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THE ARAB SPRING FIVE YEARS LATER: TOWARD GREATER INCLUSIVENESS

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P R O C E E D I N G S

MR. DERVIŞ: Good morning, everyone. Thanks for being with us. I see quite a few familiar faces. I think we're very privileged to host this event today on the Arab economies, the challenges, the analysis of the past is in the book, but it's also very much looking forward. So I want to welcome you all, thank the authors of the book, of course, and all the panelists. And I'll make a brief introduction and say a few words, and then I'll hand it over to Shanta Devarajan. Shanta, where are you? There you are.

First of all, Shinchi Yamanaka, Director-General for the Middle East and Europe at JICA, thank you for being here. Thank you for supporting the product. JICA generously supported this research, but of course in the way it always should be done, helping us but in terms of independence of research, and writers' opinions, everybody's opinions are of course, their own. So we thank, JICA, again. We have a wonderful cooperation with Japan on many issues, other issues also in development. And they are really one of our most treasured, most valued, and also best partners in terms of, you know, the way they're engaged, but at the same time respect Brookings's total independence of view and of research.

Shinchi Yamanaka was the Executive Advisor to the Director-General at JICA and separately also in the General Affairs Department. And he was JICA's chief representative in India. Of course, one of the most interesting and -- how many years were you there?

Mr. YAMANAKA: Three years.

MR. DERVIŞ: Three years, okay. Then we have Hafez Ghanem, who directed and did a lot of this work while he was a Senior Fellow at the Global and Development Department at Brookings. He's now the Vice President of Middle East and North Africa at the World Bank. He's an old friend, one of the people at the World Bank, who there are quite a few, but not as many as much comfortable both in academia and academic thinking, analytical thinking, and operational thinking. Of course, he knows the Middle East not only from his international work, but from Egypt where he comes from. Thank you very much, Hafez.

Shanta Devarajan, is the Chief Economist Middle East and North Africa Region World Bank, I must admit with the reorganization going on, my old kind of boxes don't fit anymore, but Shanta has been a senior intellectual leader at the Bank or many years. He also taught at Harvard, and his research

covers public economics, trade, natural resources, and not the least general equilibrium modeling. (Laughter) From the old days.

I'm very grateful that Masood Ahmed is also with us. He's the Director of Middle East and Central Asia Department at the International Monetary Fund. He was also the Director of the External Relations Department at the IMF. He was the Director for Policy and International Development at DFID. DFID being an agency which is also a very good partner of Brookings and also one of the European agencies that despite all the budget crisis and difficulties has not cut their development budget, there are only a few of those. But I can't thank Masood for that since he's now at the IMF. He has covered economic policy relating to debt effectiveness, trade, global prospects, and we worked together for a while very closely, of course also at the World Bank. But one memory is very valuable to me, is when he moved to the fund and was in charge of the HIPC initiative for reducing debt for poorest countries, and the country strategy papers that when with it, and I was on the Bank side. I inherited his office actually, and so we worked very closely together at that time.

We also went, I think to Algeria together maybe 30 times (laughter) before it became very hard to go there. There are a few people who know the Middle East and North Africa really better than Masood Ahmed.

And then we have Sanjay Pradhan, another old friend who is now just transiting. He will be the CEO of the Open Government Partnership which includes 70 countries, was an initiative of President Obama. He was leading the leadership, learning and innovation vice presidency for the World Bank. And he was also the Vice President the World Bank Institute for Open Development Agenda and for Governance. So he's obviously concentrated a lot on transparency, governance, and democratic development issues.

Before handing it over to Shanta, let me just say that I haven't read the whole book, but I went through parts of it. And the book, by the way, there are two books. So don't complain about the price outside. (Laughter) You get a lot of substance as well as two books for it. Oh, I forgot Tamara. How could I do that? Sorry, Tamara.

Tamara is of course our close colleague at Brookings. She directs the Center for Middle East

Policy here in the Foreign Policy Directorship. She was Deputy Assistant Secretary for the Near East at the State Department. She knows the regional also I think, maybe from a somewhat different angle, better than most people. And has the very tough job here of heading the Middle East research program. Tough because of the situation in the Middle East being what it is. We try to divide the economics from the politics, but we're not always successful at that. Sorry, Tamara for jumping over you.

What I just wanted to say is that it's hard to make practical proposals for policy and for reform. And I think the work has succeed in that. There's lots of analysis of what happened, what went wrong, and of course there's some of that also in this book. But there are also really practical proposals focusing on four areas: institutions, agriculture, small and medium scale enterprise, and then of course the whole issue of implementation. And so I'm particularly grateful that we have something constructive, something practical despite the overall difficult framework we face in the region.

And so I'm going to ask Shanta now to take over. I see so many friends, I just saw Hooda there. And it's nice to have such a wonderful group here this morning. Shinchi?

Mr. Yamanaka: Thank you very much, Mr. Kemal Derviş. First of all, on behalf of JICA, I'd like to express my sincere gratitude to Dr. Hafez Ghanem, and Brookings Institution for their great effort and the contribution for our joint research. I found the four major significances in the research. First under current chaotic situation in MENA region, pessimism for peace and stability is widespread. However, the research has positive approach which tries to find underlying unsolved issues in the region after Arab Spring and propose practical resolutions and required cooperation of donor agencies.

Second, there are a lot of articles and analysis on MENA region from political and social points of view. It is viable that the research focused on the economic perspective of MENA countries.

Thirdly, it was an important occasion for JICA staff to write essay under the guidance of prominent Brookings Institution and they contributed for human resource development and knowledge accumulation in JICA.

And the most important achievement of the research was to provide us with useful information for our operation in MENA countries. It is important not to complete just as a research, but make a difference of our shared operations of JICA and donor agencies.

