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P R O C E E D I N G S

MR.DERVIS: Today is a joint venture or joint effort by JICA Japan and the Brookings Institution Global Economy and Development Program on a topic, which we all know three years ago looked easier. It never was easy, but it looked somewhat easier; but it's turning out to be extremely difficult, the transition from the old state of affairs, if you like, to a different state of affairs in the Arab world.

One of the major themes of today, but also of the ongoing effort, is that while the headlines are all political and military in some sense, the underlying problems are also very much economic. And I think that's one of the things, one of the recurring messages I think the team is trying to send. I mean, let me just, you know, take the opportunity to remind everyone we're in the year 2014, and as you probably will hear on many occasions, in many different types of places; lectures, roundtables; it's the hundred anniversary of World War I.

And there have been many books written on the origins and why it happened and how it happened, and one of them we took up in a recent Brookings essay also; but I think most of those who study that period and then particularly what came afterwards, hyperinflation in Germany, the huge depression throughout the world economy with unemployment rate reaching 30 percent, again, particularly in Germany, but in many other countries; obviously most historians, you know, in history, you can't really prove things, but do suggest that if the economics had been handled better during that period, you know, we might have escaped the catastrophe of the Second World War and, you know, the incredible devastation that it brought with it and the human tragedies that came with it.

So I think it is important to look at the underlying economics in the Arab world and to see what kind of proposals, policies, perhaps some degree of advice and help can be effective in helping these countries reach a more inclusive social, economic, and political model. And I think that's the aim of all of this, and we're very grateful to JICA for supporting that work.

So today we have three panelists. We have Hafez Ghanem, who is the person for Brookings who's leading this work, the scholar who's leading this work. He's a senior fellow at Brookings in our program. He's worked at the World Bank for many years and then at the FAO in Rome. He knows the world. He is Egyptian. It's his part of the world. He does it not only with his brain, but also with his heart, and I'm very happy to have him here with us today. And he will lead off the discussion with a presentation.

Then we have Director General Akihiko Koenuma from JICA, Direct General of Middle East and Europe since 2012. And he has held leading positions in JICA for many years. He's quite knowledgeable, himself, also about the region. And I guess while he's not from the region, his heart is also very much with the region. And Japan has really made a big effort in many countries. I know that also from my own times when I was at the World Bank, Vice President for Middle East and North Africa.

And then we have Daniela Gressani, who is now the Deputy Director of the Middle East and Central Asia department at the IMF. She was formerly, as I was also, we share that past, Vice President for MENA, for the MENA region at the World Bank. She's a first class economist apart from her managerial and leadership positions. And as an Italian, she has some empathy with the economic difficulties, but also in ways to overcome them, I would guess. So we're happy to have her.

The IMF is playing a very important role, a very uneasy role in the entire region. You know, when there's so many political tensions, it's sometimes easy to forget how important the macroeconomic framework and the correct macroeconomic policies are. I should also add that, you know, for many years now the IMF has gone way beyond its old framework of just stability and is looking into issues of inclusion and quality of public administration, income distribution, and all these things which make it, itself, a much more inclusive institution than it was maybe 10, 15 years ago.

So with that, I'm going to turn it over to Hafez, and try to then moderate the discussion.

Hafez.

MR. GHANEM: Thank you very much, Kemal.

Actually two months ago what when I was in Tunis, I was talking to a young cabdriver who told me that he really felt sorry to have, that he had participated in the revolution. And I asked him why, and he said, you know, we lived, our life was much better under Ben Ali. That is roughly three years after the revolutions. And today marks exactly three years since Hosni Mubarak resigned in Egypt.

And last week I was talking to an Egyptian scientist, and she expressed the same sentiment. She said, you know, the Arab Spring was all a mistake, and we would like to go back to the status quo and our lives have been shattered and made much worse by the revolutions. So those are the kinds of sentiments that you often come cross in the region today.

And one question one could ask themselves, what happened, are Arabs against democracy? Well, no. I mean, the data, this is data from the Arab

barometer and this is the percentage of people responding to the question is of, do you agree that democracy is the best system of government in spite of its problems, and you have nearly 90 percent, a little bit less than 90 percent of Egyptians saying yes. And even the same percentage of Sudanese. And the majority of Saudi Arabians. So there seems to be a big support for democracy. And that the sentiment that we hear is not necessarily saying that they don't want democracy.

But what is, then what is being played out? Actually if you look at the way those polls are being run and then you also ask people what aspects, what other attributes of democracy do you feel is the most important? And there are six attributes, three economic attributes and three political attributes. The economical attributes are the access to basic needs to everybody and reducing the income differentials between rich and poor and the third attribute is controlling corruption. And the political ones are the ability to criticize the government, ability to change the government, having equal political rights for all.

Now when you ask the Arabs what attributes of democracy are most important for you, you find majorities and certainly very significant numbers, even when there is not a majority like in Nigeria for example, saying that it is the economic attributes that are most important. And here this tells you, when you ask people in that part of the world what is the most important challenge, you have the huge majority saying it's the economy, except in Palestine of course where they have other more complicated issues.

So my argument really is that all the negative feelings in the Arab world are a lot linked to the economy. Because if you look at what happened since the

Arab Spring, what happened since three years ago, this graph, the blue lines, it's a very simple idea, the blue bars are average growth rates for the five years before the Arab Spring, before, so it's 2005 to 2010, and then the orange red lines are from 2011 to today. And you'll find that in all the countries, in all the five countries that the IMF calls them Arab countries in transition, that growth has fallen dramatically except for Morocco.

