

GROWTH & EMPLOYMENT CONTEXT

The population of the Middle East and North Africa (MENA) is set to nearly double over the next 50 years and with over 100 million young people, the region would greatly benefit from a coordinated economic program focused on building critical infrastructure and creating jobs. Recent efforts by regional governments to support and invest in Egypt indicate that such investment can shore up investor confidence and lead to virtuous circles. Lessons from the Chinese economic growth acceleration model - including the establishment of the Asian Infrastructure Investment Bank (AIIB) – demonstrate that far stronger vision and commitment are needed in MENA to avert an even deeper crisis.

THE ARAB STABILIZATION PLAN

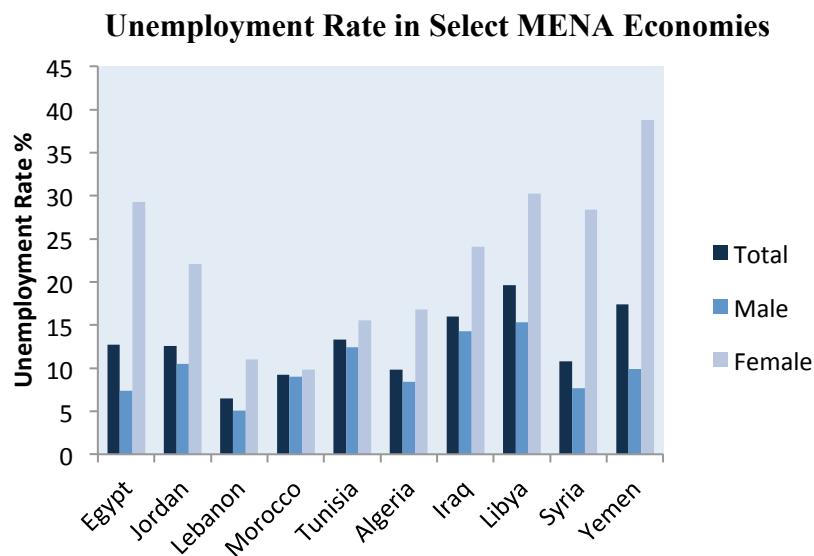
The Arab Stabilization Plan (ASP) proposed a comprehensive economic framework based on public and private cooperation for sustainable growth, led from within the Arab World and targeting two primary stabilization objectives: (i) private sector led growth, and (ii) rapid job creation. This plan identifies the youth unemployment crisis as a significant driver of instability, undermining investment flows and further exacerbating the jobs crisis. Though efforts have been made to accelerate growth and employment, the reality is that a unified and holistic multilateral approach is wholly lacking, with the international community now switching their attention away from growth and jobs to security and stability from Egypt to Yemen, from Libya to Iraq, and from Syria to Pakistan and beyond. With the need for jobs ever more pressing, and with most countries lacking investment liquidity, a far bolder vision is urgently required building on regional and global models.

"New attempts to multilateralize flows of assistance are likely to contribute significantly to global development. The AIIB offers a chance to test the idea of competitive pluralism in development finance."
Professor Joseph Stiglitz
Nobel Laureate

UNEMPLOYMENT IN THE ARAB WORLD

With unemployment rates in the region continuing to be the highest in the world and youth unemployment rates at a staggering 29.4% and expected to increase further in 2015, the situation seems to be spiraling out of control unless immediate steps to address it are taken.

"The long-term employment effect of infrastructure investment could be significant. The report finds that the employment response induced by infrastructure investment resulting in 1 percentage point additional growth is expected to be 9 million additional jobs in the course of ten years in MENA, or a little less than 1 million jobs per year. Such a response is significant as it accounts for approximately 30 percent of the jobs created in the region during the 2000s. Had these jobs been created during the last decade, the unemployment rate would be substantially lower than the 10 percent registered in 2009." IFC (2009)



With a third of the MENA population under the age of 15, infant mortality rates in decline and female unemployment burgeoning, the ‘population momentum’ makes the growth and jobs challenge a moving target.

Arab Stabilization Plan Update – May 2015

REGIONAL CONFLICT THREATENS TO DISTRACT FROM THE UNDERLYING CAUSES

The MENA region has been thrown into the deepest state of instability for decades with sectarianism and insurgency undermining efforts to kick-start under-performing economies. A coordinated investment framework as proposed by the ASP could lay the foundation for stability. Conflicts in Iraq and Syria have had a profound impact on countries like Jordan and Lebanon, expanding the need to absorb new labor market entrants and to provide better services. The unemployment crisis is not limited to national borders with the number of refugees and internally displaced negatively affecting poverty rates, while also increasing informality and wage deterioration in the labor markets. The implications of this worsening situation are clear; unless the clear need for an even bolder regional economic stability pact aimed at accelerating growth and jobs creation is addressed, the unemployment crisis will prevent further progress.

Investment Requirement to combat severe unemployment by accelerating inclusive growth and social outcomes in the MENA region: US\$159 billion.

IMPLICATIONS OF NEW CONFLICTS FOR THE ASP

The escalation of conflict in the region and the acceleration of unemployment along with a young demography requires new estimates of infrastructure investment needs in the region. We estimate the investment requirement to create at least 10 million infrastructure-related jobs, which would help keep unemployment at reasonable levels of 5-7% in most of the MENA economies keeping aside the GCC. Figures are provided in the Box above.

Investment Requirement to combat unemployment in Iraq, Libya, Syria and Yemen alone would require investments of at least US\$76 billion given the intensity of the conflict.

SOURCES OF INVESTMENT - THE EGYPTIAN MODEL

Egypt's successful international development conference presented a model that could be adopted and adapted by other economies in the region. Estimates of investment pledges vary from US\$60 billion to US\$185 billion, with the majority funding coming from the private sector. Such investments will likely translate into tangible employment and growth benefits over time for Egypt.

AN INFRASTRUCTURE BANK FOR THE ARAB WORLD ALONG THE LINES OF AIIB/EBRD?

The region's employment challenges are growing and with regional government's continuing to face fiscal challenges it is the private sector that must drive growth and create jobs. For this to happen, economic policies need to change, the business climate needs to be improved and a region-wide program of reforms must be undertaken driven by stronger economies to finance growth acceleration and job creation.

The AIIB Model: With 57 Prospective Founding Members (PFM) and an expected capital base of US\$100 billion the objective of the bank is to provide financial support for infrastructure support and regional connectivity in Asia leading to economic and political cohesion in the region.

The creation of an infrastructure bank for the Arab World, along the lines of, or affiliated with, the AIIB would be a powerful solution for the economic crisis in the MENA region given national liquidity issues and a lack of consensus on region-wide reforms.

While the GCC will continue to drive regional investment, lower oil prices will reduce the fiscal space available to the GCC to fund investments such as those provided to Egypt. Recent IMF estimates for the GCC also highlight that a combined budget surplus of US\$76 billion for 2014 (4.5% of GDP) is expected to turn into deficit of US\$113 billion (8% of GDP) in 2015. Establishing an Arab Infrastructure Bank aligned with existing international financial institutions would play a critical role in encouraging new investments and realizing the multiplier effects of economic transformation.