The International Labour Organization (ILO) has argued that 29 per cent of the Arab world is employed by the public sector. As an article in the *Economist* noted: "The region manufactures only half as much per head as others at a comparable stage of development. However, it employs twice as many bureaucrats per head as the global average" (2012). Government jobs — known for their secure benefits and allowances, though they pay lower wages — are largely sought after. The problem, of course, is that the attractiveness of the public sector detracts from building and investing in the private sector. As the highly educated continue to fill the ranks of public sector jobs, opportunities to stimulate economic growth in the private sector have dwindled. This problem is especially prominent among the educated youth who continue to seek employment in the public sector (UNDP 2002, 15, 17).

Many Arab countries face a dilemma in which they are to create jobs and reduce plaguing rates of unemployment while trying to create labour-intensive jobs that are fulfilling. In the case of the Jordan, this dilemma was not fully resolved. Though the government had succeeded in creating jobs, non-nationals later filled many of them as this supply of jobs did not meet the preferences of unemployed Jordanians. This dilemma is not unique to Jordan, as expatriates are filling many newly created jobs in other Gulf countries creating a fierce competitiveness between gulf nationals with foreign workers willing to accepted relatively lower paying position with high productivity (UNDP 2002, 22-23).

Part of the problem rests in the Arab mind of some countries that expect high-paying jobs with low strenuous labour involved. In other words, unlike foreign workers (Egyptians, other Arabs, Indonesians, Filipinos, and Sri Lankans) who are willing to undertake low-paying jobs that involve more arduous conditions, Jordanians are too attached to their "rosy expectations of employment prospects," failing to face the reality of a labour market. This "culture of shame" prohibits them from taking lower paying jobs and as a result prefer to remain at home (UNDP 2002, 24). Moreover, the large age differential between the growing youth population and the old governing generation is another problem. The dissonance between the two age groups is reflected not only in policymaking, but also in the fact that youth are seldom represented in the voting process, because those below the age of 21 were not granted franchise until recently and most legal adults (those who detain the most legal power) represent only one half of the population. To increase the participation of youth in society, governments in countries such as Jordan, Egypt, and Yemen have undertaken initiatives in conjunction with the United Nations Development Programme (UNDP 2002, 29-30).

Of course, the divided labour force is the reflection of larger problems. Labour markets in Gulf countries face the ongoing struggle between the role of the government and the private sector; and pressing the point of creating youth policies for both young men and women. Also, improving labour market data transparency and access to this data by policymakers is of primal importance As mentioned, Gulf countries depend on non-nationals as their workforce, which threatens to further isolate nationals along with the youth and the female population. To address this issue, more importance will need to be placed on creating policies that seek to include all demographics in order to create a more well-balanced and sustainable local labour force (UNDP 2002, 29-30).

There is an onus placed on Arab governments to entice their populations to work and create an environment conducive to job creation. This can be done through labour market reforms that encourage individuals to seek employment and to keep decent jobs. Also, creating linkages for those who are unemployed to gain access to areas with booming employment. Incentives include housing loans to help workers relocate from a rural to urban area, investing in better modes of transportation and subsidized transportation services, and, finally, encouraging job creation in areas with high unemployment through tax breaks and other incentives (UNDP 2002, 35).

Conclusion

The Arab world is at a crossroads. With increasing economic liberalization come more demands for inclusive economic growth among those who have traditionally been shut out from participation by the status quo. The Arab spring was an awakening of youth, many of whom — frustrated, disenfranchised, and weary of having to continually live with failed expectations — demanded government accountability in order to put an end to their exclusion from the benefits of emerging Arab economies.

Yet, the Arab world is educated and ready to seize opportunities. For those living in the Arab Middle East, the future is full of both promise and challenges. Now, more than ever, policymakers from G8 governments, their regional partners, relevant multilateral organizations and elsewhere must ensure that the mistakes of the past are not repeated in this period of difficult transition. In order to foster sustained economic growth and political progress throughout the region, business and investors therefore need to capitalize on this moment of demographic dividend.