So this, so my argument is that the focus on the politics and ignoring economics has been a mistake. And that unless one deals with the economic issues with issues of inclusiveness and issues of social justice, that the movement towards democracy will be jeopardized. And, you know, in the work that we did this year, we focused on two actually important issues of inclusiveness and social inequalities. One is rural urban issues, and the other is the youth opportunities, jobs for young people.

Well, let me start with the rural urban issue, because this, very few people actually talk about it in the different conferences and so on in the Arab countries in transition. I don't hear much about, what about the rural poor? And this table is just to tell you that that we cannot ignore the rural populations in those countries and just focus on urban issues and macroeconomic issues.

In Egypt, 57 percent of the population lives in rural areas. In Yemen it's 71 percent. In Morocco it's more than 40 percent. So we're talking about countries that are already, that are still to a very large extent very rural. And therefore, when you talk about economic inclusiveness, it's very important to look at the rural areas. The rural poverty in those countries is much, much higher than urban poverty. In Morocco rural poverty is three times the rate of urban poverty. In Egypt it's more than doubled.

So we are talking about very high poverty rates in rural areas, and we are talking about very small family farms that is providing employment for roughly one-third of the labor force. But very small, this graph shows you the average size of a farm. I mean, in Yemen you have 0.6 hectare, that is, many of you here probably your back yards are bigger than the average farm in Yemen. So even the big area, when you have big farms in like Morocco and Tunisia, the average size is still around two hectares.

So and this, the reason I'm saying that one cannot ignore the rural areas are that we ignore the small farmers and rural poverty at our own peril, is that I don't think you can achieve any kind of political and social stability without dealing with this issue. And I'll just give you an example of the birthplace of the Arab Spring, Sidi Bouzid in Tunisia. To date I hear is just under, that 70 percent of the population of Sidi Bouzid, that's where the whole revolution started, is rural. Forty-one percent of the labor force in Sidi Bouzid works in agriculture. And this is like double the ratios for all of Tunisia.

Forty percent in 2010 right before the revolution started in Tunisia, 40 percent of university graduates in Sidi Bouzid were unemployed, which is now roughly double the rate for Tunisia. And 32 percent of poverty rates, which is double the rate for the country as a whole. So you have very high -- so you have a rural area where people depend on agriculture and you have high poverty.

This is the land distribution in Sidi Bouzid. So you see that the majority of the farms are smaller and medium sized. But there's a piece of information here for you to, additional piece of information which is, this is an area where there is, where water is very scarce. So the access to irrigation is key. If you have a small farm

and no access to irrigation, it becomes very hard to scrape a living. And you can see the percentage of the irrigation for the small farmers; it's much, much lower.

So in fact, if you look at the growth rates for Sidi Bouzid before the revolution, they were quite respectable. Government had been investing there and the place produced a lot of olive oil and tomatoes and whatnot. But as the government was investing, it was, it completely ignored the small farmers, the small family farmers. And it was mainly the rich investors from nearby Sfax who came to Sidi Bouzid. Very few jobs were available outside of agriculture and a lot of unemployment and we saw what happened.

So this is why, I mean, just looking at this example, the point I'm trying to make is that unless those kinds of issues, those issues are addressed, we will never get stability in this part of the world.

Now the same story is Egypt, we note, with a big difference between upper Egypt and lower Egypt. And as we talk about Egypt, I mean, the upper Egypt, it's always difficult to -- upper Egypt is not the north part, it is the south part. It's upper because the Nile goes down from south to north. So the upper, the southern part, the upper Egypt is the much poorer part of the country where you have, also, it is also the center where you find all of the extremism and all kinds of political problems. The 83 percent -- upper Egypt is roughly half of the population of the company -- but 83 percent of the extreme poor live in upper Egypt.

This graph just shows the human opportunity index in different parts of the country and you'll see how upper Egypt has a much lower human opportunity index than the rest of the country. At the same time, this table here shows you the

amount of, you don't need to look at all the details, I mean, just look at total figures, the percentage of public investments. So you have part of the country that is 50 percent of the population, 83 percent of the extreme poor, and it receives 25 percent of public investments. And this has been the case. So then we are surprised when we see a lot of instability and so on in that part of the country.

Now let us move to unemployment. The, as we all know, I mean, one of the biggest -- so this whole set of issues of dealing with regional inequalities with rural urban inequalities is one set of issues that we have been working on this year and we believe is extremely important. The other set of issues is obviously the unemployment, the youth unemployment. As you see, the table, the countries in the region have very high youth unemployment rates.

But I wanted to make two points, that actually the high youth unemployment rates are mainly because of high female unemployment rates. So we really have a problem of more a very high female unemployment rates that are driving the, if you look at the data here, that in Egypt the male unemployment -- or the female unemployment rate is about three times higher than the male unemployment rate for youth, for young people. And in Tunisia it's roughly five percentage points above it.

So this is the first point. And one explanation for that is if you look at a country like Egypt, for example, most new jobs, most people, young people coming into the labor market, most of them get jobs in the informal sector where they make about three, four dollars a day. And informal jobs are not considered to be safe for women and women try to avoid those jobs and that's why we see those very high female unemployment rates. But this does not mean that the males that are working are happy.