In the MENA region JICA has emphasized on the cooperation for infrastructure development to achieve sustainable growth and to support host communities which receive a lot of Syrian refugees

The importance of the cooperation for infrastructure development and the Syrian refugees will be unchanged. However, we could reconfirm the importance of attention to inclusiveness, especially youth, women, and small farmers who suffer from economic and social exclusion. Concerning the studies obtained from the research, JICA's going to focus on four priority areas in order to facilitate inclusive growth in MENA region. Namely, institutional reform of public sector, promotion of SMEs in the form of the business environment.

Rural development, through support of small famers and implement the quality of education. Regarding the institutional reform of the public sector, as it become clear in the research in Egypt, as of 2012 41 plans, visions and strategy existed. Five-year plan was formulated six times over the course of the Mubarak regime. All these plans were prepared individually missing the coordination with concerned ministries, private sector, and civil society. As a result, the Arab development needs were not reflected in these plans. And most of them are not implemented. It is a common phenomenon among Arabic countries. This is the major causes of inefficient resource allocation and the current trend of public investment.

JICA can contribute to the issue by way of development personnel, requesting government's action plan of institutional reform, or technical cooperation for formulating decision making process of development plan concerning Japanese experience.

Regarding the promotional of SMEs, promotional of SMEs has cross linkage with the issue of youth and employment. Arabs are said to prefer to work in public sector, but the survey of engineering students indicates youth prefer to work in private sector if they secure the same working condition as public sector. JICA may have a financial support for SMEs by line of credit and technical assistance for human resource development of entrepreneurs and improvement of business environment.

While signing rural development agriculture is a central part of economy and employment in rural area and it is important to solve the issue of rural urban regional inequality. However, much of agriculture producers in Arab countries are small farmers. And their income is low. JICA continued to support the

special mediation system and technical assistance for water saving agriculture technology and establishment of producer organization for small farmers. Morocco's agriculture development program for which JICA is going to cooperate, tries to balance to develop modern agriculture, mainly by PPP, public private partnership, with a need to support small farmers. It may be a good reference of other Arab countries.

Concerning education, access to education has improved dramatically in Arab world. However, due to conflict after the Arab Spring, about 21 million children are said to be without access to any educational opportunity in the region. This urgent matter needs to be addressed. The quality of education should be also focused immediate to long-time tasks. It is expected to contribute to quality of labor force and subsequent improvement around Arab youth unemployment.

JICA is going to support through change in curricular, as well as teaching methods. And also, intuitional innovation to hold schools and teachers accountable for teaching outcomes. They also need to build education such as problem-solving, teamwork, and communication skills that employers are looking for. With this regard, Japanese style of education has drawn interest in Arab countries.

Peace and stability in MENA region are the most pressing issue for international community. The Japanese government adopted its new development cooperation charter last year. The charter stated Japan will contribute more productively to securing peace, stability, and prosperity of international community. Japan is a host country of G7 Summit this year. Japan has a constitutional constraint on military cooperation. Japan widely considered as neutral country in the MENA region, therefore it is expected for Japan to play more significant role, especially in a period of economic cooperation in the region. Thank you very much. (Applause)

MR. GHANEM: Good morning, it's a pleasure to be here and to see a lot of friends in the audience. And actually what I would like to start by giving you a little bit of background of this research. This is work that we did jointly, JICA researchers and researchers from Brookings. We started in 2012. And it was mostly completed by the end of last year, 2014, or very early this year. So at the time when we started working on this research, at Brookings, we had just produced a book a group of us called After This Plaque. And in that book we talked about what needs to be done on the economic front to support

the democratic transitions in the Arab world and there was a paragraph in that book that struck me, at that time, and strikes me very much today, because we said that the transition is not going to be a straight line. It will be difficult and complicated and there will be twists and turns around the road. Which we thought is what's going to happen. However, we never expected the twists and turns along the road to be that big. And we never expected that outcome. So you see after the spring, obviously we did not expect the level of violence in the region, the level of displacements, and the large number of refugees.

So although we did not expect that, I think that the arguments that we present in the book, the analysis that we present and the proposals that we are presenting, are still valid today. I believe that there's been a lot of focus on the politics of the MENA region. A lot of focus on issues of culture, religion, ethnicity, and all of those political issues, and people have forgotten much about the economics. About the need to really deal with economic questions, with social questions that are particularly important for the majority of the population there. And basically there is one message coming out of our research is it yes politics, security, and all of that is important, and it needs to be done. However, it needs to be accompanied by economic policies that focus on dealing with inclusion.

Let me try to convince about that. So to try to convince you, we started by looking at what caused the revolutions at the end of 2010 and in 2011 in the Arab world. If you look at the economics of those countries, they were growing quite well. And actually right before the revolutions growth was faster than in previous periods. So yet if you look at this graph, people who were dissatisfied. In spite of economic growth, the level of unhappiness and we're comparing here the Arab countries to the left with other countries to the right, you see the level of unhappiness is much higher than the comparative countries. And actually in the previous book that we did, we have a graph which shows the growth of GDP per capita in Egypt and Tunisia, which was growing like this, and the response rates from the Gallup poll on are you satisfied with your life, which was going like this. So in spite of growth, people were dissatisfied.

Okay, one possible reason for dissatisfaction is governance issues. High corruption, love voice, and so that is possible one explanation. And here you look in those countries actually most of the Arab countries rank very low on voice and accountability, and on the control of corruption. And that has always

been one possible explanation.

This graph here shows you the result from an Arab barometer survey, which was carried right after the revolution in Tunisia. And it's quite telling we were asking Tunisians why did you revolt against Mr. Ben Ali. And it was not corruption, it was not lack of freedom that comes out first, it was not because they want to create an Islamic state, it was mainly because of the weak economy. That is what people said. And for us doing the research that was really the puzzle. The economy was not weak. The economy was growing. The economy was doing quite well. And yet people said that they revolted because the economy was weak.

So how can you explain that? The way we explained it in that research is that large groups of the population were excluded from that economic growth. That there was growth but large, and I think groups I would say even the majority of the population, did not feel that they were benefiting from that economic growth, and that explains why they say that the economy's weak, although all our data shows that the economy actually was getting better.