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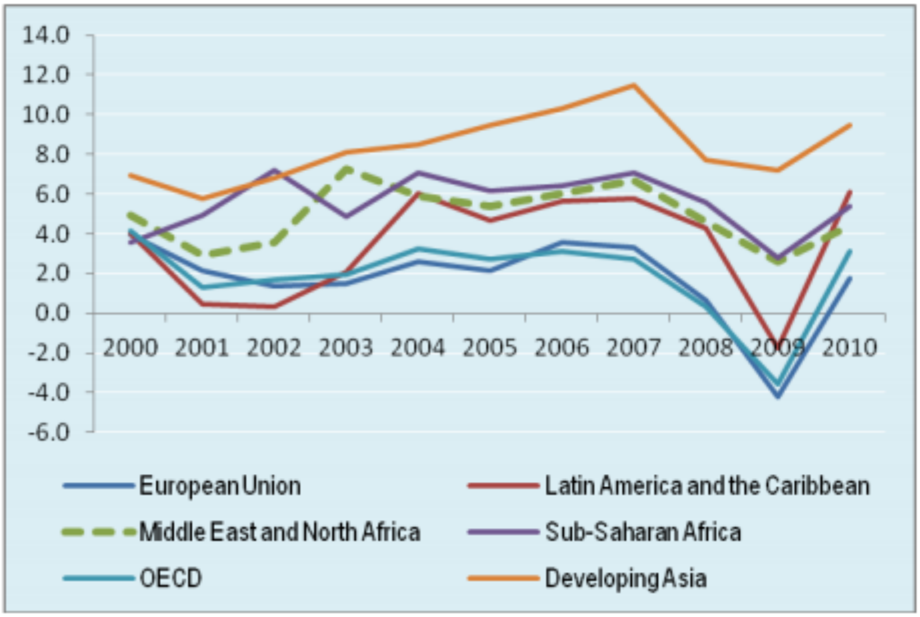
Appendices

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

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

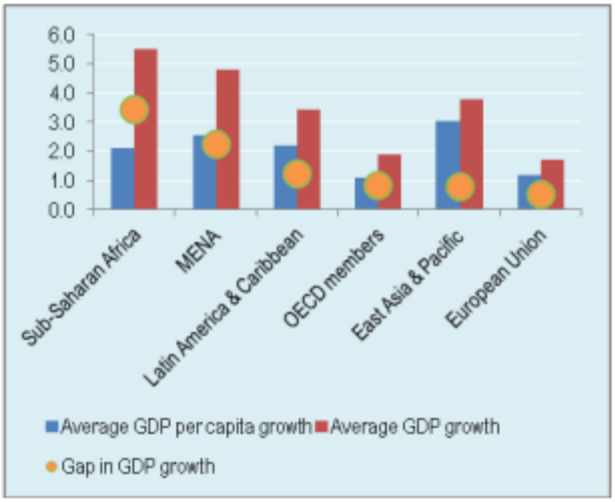


Sources: IMF 2011d and OECD 2011c.

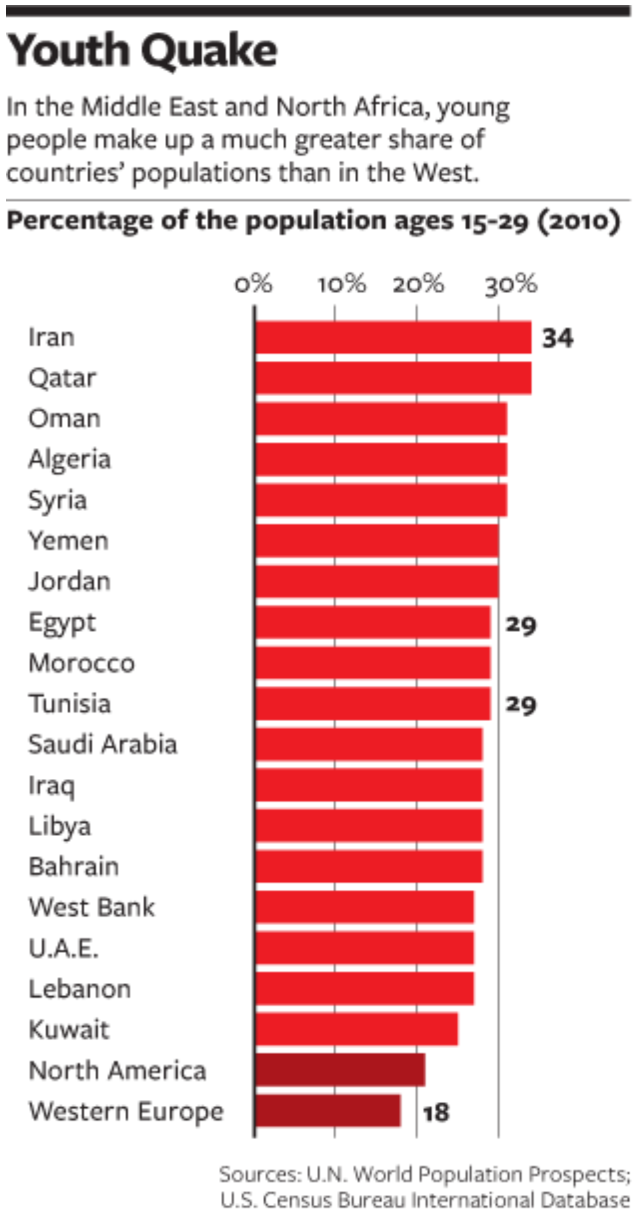
Source: OECD 2011
http://www.oecd.org/mena/investment/49036903.pdf