Because if you go to secondary, you finish secondary education or university education end up selling fruits in the market for three dollars a day is not exactly, it's not something that would make you particularly happy and satisfied.

The second point I wanted to make is that actually linked to the growth story I was telling you is that actually this unemployment problem has gotten worse since the revolutions of course. To date the overall unemployment in Egypt increased by 4.5 points over the last three years, from 9 to 13.4 percent, that's overall unemployment. In Tunisia it increased from 13 to 17 percent. So we have, I mean, if those revolutions were started by young people who felt excluded, they actually are getting even more excluded over the last three years.

Another factor explaining the unemployment story, another important point about the unemployment story is how it changes with education. And actually the probability of your getting, of your being unemployed rises with your level of education. So this says something about, this is the data for Tunisia where the unemployment rate for somebody with a higher degree is three times more than somebody who has no degree whatsoever, and that this unemployment rate for the person with a higher degree has been increasing over the last six to seven years consistently. The same story for, this is the table for Jordan, and it's the exact same story except also and there you also see the huge difference between the females and males.

Now one explanation for the high unemployment has been that the youth in the Middle East actually want to work for government and that everybody is sitting around waiting to get a government job and this explains the high unemployment rate. Actually one of the papers that we worked on this year, Akeer right here is the main

author of it, compared youth job preferences, the university graduate preferences in Egypt and Tunisia. And there is no, we don't see much difference that says that the Egyptians want to work for government while the Tunisians are more -- actually the data shows that it is probably the opposite, but I don't think that this is statistically significant anyhow.

What the data shows clearly is that young people that want jobs that pay better, that gives them better opportunities, and that the pay policies in the public sector and the whole compensation packages that are in the public sector are much better than in the private sector.

So those are the kinds of data and information that we have been working on. And I will leave you just with some hints on what kind of implications, what kinds of conclusions one can come up with. The first implication is, the first conclusion I would come to is that those countries really need a major change in economic institutions. I mean, I gave you the example of the Egyptian public investments, 25 percent going to upper Egypt and 75 percent going to the richer part of the country. And also the investment, public investment in Tunisia, which was so favoring, much more favoring in Sidi Bouzid favoring the bigger farms and so on.

And telling governments that they need to change their investment patterns to go more to this area or that area, I don't think has worked. I mean, we've been, at least I have been in that business of giving advice to government about what to do for more than 25 years, and it has never worked because the decision is a political decision. And as long as we do not have a system that gives voice to those people in terms of the decision making, in terms of the location of public investments, I

don't think that this will work. So one of the papers that we have produced actually from last year is a paper looking at the systems in East Asia in how public investments are located, how the planning process works, and seeing whether this can be applied to the Arab countries.

Second, a very big problem is the whole issue, linked to it, is the whole issue of social protection and safety nets, which is a problem that we find. I mean, when we talk about the urban rural divide, we don't have any safety nets in the rural areas. All the whole social protection system in those countries has been focused on providing subsidies for certain commodities that are consumed in urban centers. So again, one of the, some of our work has been looking at the experience with social protection, especially in Brazil and in Mexico and seeing how that can be applied to the Arab countries.

Over the medium term, there's obviously a need to work more on the education system to see why is it that it's producing people who are mostly unemployed. And tomorrow in the same room, but in the morning, we will be having a discussion on the Arab learning barometer where, that -- so I'm not going to talk much about education. So if you want to hear about it, please come tomorrow.

MR. DERVIS: That's good advertisement.

MR. GHANEM: And that, but we are also arguing for doing more for agriculture and for small businesses. So thank you very much.

MR. DERVIS: Thank you very much. (Applause)

So, Daniela, what are your reactions and own thoughts; you know, don't restrict yourself to the presentation, per se, but where do you see the two or

three most promising avenues of change and support?

MS. GRESSANI: Well, I was, since I'm speaking for myself, since you authorized me to speak for myself --

MR. DERVIS: Yes.

MS. GRESSANI: -- I cannot (inaudible) a comment at the beginning and notice that Hafez started by saying how important economics is to political development, but again, he came back to reminding us how important it is, the political choices for economic decisions. And I think in a sense what we're seeing in these countries now is an opportunity for getting both right, for getting the economics right in support of the political transformation and for getting the politics right so that the economic decision can, in fact, include people that in the past that have not been included, benefit areas that in the past have not received benefits.

So I think there is an opportunity, not an easy one. Hafez also reminded us it's three years now since this whole process started in Tunisia, and there is still a lot of uncertainty, a lot of, there are a lot of difficulties going forward, but I don't think we should, at least, I'm not prepared to underestimate importance of the change, the opportunity of vicious --

MR. DERVIS: Riches?

MS. GRESSANI: -- of a vicious circle being, I think, obliterated --

MR. DERVIS: Oh, okay.

MS. GRESSANI: -- like the development that we've seen, not completely obliterated, but I certainly would like to start in a more, with a more optimistic tone than Hafez, when he reminded us of war and high inflation.

The other thing I'd like to say is that I also believe strongly in the two pillars, if you will, that Hafez has mentioned. If we want these countries to have real economic progress, we need to look at jobs and we need to look at social protections. These, I think, are the two areas where there's a need to make the biggest difference. And in that respect we know how difficult it is. First of all, no policy maker has ever created a job. It's true that in this country, the public sector has created most jobs including in response to the Arab awakening, but those are not the jobs that can sustainably shape the future of the countries, that can sustainably take people out of lagging region into high value added, high productivity jobs.