So who are those excluded groups? And I will go quickly to prove to you that those groups are excluded. The biggest excluded group are the young people, youth. Women, are an important excluded group. And we argue that there are small holder farmers, especially in certain regions of the country, in some of the countries small holder farmers in upper Egypt, for example, or in western Tunisia are certainly excluded groups.

When we talk about youth exclusion, people usually look at unemployment rates. And these are the youth unemployment rates in 2010 and 2011 in those countries. They're high, but to be honest they do not seem to be particularly high compared to other countries as far as youth unemployment rates are concerned. When we break it down between male and female you find that the real problem of youth unemployment in the region is female youth unemployment, rather than male. And that was another puzzle that we tried to understand. Why was youth feeling excluded and why was this big difference between male and female. And that's what came to us is that most, and I'll show you a picture a little bit later, that most of the jobs that were being created were in the informal sector. That actually in a country like Egypt more than two-thirds of new entrants into the labor market who found jobs were getting jobs in

microenterprises in the informal sector. So the people who are getting those jobs were feeling excluded because salaries are low. There's very little social protection. They have no job security, etcetera.

For women, in particular, jobs in the informal sector are considered dangerous. So in all of the surveys that we saw of young Arab women, they would say, no, no, I would rather not work than stay in the informal sector. So we see that. So youth in general is feeling excluded because they don't get formal sector jobs. They get jobs that they consider not decent jobs. And particularly case for women, this graph shows female labor force participation rates and it just tells the story that I was telling you that young women finding that they cannot get formal sector jobs, they prefer to leave the labor market. Another, this graph tells the same story, comparing by income per capita, and you see that is all. So that is the story on youth and women.

Then we come to the story on regions. This here, actually this is difficult to -- this here shows the comparison in different regions in Egypt for example. And the message here is that in terms if you live in upper Egypt you have much less economic opportunities, than if you live anywhere else in the country. Maybe it's easier to make the point by looking at the comparing poverty rates. And you see that Tunisia, for example, rural poverty's double urban poverty and in Morocco it's three times. In Tunisia it is more than doubled.

So basically from our analysis, we sort of identified that the problem was that important groups in society were feeling excluded. And we identified that those groups are really young people, especially women, and people in what we called (inaudible) regions and especially small holder farmers. So we came up with those four priority areas that we feel need to be looked at. The first one is institutional reforms, developing small businesses and entrepreneurship. This should be entrepreneurship not entrepreneur. And a rural development, and finally education.

And I'll try to explain to you why we came up with those four areas. Actually, when we talked about institutional reforms, in the second volume you will find two very interesting papers comparing economic institutions in the MENA region with economic institutions in Southeast Asia, especially comparing with Japan, with Indonesia, and with Malaysia. What we get from those papers is that we cannot really implement economic policies, we cannot implement public investments that are needed for

development, unless we do something on the institutional reforms. One of the papers that is written by Kei Sakamoto, who's unfortunately at Harvard right now, he could not make it today, actually makes the argument that because the whole planning process is, and he's using Egypt as an example. In Egypt it's so exclusive that there is no inclusion in the planning processes, and he compares that with the Japanese system, or the Indonesia system you find that there is no buy in and that none of the plans were remotely implemented. None of the economic plans.

Another paper, which was written by Hideki, who's sitting here, Hideki Matsunaga, and Mayada Magdy, who's his co-author looked actually at implementing reform programs. And they use as an example the transports in metropolitan Cairo. And they argue that the reason Cairo transport is such a mess is that the institutions have been incapable of implementing policy reforms. It's not just an investment in this case, but it's actually policy reforms. So one of the first conclusions we reached is that if you even want to implement any kind of economic policy, inclusive policies in the region, we need first to act on the institutions.

And when we compared with East Asia, and to some extent also with Latin America, we argue that really the issue here is that we need to have more inclusive institutions. We need to have more transparency, accountability, and so on. And Shanta says I only have five minutes, and he's right. (Laughter)

This is the graph I promised to show you when I was talking about youth exclusion. If you look, this picture shows you jobs creations by size of enterprise. In the United States or in Europe, you'll find like two-thirds of jobs would be in the middle, in the small or medium industries. If you look at Egypt for example, 59% of jobs are in microenterprises. In Jordan it is nearly 40% of jobs. Those microenterprises are mostly informal and pay very little, low productivity, low wages. So I'm not going to go into the details of what we are suggesting there, but we looked at some of the survey data that came up with suggested reforms to develop SMEs, and of course I will not tell you all the details, so that you read the book. (Laughter)

Now, we talked about the importance of agriculture, or small holder farmers, and we usually ignore it in that region. You look at the rural population, we have countries like Morocco or Egypt where

the rural population is very important. It's about one half of the population lives in rural areas, but even Tunisia, or Algeria who have one-third of the population roughly living in rural areas. Also, as Mr. Yamanaka said, most of those rural areas depend on agriculture and it is very small agriculture, very small holding agriculture. The average size of agriculture in Egypt is 0.7 hectares, so you can imagine how small that is. And so we come up with a lot of, again, I'm not going to give you the details, because I only have now three minutes. We came up with a lot of suggestions about what needs to be done.

Education, if we're talking about youth and job creation, education is key. The region has been very successful in increasing enrollments for both boys and girls. However, it has not been successful in actually it has been going downwards in terms of the quality of education. And this table here shows the results from the (inaudible) test. Which are those international test for education. And it is quite shocking, I mean you have a country like Morocco where nearly three-quarters of the children finish primary school without achieving basic numeracy and literacy. And in Tunisia, which is one of the best countries in the region in terms of education quality, you have half of the secondary school students who are not achieving basic literacy levels. So that is one problem, when we talk about the quality of education.