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

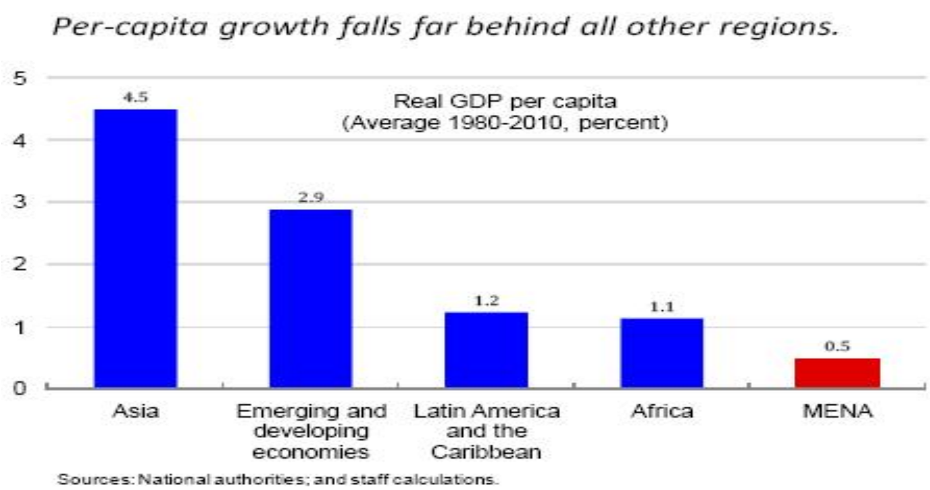
A. GDP and GDP per capita growth 2000–09/10 by region



Source: OECD 2011
http://www.oecd.org/mena/investment/49036903.pdf

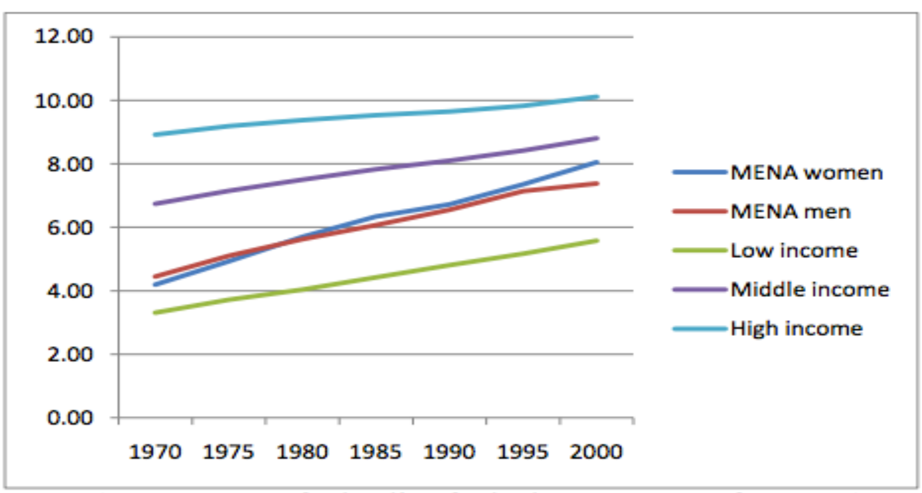


Source: National Journal 2011
http://www.nationaljournal.com/magazine/why-the-middle-east-s-youth-bulge-is-key-to-the-region-s-stability-20110221