And also these countries have had a long history of safety nets that have been either politicized or not really directed to the most vulnerable. And I'm talking in particular of the very large amount of resources that are dedicated to subsidies that don't benefit the poor and the vulnerable, but they're largely captured by people with big cars, people with air conditioning and the like.

So again, there is a lot of positive change that can take place by looking at how the private sector can be supported, encouraged to create new sustainable high value added jobs and how the public sector can, in fact, direct resources away from general subsidies that don't primarily benefit the poor, even though of course they benefit the poor to some extent, and non-politicized forms of social protection. And.

Again, I think Hafez mentioned experience in Brazil, experience in Mexico; I would add, unless Kemal corrects me, experiences in Turkey as very good examples of how social protection can be directed to those in need in a way that does not discourage them from working, does not discourage them from participating, and does

not stigmatize them as non-worth members of society. However, since -- so I think there is a very large and a reach for form agenda in the economic sphere that can interact with the political transformation in this area.

Since we are, we're in the business of giving advice to government; I think the two areas where we are now focusing the IMF in the Arab countries in transitions are really to provide advice to countries to improve the quality of their spending. And in particular to look at spending less, as I was saying earlier, on things such as generalized subsidies and public sector wages and more on things that can make a difference in terms of private sector jobs such as directing infrastructure where there are bottlenecks, directing spending where they can, in fact, support the private sector development.

Now this is obviously something that requires changes is distribution, this is something that different parts of societies will either be in support of or against; but this is also something that we very much see as necessary in the short term to make a difference in terms of job creation, and at the same time to make a difference in terms of being able to free up resources that can better support the vulnerable people that, in fact, need to be supported. I would like to stop here.

MR. DERVIS: We'll come back with the discussion.

MS. GRESSANI: And then we can come back in there's more.

MR. DERVIS: Mr. Koenuma, your turn.

MR. KOENUMA: Thank you very much.

And probably I would like to start from why my country, Japan, is involved in this region. Because not only from -- our country is dependant 90 percent of

import of the energy resources, but also, you know, Middle East, stability in the Middle East is vital for us for our trading partner which is Europe also, and Middle East, it serves as also a major trading partner. So that's why that the Japan, of course we are in the Far East, but we have to be, get involved in the stability processing in this region.

And our observation since 2011, what had happened and actually is that, well we are unfortunately still in the process of stabilization except probably we just have very good news from Tunisia, waiting for two or three years to get the new political institution; whereas in Egypt, of course the Egyptian people have made another choice. And in Morocco maybe they have started very, very properly and on their way of political and economic reforms.

But my sense is that even if the political reforms since 2011 has come to a certain point, it will take time; but the causes of this political reform really comes up to what Hafez had explained that it's really the inclusiveness or the necessity for the inclusiveness of the development fruit. And that is the end that Japan has been pursuing, not only from the pre-2011 era, but for the future also. And we've been dealing with, especially with Egypt, the planning process, as Hafez has mentioned.

And you know, no matter what the government, current government is, which color or which institution, the inclusive development, realizing they need inclusive development is really a must for every government. And we are supporting from the planning side. Also the human capacity development is also necessary and rural development or disparity, (inaudible) disparity is also a very, very important aspect.

And I think that what we have been doing, no matter how the

political institution or no matter how the political institution is, we've been continuing for the infrastructure development or the rural development or the human capacity development that Japan is conducting for this entire region. And I think we are going to continue to do that. And recent political change since 2011 of course made some troubles or some slowness of our assistance, but we go along with this. We want the people's choice. And we hope that it will reach really the real inclusive development. Thank you very much.

MR. DERVIS: Thank you very much. Let me ask one question, because Tunisia has been mentioned several times, you know, and both from the economic and the political angle; what do you think has made the constitutional compromise possible in Tunisia? It was like with 200 votes out of 216 in the Constitutional Assembly, you know, it was voted in. Any, since this is the good news we have, any thoughts on that or -- Hafez? Or Daniela? Hafez?

MS. GRESSANI: Do you want to start or --

MR. GHANEM: I can start, and then --

MS. GRESSANI: Are we going to keep the same sequence?

MR. GHANEM: -- Daniela can correct me. No, I think there are probably two or three points that I would like to make. The first point is that, well, in Tunisia as in Egypt as in Morocco actually as in Jordan, we see this very strong polarization between Islamists and seculars. In Tunisia they don't call themselves seculars, they call themselves modernists. So we have this very strong big polarization.

And in the case of the Tunisians modernists, they are actually more, much more secular than in other, let's say in Egypt, because they come from the

French tradition of secularism, which is much stricter of the separation between church and state. Now but at the same time they have a very strong civil society. And the civil society in that case, especially the labor unions, play the key role in forcing through and pushing through compromises. So that is the first point. I mean, in spite of the huge differences between the two groups or the two forces, there was the role of civil society was very, very important.

The second point is that I think that also the issue in Tunisia was becoming more and more unstable with the murders of several, of two important politicians, with more instability on the streets. And I think all groups felt that they needed to compromise otherwise they were all going to lose. And that was, I felt it clearly the last time I was in Tunis about a month ago.

MR. DERVIS: Daniela.