Another problem, I think that Mr. Yamanaka mentioned, when he talked about the quality of education, is the content of the curriculum that those children are learning and whole teaching methods which is focused on rote learning, so on, and does not develop what we call 21st century skills of problem solving, teamwork, etcetera. So when we talk about youth exclusion in the Arab world, we need to look at both the available, opportunities for the young people in terms of jobs, in terms of entrepreneurship opportunities, small businesses and so on, but also in terms of their ability to use this opportunities. And what we find is that we do not, those children are not given enough to have those -- enough in terms of skill, so we have those things.

I would really end by, not by talking about the role of the international community, I'll just put it there. I want to end by asking the question of the relevance of this work today. And I would like to go back again and say, today when we're looking at the instability in the MENA region, and its spillover effects around the world. I mean not just through migration, but also through terrorism, violence, and so

on. I think it is really important for all of us, whether in the Arab world, or in the international community to start thinking about what needs to be done to deal with this issue today. And to avoid that it gets worse. And I believe that we need to work on this question of inclusiveness. That working on the four areas that we are proposing in this book would be actually an important compliment to all the political, and security questions that are being addressed, and that need to be addressed. I don't think that we can solve the security and political issues without also dealing with those economic issues, which often are the root cause of the instability that we are witnessing today.

You know this work was done in cooperation with a lot of researchers from JICA, and from other parts of the world. So from JICA we have Hideki Matsunaga, whom I mentioned. He's here in the room and he did the work on institutions. We have Emmanuel Comoli from the AFD in France who did the work on Jordan on SME development in Jordan, and he's also here. And we have Mongi Boughzala, who's a professor from Tunisia, who did the work both on the SME developments in Tunisia, youth employment in Tunisia, and also rural development and dealing with a lagging region in Tunisia. They would be happy to respond to questions afterwards. Thank you. (Applause)

MR. DEVARAJAN: Let's get started. Thanks very much Hafez and Mr. Yamanaka for that very insightful introduction to this book. So we've heard from the authors and the sponsors about the book. Now it's our turn to tell them what we think of the book. So we've got a distinguished panel, who have already been introduced by Kemal. So let me start with Masood Ahmed to give us his thoughts.

MR. AHMED: Thank you very much, Shanta. Thank you, you Hafez, thank you for your presentations. And maybe to start this discussion, I'd like to just make three points. First one is I'd like to start where Hafez ended, which is I think it is useful when the debate and discussion is so dominated by what's happening in terms of political and security concerns in the Middle East, you go back and reiterate that what brought about the uprisings five years ago, was at least in part and you can argue about what that part was, but in a significant part due to a sense of economic exclusion. And I think it is useful also to go back and remember that a lot of the metrics that we used to look at the state of economic wellbeing turned out to be partial. Turned out to only give us a sense of what was happening in the aggregate and behind the aggregates there were a lot of developments that we didn't pick up, and I think it's also fair to

recognize that there were other metrics that were picking those problems up including a lot of polls that were showing dissatisfaction, sense of exclusion, which the macro numbers weren't showing and we were a little bit misled by relying too heavily on the macro numbers. So I think it's useful to go back and recognize that.

The second thing I would say is that it is also a contribution of this research to go from that broad recognition to saying here are some suggested priority areas in which we could focus on, which we could focus which would have a disproportionate impact on addressing exclusion. Because you can identify there's a generalized problem of exclusion, but then you have to have some levers that are going to have an impact on outcomes and the researchers in this book come up with very plausible levers that you could focus on. You could say youth, and therefore education. Jobs, and therefore focusing on the business environment for SMEs, trying to make things more a level playing field. The issue of bringing women into the labor market.

And then the big question of reforming public institutions, and I think that is a big-ticket item, and I'm really glad that Sanjay is on this panel, because I think one of the questions, this brings me to my third point, is that we can diagnosis the problem. I don't think there's a huge disagreement today on the diagnosis of the problem. By and large 80%, 90% of the people looking at what happened in the Middle East five years ago, arrive at more or less the same space. We can identify some priority areas for moving forward. You might not have quite the same degree of consensus in the world on those areas. So instead of 90% of the people landing on the same four areas, you might get a larger list of eight and some people will prioritize some rather than others. By and large you're going to get a reasonable consensus. But where I think we're all stuck is how do you move from diagnosis to building the consensus and support for implementation? We know public institutions are really weak. Institutional capacity has been eroded, not just in the last four years although in many countries over the last four years public capacity has become weaker rather than stronger, but even before that, last 50 years I would say progressively in many countries, institutional capacity hasn't developed.

We know that the curriculum reform problems have been there. But they haven't been able to be addressed. So this brings me really to two kinds of conundrums that I'd like to pose actually to my fellow

panelists here. One, I think for Sanjay, the other one for Tamara. (Laughter) I think it's a question I'm sure the audience and we'll want to discuss together, but one of those is how do you bring about the political economy that would create a level playing field? Why is it that the current business environment is protecting a few large well connected firms and groups at the expense of creating an easy to do business environment for everybody else? And in some ways we know other countries have made progress, actually in the region there is progress, so how can we generalize and scale up from that experience?

And the second conundrum I face is, I think it's absolutely right for us not to focus exclusively on the political and security issues and come back to the economics. But I think it would be a mistake for us to assume that you can address the economics without recognizing that the political and security context is now much more polarized and difficult. So in that context that we face today in the region, how do we advance on the economic reform agenda in a way that takes account of the political and security constraints and that finds the space for us to move forward without running into the problems that people who are trying to address the political and security issues are so much focused on? And I think that's also a difficult issue. And that's why I'm really glad, Tamara, that you're here, because in a way marrying the focus on the political and security in the Middle East with the economics in the Middle East, is a contribution that I think would be a real plus, because so far my one little bit of frustration is that in looking at the Middle East these two groups of people kind of way in parallel but don't really talk as much to each other as we might do. And I think that would be a useful topic, too.

MR. DEVARAJAN: Thank you. Thanks very much, okay. That was provocative enough, I think. Let met turn to Tamara, since she was asked a question.