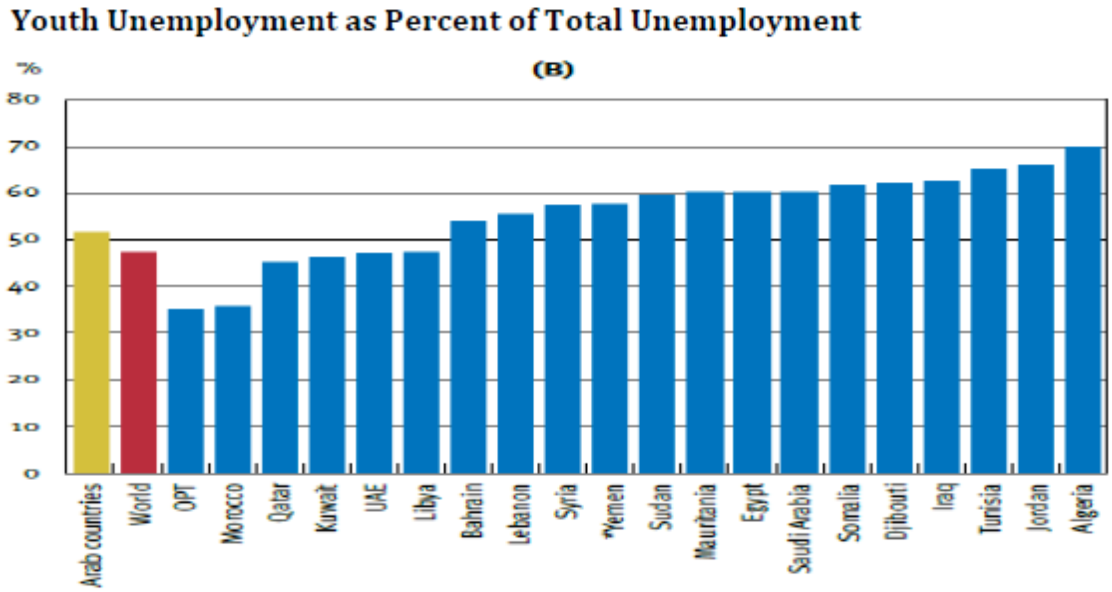
Source: IMF 2011
http://www.imf.org/external/np/g8/pdf/052711.pdf

Figure 5. Years of schooling have increased faster in MENA than other regions



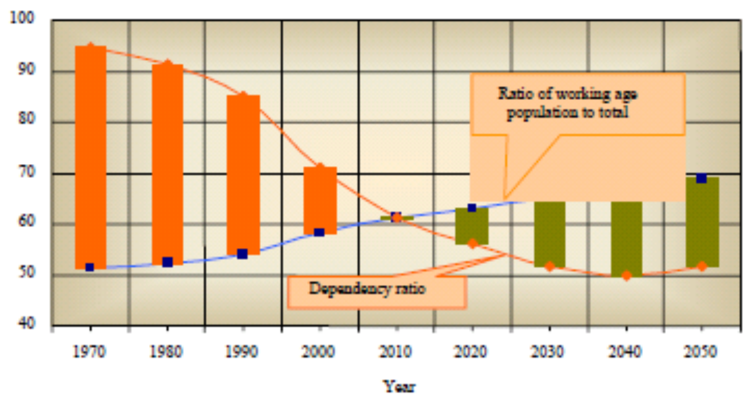
Notes: Average years of schooling for both sexes, except for MENA
Source: IIASA education data base

Source: UNDP 2010
http://hdr.undp.org/en/reports/global/hdr2010/papers/HDRP_2010_26.pdf



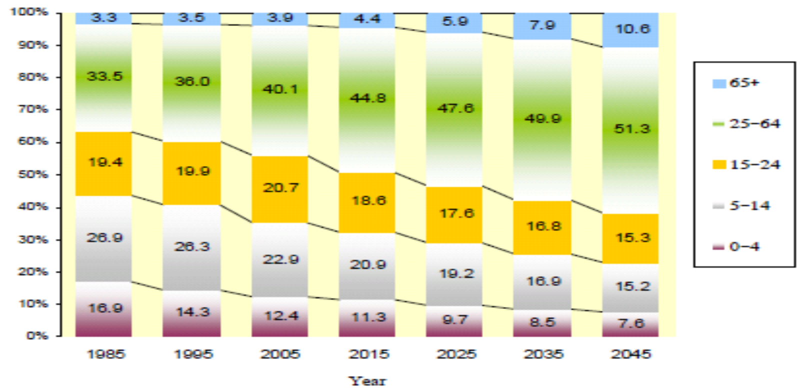
Source: CSIS 2011
http://csis.org/files/publication/111102_MENA_Stability_Security.pdf

Figure II. Trends in working age population and dependency ratio



Source: UNDP 2008
http://www.arab-hdr.org/publications/other/escwa/demographic-change-08e.pdf

Figure I. Trends in the age structure of the population in the Arab countries (1985-2-45)



Source: UNDP 2008
http://www.arab-hdr.org/publications/other/escwa/demographic-change-08e.pdf