MS. GRESSANI: I agree certainly with the fact that stronger civil society, a stronger middle class, if you remember Tunisia was the country in the Middle East that we always said had the middle class, I think that's, you know, important. I think also Tunisia had no external savior. Nobody was coming to the rescue of Tunisia, and they really had to work things out among themselves. And maybe the last thing, I think size also worked in favor of Tunisia. It's easier to forge a compromise in a relatively small and not too (inaudible) than it is in a large country, would be disparities.

MR. DERVIS: One hopes, yeah. I mean, there are contrary examples to that, but --

MS. GRESSANI: There are country examples, but --

MR. DERVIS: Any observations on that?

MR. KOENUMA: Yeah, I think that this time we've been always waiting for the Tunisians to implement good projects. And we've been really annoyed by the slowness of the implementation, but this time I think it worked quite well to get really the real compromise for themselves by themselves I would say. And we really would like to welcome this progress by themselves. And we hope that it's because, as my predecessor said, it's because the civil society or they don't have a strong military presence and that's one of the reasons probably so to speak. But I really commend this time the Tunisians made their decision by themselves.

MR. DERVIS: No, thank you. And I think what you mentioned, the fact that it's a small Army that has never had a political role is probably also very important because --

MR. GHANEM: Uh-huh.

MR. DERVIS: -- they didn't have an external savior --

MS. GRESSANI: That's true.

MR. DERVIS: -- and they didn't have an internal savior either in a sense.

MR. GHANEM: Uh-huh.

MS. GRESSANI: That's true.

MR. DERVIS: And perhaps I would add that the two camps were roughly balanced.

MR. GHANEM: Uh-huh.

MR. DERVIS: You know, that's also always incentive to compromise. Neither one appeared strongly dominant, and so, you know, neither one could expect to kind of win the landslide. And so but let's see how -- one follow up on Tunisia then, how

is the IMF international community going to help given this important step? I mean, wouldn't it be the time now, and I know that the IMF has no concessional resources and there's no European Union representative, or maybe there is I don't know, but it would seem to me that this is the time, if ever there was a time, to really in an intelligent way support Tunisia.

Is that forthcoming, Daniela?

MS. GRESSANI: Well, the IMF last week approved one more disbursement in our program for Tunisia. There is an active program now supporting their reform agenda. They certainly could use additional support. And they certainly could use additional support in a concessional form. I think also last week, we, my colleagues made the presentation at the meeting of the Deville partnership where I think the line that we put forward was very much that Tunisia, but also these other countries in transition now, could really, I mean, the kind of redirection of their public expenditure toward more pro-growth, pro-jobs, pro-poor activities could be really helped if there were additional funding forthcoming from the international community.

Obviously increasing expenditures on critical infrastructure is going to require cutting expenditures somewhere else. So to the extent that external support can facilitate this kind of redirection, obviously that would be very helpful.

MR. DERVIS: Anything going to be forthcoming from Japan on that front?

MR. KOENUMA: Yes. Well, of course we've been assisting Tunisia since 1990s where we are extending regularly the amount of the concession alone of about 150 to 200 million a year, dollars a year. And even during the revolution time,

we've been quite active in preparing those projects for infrastructure projects. And I think our government is, and we hope that our government is ready to continue what we have done and especially for the infrastructure sector. Well, of course not only the infrastructure, but we've been assisting the agriculture irrigation, but the problem Hafez had mentioned, we are encountering the same similar problem because the very most vulnerable, the smallest farmer did not benefit from the irrigation project, we are experiencing.

And we are compensating this with our technical corporation as JICA, so we would like to continue a comprehensive approach, not only for the infrastructure, but for the technical corporation. Thank you very much.

MR. DERVIS: I want to push a little bit harder on the external front, but also more generally, but you know, when I compare how some countries, Gulf countries extended massive quick financial support when the Army took over in Egypt, no matter what one thinks about it, but, you know, the financial kind of reward and incentives was huge and immediate. And I wonder whether the democracies in the world, you know, if they could show one-third of the capacity to really back democratic programs when it happens and, you know, Tunisia is small, so it's not as if this was requiring, you know, tens of billions of dollars; it could make a difference, and yet I'm not very optimistic that the democracies have that kind of strategic behavior.

MS. GRESSANI: Well, as you know, the European Union made a big difference in this way when Eastern Europe became --

MR. DERVIS: Yeah.

MS. GRESSANI: -- first candidate to the Union and eventually member

to the Union. But there isn't really at this point in time a counterpart to that kind of political commitment. I think that's --

MR. DERVIS: Uh-huh.

MS. GRESSANI: -- what's missing in a sense.

MR. DERVIS: Yeah.

Hafez, any comment on the, more general perhaps, on the external actors?

MR. GHANEM: Well, yeah. I've been, I don't think that the international community, the west can match the kind of, in terms of the overall size of financial contributions. But --

MR. DERVIS: But in terms of per capita or per unit of GDP?

MR. GHANEM: I don't think that they can match Saudi Arabia or Kuwait; however, that is not the idea.

MR. DERVIS: Uh-huh.

MR. GHANEM: I think the idea would be to be, to maintain a relationship and an engagement with those countries that focuses on certain strategic sectors, on certain strategic areas that support both the economy, social justice, and also the transition to democracy. For example, when we talk about inclusive institutions, building inclusive institutions for the planning exercise, for example or for inclusion of small farmers and supporting small farmers for irrigation projects or managing this or that, these are types, these are interventions that do not always cost a lot of money, but they require a certain transfer of knowledge and technology.