MS. COFMAN WITTES: Sure. Well, I should have known that Masood would give us homework. (Laughs) But I think the questions you raise are really at the heart of this project in many ways. And I really want to say as a now, sadly, former colleague of Hafez's since he's left us to go to the Bank, how fruitful I found it that Hafez welcomed me as a participant and commentator throughout the course of this project. And I think that the interchange between the work that Hafez and his team did over the course of this project and the team at Brookings that works more on the political side, has been fantastic. And I

found it very, very fruitful.

I think that what Hafez and the team of researchers who developed this project have done, is they've done this story by doing the economic forensics in essence, of the Arab uprisings, they have told a story in numbers that many of us were telling anecdotally, or in terms of political phenomena. And that story of inequality, that story of lost developmental potential between the 1980s and 2011 in the Arab world. And when I was out traveling in the region in the years before the uprisings and writing the book that I published in 2008 here at Brookings, you would heard from the perspective of young Egyptians that they'd been taught in school that Egypt was a peer of other great rising nations like India and Indonesia, but that they saw those other countries moving ahead and Egypt was stuck economically and developmentally. And I think the data and analysis that Hafez and his team have done spell that out so clearly and beautifully. And I think that the teams put together some very specific, very compelling policy proposals and made a strong case for these four priorities. I'm especially struck with the discussion of rural development, because I think that that gets to precisely the point you made, Masood, that there were a lot of macro indicators we were looking at, but underneath that the disparities within these countries were striking. And struck, too, at the connection between rural development and issues you discuss in the book, Hafez, of land access and title property rights, and their relevance to rural development. I think it's very interesting.

And so when you put this all together that the current focus on security is not enough, that all of these disparities in development in the years prior to the uprisings drove a lot of what we saw, the lesson that I take out of that, I think meshes very well with the lessons I've drawn from the political analysis I've been doing in the last few years, which is that it's not the quantity of governance that will determine the success and stability and prosperity of this region, it's the quality. And a lot of your recommendations, Hafez, are about quality, whether it's institutional reform or educational reform. More inclusive, more accountable, more effective, more transparent. This isn't about the size of the role that government plays in the economy, this is about the quality of economic governance.

And I think we do though have to come back to the question that you posed, Masood, of giving that there were things we didn't understand, but there were a lot of things that we did see in the years

before the Arab uprisings. And a lot of governments struggled to try and reform their economic governance in various ways, reform the social contract in various ways to address these deficits and these brewing problems, but they failed to do that effectively in many cases. And they failed largely because the bargains, the political bargains that produced these reforms were too exclusive in nature. They were too elite in nature.

So it's not as though they'd never tried to reform their educational systems, and they'd never tried to create supportive environments for SMEs, intent was there. But implementation suffered because the political processes, the political platforms did not allow for the kind of inclusion of stakeholders that was necessary to produce outcomes that would be effective.

And so I think Hafez suggests in the book that economic development, inclusive growth should be easier areas around which to develop consensus, than some of the really tricky issues of political identity that are polarizing the region right now and driving so much conflict. And I guess I have to question whether that's in fact the case. Because I think if we look at the political debates and the failed efforts at reform prior to 2011, we realize that economic inclusion is intensely political, and the people that have stakes in the way things are set up challenge efforts at greater inclusion. And I think Hafez knows this well, and indeed you say in your conclusion, Hafez, that ultimately this requires a shift in political culture toward greater inclusion. And so I guess in trying to answer your question, Masood, what I would say is that we need to think about, and this is primarily not a task for external actors, but as the region goes through these political contortions and as communities emerging from conflict work to develop new governing institutions, new political bargains, we need to think about how we can help them develop the skills, the platforms, the forums for the kind of inclusive bargaining that we think would produce these more effective outcomes.

MR. DEVARAJAN: Thanks. Okay, Sanjay, you were posed a few questions, too.

MR. PRADHAN: Yeah, absolutely. Thanks, a pleasure to be here. Let me just begin by saying I really enjoyed the book. I enjoyed the book because I thought it brought together, as Tamara said, a wealth of economic forensics, or evidence to really draw attention, as Masood said, on the economic roots of the problem. That the underlying problem is of economic tradition, of elite capture of cronyism,

and that's what's reflected. And unless we deal with that towards more inclusive growth and inclusive institutions, we won't get there. It's very useful to be reminded of that, because of the number of geopolitical theater that's going around in the region, to know that structural or economic roots, so that's just very much endorsing that.

I want to focus, just building on what everyone said, so first I wanted to congratulate Hafez, Mr. Yamanaka, and team on this. But I want to focus on the forward-looking agenda. And I want to push ourselves to see does this define where we should go, what else should we be doing? Will it make a difference? And I actually think that the agenda, the four-point agenda, which Hafez, Mr. Yamanaka summarized, it's a very sound economic agenda. And I think it's a very well placed, and it could be the roadmap for Hafez, what you implement in the region in your present role as Vice President. But I would push us in three areas to do more, and which would make it more current.

So the first area I would push ourselves is in the area of inclusive institutions. What does that mean? Now, rightly Hafez mentioned that when they did the review of inclusive planning there's much for consultative mechanisms in East Asia or Latin America, and you need much more of that, so there is buy-in, there's better implementation. I actually think that we need to take the inclusive institutions frontier to new frontiers today. Especially to respond to the challenges in the region, by getting much more into direct participation of citizens and youth in the development agenda. Typically when we talk about the Arab Spring, and that's what the book does, we are talking about electoral democracy. There's a new notion of developmental democracy, which is citizens directly participating in the design of developmental policy and implementation. Let me explain. The day Mubarak fell, then President of the World Bank, Bob Zoellick, called me into this room and we were brainstorming on what to do. And I was saying that the same energy that the youth use to bring down the regimes, and the same social media that they use, can that not be galvanized and mobilized in insuring that they have input into the policies on education and health, and can they not use that to monitor where the services are being delivered? This is developmental democracy. And that led to initiatives inside the World Bank, which was integrating citizen feedback in the policy design and implementation. And giving support to civil society organizations. What I just wanted to say that if you really want to take the inclusive institutions agenda in MENA today,

and satisfy the aspirations of youth, they need to participate directly and they can do that with social media and information technology.