And that is where I think the west or the international community

in general, people like the World Bank and JICA and so on, have played a very important role and a distinctive role from the Gulf states. So it is not just, I think the focus, one should not just think about the volume of resources alone, that is important, but also of the quality of interventions and it needs to be continuous.

Sometimes I actually, I mean, when I read and hear people say, oh, we're not happy with the way things are developing in Tunisia, we should cut support; that's not the way you build institutions and maintain an engagement over the long run. So I believe that there's a need to be much more strategic in terms of how you allocate the systems and how you organize.

MR. KOENUMA: May I comment?

MR. DERVIS: Sure.

MR. KOENUMA: Well, I think that, you know, the so-called political change or political reform since 2011, it will take a much longer time than one had thought probably two years ago I believe. And well, my feeling or our feeling is that we should really go along with the people's choice there. And the now Egypt, they have made one choice. But still as I said, the causes of the political change or the social change, it remains the same. You need to establish really the inclusive development. And that's where we want to focus on our corporation, our assistance.

And I think it will take time necessarily, but by doing that I think it will really induce some of the social changes or the political change.

MR. DERVIS: All right. We'll open it now to questions from the floor. And yes, first we will give the floor to Mr. Cutano who has --

You can come to the podium if you'd like.

QUESTIONER: Thank you, Kemal, for your warm introduction. And on behalf of JICA, I'm honored to extend our deepest gratitude to all of the panelists and to Brookings for making this event possible and to all of our audience members, thank you for your support. Today's event marks an important milestone; Brookings and JICA celebrate their successful compilation of the second of three years of joint research collaboration on achieving inclusive growth in MENA after the Arab Spring.

We commend this significant achievement and look forward to the next stage of this crucial partnership. In addition to building effective development corporation in developing countries, JICA has been actively engaged in various research projects with a wide range of international partners. And the Brookings Institution is one of JICA's most important research partners.

We have published two books so far in collaboration with Brookings; Catalyzing Development: A New Vision For Aid, in 2011; and Getting to Scale: How to Bring Development Solution to Millions of Poor People, in 2013. This year we have already started work on our third book, Last Mile in Ending Poverty. To broaden our vision on inclusive growth during the third year of our ongoing joint research partnership with the Brookings, we are going to focus on three topics; rural and regional development in Morocco, employment and private sector development also in Morocco, and implementing programs and projects in Egypt.

Today certainly informative and enlightening panel discussion, we have deepened our understanding of the importance of achieving inclusive growth in the post-Arab Spring countries. We also heard about the crucial role played by inclusive economic policy and economic planning in the realization of this goal. And we also

observed there is some political sign or political development in the region, and it's very, I think, important, the long-term commitment and also to support countries in the region.

I sincerely hope that we have a lively discussion with the audience in the ensuing Q&A session. Thank you very much.

MR. DERVIS: Thank you very much, Mr. Cutano. Thanks for all the support.

So comments or questions from the floor? Do we see anybody? Yes, please do identify your then.

QUESTIONER: Soltar Loxy from the World Bank. My question is to Ms. Gressani and the other panelists if they could. You said that it is the right time to get things right in the Middle East, particularly economically. My question is, when you look at the countries that are passing through political transformation, maybe Tunisia has a good chance; but still you have to assure us, because three or four years ago, the World Bank invited the Tunisia Prime Minister as a modern country in achievement and months later the revolution started there. Now how could you assure the man in the street or the policy maker that it is the right time to do things when you have a population which is becoming restless?

Parliamentarians or lawmakers will appeal to the street. Countries that are suffering from captive outflow, no foreign direct investment, drowning in debt, and things are not working and populations are exploding at a rate which is unsustainable. So what assurances do you give the common man or the lawmaker that all the professional technical crowd that things are, will be on the right track?

And the second comment is for, I'm commenting on Mr. Dervis's

comment on democracy why the western world are not coming forward so strongly like the Gulf came to Egypt's support. Because the western learners are supporting those who are in power in the seat, whether they are Islamist or the secularists. And whoever wins will be the new dictator in that country. Thank you.

MR. DERVIS: All right. Some more comments? Yeah, we have two. Just a second, there's somebody behind you.

QUESTIONER: Yeah. Muntahu Mathenda from Georgetown, but from Yemen originally. So I saw all the policy implications in your presentation, Sir Hafez, and it's a long list and everything is needed, and in my country as you've noticed, the GDP has actually went into the negative right now. But if we had to prioritize, I mean, there are so many sectors that we need to work on, but if we have to prioritize three main issues that a country like Yemen that has different needs than a country like Egypt or Tunisia, what would these three sectors be for, let's see Egypt, Tunisia, and Yemen for now because the other countries have other specificities as well? Thank you.

MR. DERVIS: Thank you.

Yes.

QUESTIONER: Mafu Stat, former World Bank staff. I just want to make an observation on Ghanem's excellent presentation, Hafez's excellent presentation. And that's the, sort of the skewed investment in Egypt between upper Egypt and lower Egypt. We cannot blame this on the Arab Spring. This has been going on since Nasser. Nasser had neglected upper Egypt even though he came from upper Egypt, so did Sadat, so did Mubarak. So this is an inherited problem in Egypt, and we cannot blame it on the Spring because the Spring is a very short period of time. Thank you.