And you look at innovations around the world and we need to integrate this in MENA. In Brazil, in Rio Grande do Sul, the state, the governor asks program, crowdsources inputs from youth using mobile phones, on the priorities for health policy. In the Philippines, Department of Education, Department of Social Protection are partnering with civil society organization to solicit citizen feedback whether the teachers and textbooks are showing up in school, whether conditional cash transfers are being delivered. In a poor area, like Democratic Republic of Congo, we did a South-South exchange with Brazil, and the local government of South Kivo allocated a portion of the budget, which is directly allocated by citizen votes. When citizens started seeing roads being repaired and bridges being repaired, that they wanted, tax collection jumped 17 times. That's a demonstration of trust in government. That's a demonstration of inclusive institutions.

In order to take this to a granular level, we need to take inclusive institutions and make it come alive in sectorial policies, such as direct citizen and youth participation, that is the first point. Second quick point is, correct focus on youth, really congratulate Hafez for this, as a key excluded agenda. But, Hafez, you asked at the end of your presentation, if this present book were being done today, what would be different. Today you couldn't focus on the youth agenda exclusively by talking about the economics of it. You would have to focus on the racialization of youth. You would have to explicitly focus on that. And therefore this, the nexus between the economic security and political, because for the youth you look at a spectrum of youth, on the left side of the spectrum envision youth who are productively engaged in economic activity. It's a small proportion.

If you look at the other end, 40,000 youth have joined extremist groups. In the middle you have a wide spectrum of youth who are looking to engage in productive activities, or who are looking to engage in terrorist activities. You need to get them to move to the left, rather than the right, not ideologically, but in terms of where you want them to go. And therefore, the agenda that emerges, is an economic plus agenda, it's not just an economic agenda. Because Hafez has encouraged us to do this work, so this is actually his leadership, we are working on youth radicalization. We called experts, leading expert to work

with youth terrorist groups, and they said there are three drivers of radicalization. The first is indeed what Hafez focused on which is grievance and exclusion. But it's not just economic exclusion, they're actually not necessarily poor, or unemployed. It's a grievance. It's economic, political and social inclusion. A lot of the agenda that Hafez has really will feel very well with that part of the driver, of exclusion and grievance.

But there are two other reasons why youth are joining drivers of radicalization. One is as (inaudible) which was a renowned anthropologist, that there is a very powerful narrative. You will achieve heaven later, if you kill today. We need a counter narrative. We need a counter narrative. In Kazakhstan we're working in giving youth a hope that they can make it in development, that there are role models for youth. Therefore, a pure economic agenda which doesn't win the hearts and minds of youth, will not do it. The last driver is that they find social comradery amongst one another. We need to create social comradery which is beyond an economic agenda. We're doing an experiment where we have created youth groups in 50 countries that are using rock music against corruption. They find comradery in a good cause, rather than a bad cause.

So it's just to say that economics is a political security nexus, it needs to blur. Last quick response to Masood's point is that we need to focus on the political economy of change, how do we get there. You can posit these four things, but think about it, if a state is captured, if you have elite capture, how are you going to move from here to there? Who is going to implement it? Who's the agency for change? If you have to think about the dynamics of change, you have to focus on leadership, leadership to make change happen, and coalition building. And that's the point, Masood, to answer your question, if you have to get beyond elite capture, you need to create -- we are doing this in several countries -- public-private dialogue mechanisms where you broaden the dialogue, which is partly what Hafez is also suggesting.

But you can build coalitions of integrity to combat entrenched networks of corruption. That's the work we're doing. We can talk more about that, let me stop.

MR. DEVARAJAN: Okay. Well, thanks very much. That's a very good set of comments. I'm conscious of the time. So I think instead of having the panelists go at each other, I'm going to open it up

to the audience to get some questions, but then we'll come back to the panelists. So I think you're supposed to get a mic, is that right? If you could identify yourself and ask a precise question that we can -- oh, here comes the mic. This gentleman here.

MR. ABDALLAH: Thank very much. My name is Mohammad Abdallah. I'm the Director of Syria Justice and Accountability Center. Very excellent presentations. I have two questions more to Masood and to Hafez. Hafez, did your research result that economic problems emerged and was result of political problems at the first step? And can we realistically try to do economic reform without having any political reform? And in terms of exclusion of economy, the main driver was corruption, because Assad and his family and Mubarak and his family, and Ben Ali and his family dominated the scenes and they tried to make wealth out of it. If you cannot criticize corruption, in other terms in Egypt today with President Sisi and the amazing parliaments he has, can we really have economic development and inclusion, if you look at this way? Thank you.

MR. HOROWITZ: Thank you very much for an excellent presentation. My name is Elliot Horowitz, and I worked for the State Department for four years, and I was a contractor to World Bank for 20 years, and I worked with some of your colleagues, Ruben Lamdany and Kyle Peters in the evaluation department. Mr. Yamanaka, I know this is about global economy and development, but he mentioned immigration and during World War II Japan admitted Jewish immigrants from all over the world, and I wonder if Japan is admitting Syrian or other refugees now?

MR. DEVARAJAN: Thank you. Just one more, and then I'm going to come back to the panel. So the gentleman behind you.

MR. DAVES: Bryan Daves from Yeshiva University. The first question for Hafez, it struck me as I was watching the presentation, that much of where you said the problems were that needed to be addressed, did not necessary seem to be the social strata or the geographic location of where the uprisings actually took place. So it wasn't necessarily coming from the rural areas of people who were uneducated, but it was actually the urban youth, who were educated and who were not necessarily the poorest of the poor. So how does this provide some sort of analysis of what the origins are? And is your findings any different than the Arab Development Report? And then the second question was did you do,

or is there any cross regional comparison to see whether or not some of the things that you're identifying are any different than any other places in which uprisings did not necessarily take place?

MR. DEVARAJAN: Okay, thanks. I think I'll turn to Hafez, because many of the questions were directed at him. But then I want to hear from Mr. Yamanaka, as well on the migration question.

Mr. GHANEM: I think actually, let me start with the last question, because it is exactly -- I didn't have -- I mean this guy was only giving me ten minutes (laughter). So an important point that we are making, and actually we did a comparison across regions, is what happened to the middle class. Because a lot of the youth who led the uprising were actually middle class youth. And what we see, when we talk about exclusion, is actually a lot of those middle class youth who felt excluded. If you compare a country like Brazil, or India, or even China, with a country like Egypt in terms of comparing the growth rate and the impact of the growth rate on the size and the standard of living of the middle class, we find that we had a big increase in the size of the middle class in India, in Brazil, even in China, but actually the middle class remained stagnant in Egypt. And its overall standard of living declined. For two reasons, it depended highly on government employment. And that was coming down. And there was not enough form of private employment to replace it, and also the middle class depended highly on government services, health, education, transport, and so on, and the quality of those services were coming down.

So yes, but a lot of the exclusion is also in many of those youth you saw in Bourguiba Avenue in Tunisia, or in Tahrir Square in Cairo, work also coming from rural areas, originally from rural areas. So I remember that. So I'm not disagreeing with you that there is a big problem on the urban side. And that it is really mainly we need to look at what has happened to the middle class there. Just as an anecdote, sometimes when I go and discuss what I was discussing drafts of those papers with people in the region, often they ask me how do you define economic inclusion. And I think a simple way of defining economic inclusion is the expansion of the middle class. That is really what we are talking about here.

So that is on this point. Now the link between the economic and the politics which everybody is raising, and which I've been trying to avoid (laughter) but actually the issue is what we have been focusing on in our research is how are economic decisions taken. And what we are arguing here in the chapters on the institutional side is really for opening up economic institutions to bring in more

stakeholders in the decision making process. We do not enter into the big political issues that you are raising about parliament and things like that. We remain, I think, at a more economic practical level, like if you want to do rural development, you need to bring in farmers into the decision making process. So you need to develop farmer associations, real farmer associations that are representative of farmers. Whereas in this region farmers and associations were usually really top down institutions coming from government. Same thing if you want to deal with SME reforms you have to bring in the small entrepreneurs to give them voice. So this is where we have been talking.

And I really agree with Sanjay on the issue of the importance of leadership and coalition building.

MR. DEVARAJAN: Mr. Yamanaka, maybe you could answer the question about how many Syrian refugees will Japan take?

MR. YAMANAKA: Sorry, I am not a Japanese government official. I'm working for the Japanese governmental agency, so I'm not in a position to answer, but it's true that the number of the Syrian refugees Japanese government is accepting is quite limited number, that's true. And I think they are going to be flexible with this issue. But with this regard, JICA tried to accept the Syrian refugees as a university student to Japan. And tried to provide a scholarship for them.

Now, we are in the preparatory stage for this scheme, but such action now we have taken.

MR. DEVARAJAN: Okay, thank you. Okay, let's get the lady in a pale blue shirt.

MEREDITH: Hi, my name's Meredith, and I'm with the law firm McDermott, Will, and Emory, my question is related to how the Sharia law system affects the rise, I guess, of those new institutions that you're talking about. Because something that I've wondered about is in America we understand economics a lot in terms of relating to capitalism, but I know that like in the Egyptian constitution when it was being built, the Sharia is still like the main basis for political rule. But, for example, you can't accrue interest. There's certain types of concepts that don't go along with capitalism, but if you could I guess just help explain that question.

MR. DEVARAJAN: Why don't you hand it to the lady next to you there?

HOODA: Hi, my name is Hooda and I'm a former World Bank employee. I've just finished reading a book about the history of the world through Islamic eyes. And what I see is a tremendous

sense of victimization that Muslim countries and especially Arab countries in the Middle East have always felt. And I feel that this had dominated the scene for the past hundred years, if not more. Let's not talk about the balkanization of the Arab world. Let's not talk about the issue of Israel and Palestine. Let's not talk of recent wars against Arab countries. And then of course now it's Islam and the Muslims and Sharia, and jihad, and all this thrown in. My feelings that there is tremendous mistrust against the West, and I feel that many of the economic institutions whether the Bank and the Fund, are still seen as arms of Western (laughter) --

MR. DEVARAJAN: Okay.

HOODA: -- whatever it is. So I feel that unless an acknowledgment of the mess that the West has created in the Middle East, and has in a way focused the whole Middle East on politics and support of the dictators in the Arab world, and of course as I said, Israel, that in a way whatever advice you give is sort of taken with a grain of salt. Thank you.

MR. DEVARAJAN: The gentleman here, on your left.

MR. CHECKO: Thank you, Larry Checko. I think we were all very encouraged when the Arab Spring started. And I think, I mean to this gentleman's point here, I mean we saw a million, two million people in Tahrir Square. And not realizing that there are 80 million Egyptians and we were only watching the middle class. I think the real problem was that in Egypt, Libya, and Tunisia now, and other countries, they got rid of their governments but they had nothing to replace it with. And they created these huge vacuums, political and institutional vacuums that got, you know, nothing likes a vacuum. It got filled with fundamentalists. It got filled with the wrong types of people. So is there a way, is that an accurate description? And is there a way that that can be reversed?

MR. DEVARJAN: Okay. Well, that's a rich set of questions before they get too complicated. Shall I use my privilege to ask Tamara to answer the question about Sharia law?

MR. GHANEM: Actually, she should answer all the questions. (Laughter)

MS. COFMAN WITTES: No, no, I'm not going to let you off the hook that much. But I do want to say a couple things about politics. Although I think our underlying theme is that politics and economics are fundamentally indivisible in the Arab world right now. And certainly once, I mean I would argue as the

political scientist up here on the panel, politics is about who gets what, when, where, how. That's economics are at the heart of that. And below the level of the state everything is economics and politics. So it's a bit of an artificial distinction. We use different tools. We have different lenses. But we're talking about the same stuff.