MR. DERVIS: Let me ask also one other question, particularly, you know, for those of you who work in a more permanent constant way with the policymakers and civil society in the region. What are the comparisons being made? You know, is it very focused just on the region, per se, or are there comparisons? Is, you know, is India a comparator for Egypt, for example. You know, is Tunisia looking at some of the more successful smaller, medium income countries? Is Asia being followed, or is this quite remote? So anyway we'll go back to the panel now. Maybe we start with you --

MR. KOENUMA: Okay.

MR. DERVIS: -- this time, and then we'll --

MR. KOENUMA: Well, from our perspective, I think we've been always referring to what we have done in Asia. That's one of the reasons why we've been concentrating on our assistance mainly from infrastructure front, especially in Tunisia as well as in Egypt. And also as a new JICA since five years, we are combining more effectively the technical corporation (inaudible) as our infrastructure assistance through our concession alone. I think, you know, our style of assistance really always refers to what we have been doing with Asia.

MR. DERVIS: Uh-huh.

MR. KOENUMA: And I think our Tunisians counterpart, they do recognize, you know, use of our fund.

MR. DERVIS: Thank you.

Daniela.

MS. GRESSANI: Okay. Let me start --

MR. DERVIS: All the --

MS. GRESSANI: Yeah.

MR. DERVIS: Yeah, yeah.

MS. GRESSANI: Let me start here, and then I'll work to the other. I think the question that you raised about which other element, the most important comparators for the Arab countries in transition is a question that we don't feel we have found a satisfactory answer for yet. And I think we have been looking at a number of examples if we think of element, but we have not really been able to find a set of comparators.

First of all, think we have to start with the fact that the Arab countries in transition, themselves, are extremely different. There isn't, you know, there is a political change or a momentum for political change in these countries, but, you know, Egypt is very different from Yemen, it's very different from Morocco. Libya, it's different from them all. So I don't think we have been able to find a set of comparators, but we've been trying to look at examples of transitions that have been successful in Eastern Europe to try to learn some lessons there.

We have been looking at success examples of social protection, for example, in the countries we discussed earlier Turkey, Brazil, Mexico and so on and so forth in separate areas. But it's just that I don't think we have been able to put a finger and say, ha, this is a really useful model --

MR. DERVIS: Uh-huh.

MS. GRESSANI: -- that the Arab countries in transition can follow. The first question, which is a very difficult question, certainly we couldn't provide assurances to anybody. In fact, given our mandate and our confidences, we couldn't even provide

advice to people involved in political transformations; but I think we are not blind, and I think we see opportunities. This doesn't mean that the opportunities will certainly be successfully caught in transforming to realities, but we see opportunities for change in economies in countries where there has not been a lot of change for a very long time, certainly at least not in the economy, and certainly not in the politics. Just look at the longevity of people in power. I mean, I don't think that's a secret.

But assurances, no, we couldn't frankly advise on how to make this political transition successful. Again, not people like me, not economists unfortunately. But again, we see opportunities for the change in the political sphere and change in the economic sphere hopefully reinforcing one and other. And we certainly would like to help make that happen.

On the issue of the territorial inequalities, they obviously are very long-lived issues; I think you are absolutely right for the Arab Spring. Given where I come from, you know, I'm Italian, in a very systematic large territorial inequalities characterized my country for 300 years and for very, two very different regimes, both economic and political regimes. But at the same time, again, we shouldn't be blind to the fact that there are some really important factors in determining inclusion, in determining political cohesion, in determining societal cohesion.

And so as economists, again, I think we should be open to looking at opportunities to reduce those inequalities, but being aware that they're very hard. I mean, the European Union, largest expenditure in their budget is regional equality; it's starting to deal with inequalities across different regions in Europe, so yes, absolutely.

And lastly I think three priorities. Three priorities are few given all that needs to be done, but I think, you know, good jobs and everything -- in different countries, this may be different things, but I think helping the private sector create good jobs should be very high on everybody's agenda no matter what's the mandate, no matter where we come from, no matter whether we can help with technical assistance on making the labor market work better, whether we can help, you know, with improving the functioning of the banks so that they are actually linked to the private sector. I think different institutions have different assets that they can bring to this, but high quality jobs I think is number one.

MR. DERVIS: Hafez, go ahead.

MR. GHANEM: Well, let me start with the easy part. But first, I didn't mean that that elective upper Egypt was a problem of the Spring, it's a longstanding problem, you're absolutely right; but after the Spring, the idea was to achieve more social justice and cohesion. And one would expect that dealing with this and correcting this would be a priority, and so far it has not been a priority and it really should.

Now comparisons, we, I think the approach that we have been taking is looking at certain issues and seeing where are the right, where have countries done things that have worked, have succeeded. For example, on social protection for the rural poor, the best examples that I know are present from Brazil and Mexico. The, on the planning process and allocation of public investments, the best examples I know are from actually Japan, Indonesia, Malaysia.

So we have been looking at bits and pieces in terms of getting there. On the overall process of transition, we have been trying to look, in Egypt, in our

work with Egyptians, we have always used, we've often used Indonesia as an example. There's a lot of similarities. Actually even if you look historically, (inaudible) Mubarak (inaudible), Muslim countries, big countries, so we have used Indonesia as a comparator for many things. In Tunisia, we have used Chile often as a comparator.

MR. DERVIS: Uh-huh.

MR. GHANEM: So our general issues, but it is, but actually I think we still need to have a lot of examples from around the world. Now Eastern Europe is not a good comparator, well, because I worked on Eastern Europe, too, and the push for joining the EU was really the driving factor there, and there is nothing similar operating. And the closest to that is probably Morocco which is very, a country that's the closest to Europe and that deals with Europe a lot and maybe Eastern Europe could be a comparator.

Now I think a question on Yemen, a need to prioritize is absolutely the right question. Because all those countries, even the most advanced is probably Tunisia in terms of education levels and income levels and size of the rural class, the relative size is Tunisia; but even in Tunisia, the government does not have the capacity to deal with all of those issues at the same time and (inaudible) there's a need to prioritize.

Now again, using comparators, if you look at some of the examples what the successful countries do in similar situations, Indonesia, for example, they started doing or focusing on dealing with some institutional issues that do not cost a lot of money, but that do provide, have a positive impact on the economy and that at the same time give a sense to the population that things are changing. So in Indonesia two things

that they did that worked well for them was the disinternalization and giving much more powers to the regions.

And that's actually, that's something that Yemen is working on. I think they just approved the new, yesterday they approved the new regionalization program with six regions.

And the other one was the starting a partnership with civil society to fight corruption. I think that one needs to identify some of the those key areas where intervention is needed. And I will go back to something that Mr. Koenuma said that we have to understand, and I agree with 100 percent, that this is a process that will take a lot of time. Those are countries that don't have a long, actually do not have a long or short culture or history of democracy.

They don't have the institutions that are needed for democracy. So building the institutions, changing the culture is a long-term process, but you need to start now. And you need to start in areas that will give strong signals and in areas that will make a move backwards more difficult. So you need to make sure that your change is going to become irreversible. And that would be through those kinds of institutional changes that I think are important, at least in the experience of Indonesia was that they were very important.

MR. DERVIS: All right. Any other comments?

Yeah, Sumia, we'll give you the last word.

QUESTIONER: Picking up on what Hafez just said, in a way I'm looking at it and thinking it's just been three years. I mean, are we expecting a lot in a very short span of time especially when some of these institutions have to be sustainable -- to be

sustainable have to be grassroots, or have we given them enough time to learn from failure? In the case of Tunisia, they tried, they failed, and then they got around to getting it right perhaps this time. But have we given them that space to experiment and figure out for themselves, or are we expecting too much too soon?

MR. DERVIS: Well, take, why don't we take this opportunity for each of the panelists to be able to say one last word, but I think it's a very good point, because when we even look back at a place like Europe, you know, it had to go through many, many disasters before it came to a better equilibrium. And although it's kind of strange, those who are in now seem to be quite unhappy and not all, but want to go out, whereas those who are ought like Ukrainians and other people seem to be very eager to get in.

But anyway, I think this whole idea of the time horizon is an important point which you've --

MR. KOENUMA: Yeah.

MR. DERVIS: -- emphasized a lot, the steadiness of Japanese Corporation.

So why don't we give each of you one or two minutes so you can give a last concluding word.

MR. KOENUMA: Okay. Let me start then.

MR. DERVIS: Yeah.

MR. KOENUMA: Well, probably to complement my answer to the four previous questions, I think, it is true that we were not able to look into this inclusiveness much better when the 2011 movement happened, started; but I think, you know, we are dealing with those technocrats of those countries and they're remaining the same, in fact.

And I think we have learned quite a lot what this inclusiveness means to implement a project on the ground.

So I think we have to be all the more prudent and steady for the cooperation. And when I come back to the Yemen, priorities in Yemen, of course Japan is also assisting Yemen, and we put probably if you say three areas, I think it's agriculture and basic education and probably infrastructure. Those are the three areas that Japan is now identifying.

MR. DERVIS: Thank you. Daniela.

MS. GRESSANI: Are we being too ambitious in terms of what we expect with three years after revolution? No, I don't think so. I think this is a big occasion. Chances like this don't happen, times in history where people actually rise and demand change. No, I think we should demand, help them, make the most of it. So that's my one minute.

MR. DERVIS: Okay. And Hafez.

MR. GHANEM: Well, actually I'm not sure if I agree or disagree with Daniela, but I have a different take, which is I think we were all too optimistic three years ago when we said things are going to change quickly. And I think we are probably, most of us are too pessimistic today when we say, things are not working. Because actually I, in a sense I agree with Daniela that there has been a major shift and that it is important that this shift continues, but I don't think that the shift is going to be very fast. We are talking about a process that will take time.

And I believe that you need to be very patient. And you have to follow the Japanese example and take a long-term view of it, of the whole process. You need

to know where you want to end and make sure you're taking the steps. But trying to burn steps and trying to move too fast can be actually counterproductive. Raising expectations too quickly when you cannot deliver can also be counterproductive.

So but I, personally, am actually quite optimistic that those countries are going to change, are changing, they will move towards greater democracy, but I don't think that this will happen in two or three years, it will take its time.

MR. DERVIS: All right. Well, let's end on that note. And I just want to add, perhaps Egypt, like always in history, is going to be at the end a very important country. I mean, there are many countries, many are different from each other, but you know, with 80 million right at the center of the Arab world and also historically in a special position, I would kind of foresee that what will happen in Egypt in the next five years is going to be a very, very determining influence for the whole region.

With that, let me thank you again, our JICA partners and all of you for having joined us this very cold afternoon. And the snow is coming again only tomorrow, so we're safe until tomorrow afternoon.

Thank you very much, Daniela, Akihiko, and Hafez, thank you.

(Applause)

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