When it comes to Sharia law, your mention of the Egyptian constitution, I think is a very telling one and very instructive. That line in the Egyptian constitution that says Sharia will be the major source of legislation was added by Sadat in 1971. It was an instrumental use of religion to legitimize a secular regime, okay? And in fact, if you look at the Egyptian legal system, it's not based on Sharia law. It's based on British law. It's based on Ottoman law, a lot of things, but not Sharia law. Sharia law comes into play when you're talking about personal status issues. But when you're talking about the organization of the economy, it's not actually very relevant in Egypt.

And across the Arab world there have been all kinds of innovative approaches to get around the formalistic prohibition of interest in traditional interpretations of Sharia law. So there's not sort of bar to market economies. And I think we've got lots of -- we've got a long track record on that.

Look, the underlying point on politics and inclusion, and how do we mobilize the political will? How do we sustain implementation? How do we create inclusive bargains and inclusive coalitions? These Arab states before the uprisings they were not captured by elites. They were elite by design. And I think we have to start from a recognition of what these were. These are paternalistic, clientalistic systems. Why were those farmers associations top down, because every civil society organization was an organ of the state in this conception.

And so when Hafez talks in the conclusion of his book about the need for a transformation of political culture, we have to recognize how fundamental that transformation needs to be, if we are to get to point of inclusive bargains and Hooda, you raise the issue of trust with respect to the West. But I actually think that part of the challenge that this region faces moving forward is the lack of public trust in general. Sanjay, you referred to this. Arab citizens today are so skeptical of their governments, skeptical of religious institutions, skeptical of any form of authority, because they've been burned so many times in so many ways by these people who said, "Trust us. We know what's good for you." And that is not going

to fly anymore.

So how do you start to rebuild sufficient social trust, sufficient public trust to enable political bargaining? (Laughs) I actually think we need to take a big step back. There may be places where the kinds of proposals you're suggestion, Sanjay, can be implemented, but there are other places where you have to start with the building blocks.

MR. DEVARAJAN: Masood, can you tell us how you build trust of the IMF and the World Bank (laughter)?

Mr. AHMED: First of all, I think Hooda's right that in many countries, you know I've worked now, if you go and talk to people in Egypt. I don't know how many of you saw there was a little song that had been put together by some civil society organizations about four years ago about the IMF and the IMF's program in Egypt. A very nice little video. And it's in a very gentle, humorous way makes the point that the IMF is there essentially to promote its own agenda rather than to help the people of Egypt and that the government of Egypt is sort of in collusion with the IMF. So it gave you a little bit of a sense that Hooda's talking about.

I do think though that it varies across countries. I don't think it's quite the same sense across country. And the second point I wanted to pick up on, was the fundamental problem that we are grappling with is that we're all talking about moving to a new model of how to organize society, a social contract, which would empower much more citizens and have them play much bigger role in different ways in the design of their own economic and maybe political futures, too. But coming in a society where the tradition has been that the state has been the all-encompassing and providing, and so it's a change in the fundamental relationship between the state and the citizen at a time when the people who are responsible for maintaining stability and security in those countries actually feel quite threatened because of external and regional threats because of polarization within their own society.

So even in normal times it would be hard for people to let go and say let everybody kind of take charge of their own destiny. They're even more worried at the time where they're not quite sure what this will lead to. And whether they'll be able to control the flow of event. And I think that's what leads me to say that in a way one of the things that Next Step did from the kind of analysis that Hafez and team have

done, is to actually convince the people who are responsible at the moment for managing these countries and the structure's quite different country from country. That they cannot ensure political and social stability in the medium term without addressing some of the economic issues that are being raised.

So you have to see the economic reform agenda not as something to be addressed after you've established social and political stability, but as a necessary component of addressing sustainable political and social stability. Once you've sold that basic point, then I think you get into the second phase which is and where and how can you create safe spaces for creating that degree of participation without threating the basic fabric of society under pressure. And I think that's what, you know, Sanjay gave a few good examples of how one could make progress in sort of what I would call safe spaces for that kind of transition.

And then the third bit is what help can you give, and this is where the experience of the rest of the world can come in, in terms of techniques and instruments for engaging in that kind of dialogue and cooperation. Because actually many of these techniques are also new, because in our region we don't have the historical experience of doing this kind of interaction. So you need to actually provide support and best practice. But I see it as that's the sort of sequence in which you can begin to address some of these issues that you've raised.

Mr. DEVARAJAN: That's very good. Actually that's a very nice summary of the discussion, but I'm not to let you off the hook. So, Hafez, you can have the final word.

Mr. GHANEM: Well actually my final world really is to thank you all for coming and those are great comments and a great discussion. What is important from my perspective now is looking forward, what should be our priorities, what should we be doing in the region. And I believe that, I mean this agenda is important looking forward. The point that Sanjay raised on dealing with violent extremism and radicalization this agenda needs to be also part of that program of preventing violent extremism. The most difficult part, the most difficult questions are the ones centered in the relationship between politics and economics. And how can we actually implement economic reforms within the difficult political environment that we are witnessing today. And the point that Masood made is extremely important. I mean when I talk to policymakers in any of those countries, and I tell them well you need to chance, you

need to open up and this and that, the response is did you look recently at Syria.

And so really how can we support greater inclusion both on the economic side, on the political side without creating the kind of risk, or instability that we are seeing elsewhere in the region. Actually, our objective should be to reduce this instability. And how can what we are proposing actually help resolve the existing issues. Thank you.

MR. DEVARAJAN: Okay. Thanks very much. It's my turn to thank you, Hafez, and the team for producing not just an extremely informative book, but an inspiring book. I mean this is a call to arms, and let's all go forth and try to do something as a result of this book. So thanks very much. (Applause)

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