

MENA Conference Stresses Economic Potential of the Region

The third economic conference of the Middle East and North Africa nations (MENA), cosponsored by the United States and Russia, with the support of Canada, the European Union, and Japan, was held in Cairo on November 12–14. The conference, whose theme was “building for the future: creating an investor-friendly environment,” emphasized the importance of regional economic reform and global integration. It attracted more than 1,500 representatives from the international business community, as well as senior government officials. IMF First Deputy Managing Director Stanley Fischer also attended and addressed the conference (see page 3).

The Cairo conference, according to a declaration released on November 14, provided an opportunity for the MENA economies to encourage international and regional investment in the Middle East and North Africa. The conference highlighted the region’s economic, commercial, and trade potential. In several MENA countries, this potential has recently been enhanced by important economic reform programs. These programs, which include privatization, structural reform, and trade liberalization, are helping create a business-friendly economic climate throughout the region.

At the same time, conferees discussed a broad agenda of reforms still needed in the MENA countries. These included an environment conducive to higher private investment, fiscal restructuring, monetary reform, and further trade liberalization.

No Country Is an Island

“There are no longer island economies, isolated blocs, and closed systems,” said Egyptian President Hosni Mubarak in his opening address. “The principles of globalization govern the order of the planet,” he continued, and those that would “join the global economy and share in its prosperity must abide by its rules.” The laws and institutions of economic management that each country and region adopts, therefore, must conform to the “principles of global efficiency.”

The process of integration into the global economy has already started in the Middle East, said Mubarak. Several countries in the region have opted for “sound economic and financial policies, flexible institutions, market-based management, and a vital role for the private sector in economic growth.” Egypt, for example, is pursuing economic reform aimed at achieving sustained high economic growth. The

three policy mainstays of its reform, which is supported by a recently concluded stand-by arrangement with the IMF, will continue to be enhancing an investor-friendly environment to attract both foreign and domestic investment, opening the economy further through the elimination of trade barriers, and increasing productivity growth.

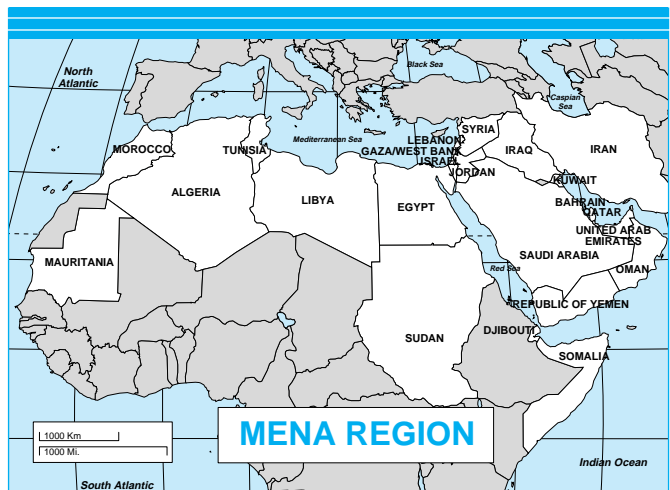
Creating a Business-Friendly Climate

In the course of the three-day conference, individual countries provided detailed descriptions of their investment and macroeconomic programs, giving members of the international business community the opportunity to assess the region’s commercial and economic potential. Cross-border opportunities were also highlighted.

In a session considering the role of government in creating an action-oriented business environment, participants agreed on the importance of :

- simplifying intracompany transactions, bureaucracies, and administrative procedures;
- introducing and adhering to international standards, including global accounting practices and quality control; and
- increasing investor confidence by improving transparency and accountability, adopting rigorous and professional “rules of the game,” and reducing market entry costs.

An ongoing regional concern has been the development of economic institutions. Further progress was made during the conference in making the new Bank for Economic Cooperation and Development in the Middle East and North



Africa operational. Participants underscored the potential contribution the bank could make in:

- promoting the development of the private sector;
- attracting capital flows to the region;
- identifying viable financing mechanisms for infrastructure development and supporting infrastructure projects; and
- introducing mechanisms to enhance regional economic cooperation.

Responding constructively and efficiently to infrastructure needs was another major concern at the conference. In a session assessing the respective roles of government and the private sector in prioritizing projects and mobilizing resources, participants concluded that private financing for infrastructure will need to play a much more prominent role if MENA countries are to meet the infrastructure challenge.

Another important issue was the development of the West Bank and Gaza economy. At a discussion session, participants noted with concern that the already weak West Bank and Gaza economy was further hampered by restrictions and closures that hindered the daily movement of labor and trade. They stressed the need to facilitate the flow of goods and labor, as well as to provide timely external assistance.

Other topics covered at the conference included an assessment of the Euro-Mediterranean partnership and the role of the business community in the economic development process of the Middle East and North Africa.

Many of these themes were also reflected in a report by the IMF's Middle Eastern Department, *Building on Progress: Reform and Growth in the Middle East and North Africa*, released on the eve of the conference. The report notes that unprecedented opportunities have opened up for MENA countries to transform their economies through accelerated growth. The potential benefits for the region are enormous, but for them to become reality, the MENA countries need to ensure that the necessary conditions are in place.

Over the past decade and a half, economic performance in the MENA countries has been disappointing, with per capita income stagnating. Although external factors contributed, insufficient economic policies played a major role, according to the IMF study. Preliminary estimates indicate, however, that economic and financial conditions in the MENA countries will improve in 1996, with growth likely to average 4 percent, owing partly to better policies and an improved external environment, including higher oil prices.

The magnitude of, and reasons for, the improvement vary from country to country. Several countries in the region have embarked on reform programs that are beginning to pay off in the form of improved fiscal balances. Other countries have stepped up structural reforms, particularly in the

areas of privatization, deregulation, and trade liberalization.

The region cannot depend on favorable external developments, including high oil prices, to sustain a high growth rate and improve financial balances, according to the IMF study. Domestic policies will have to take the lead. This means consolidating the gains from financial stabilization and deepening and widening structural reforms. The IMF study analyzes in some detail four key policy challenges for the MENA countries:

- higher and more efficient investment;
- continuing improvement in public savings;
- financial reforms to enhance private savings and resource allocation; and
- further trade liberalization.

MENA and the IMF

Several countries in the region have embarked on comprehensive reform programs consistent with the policy agenda laid out in the IMF study. Others are in the process of formulating such programs. At a press briefing given on the eve of the conference, IMF First Deputy Managing Director Stanley Fischer said that the MENA countries should use the current climate of favorable external conditions and higher growth to tackle the main issue on the economic policy agenda. He stressed that the IMF has assisted and will continue to assist MENA countries in the design of their structural reforms through a range of channels, including:

- regular annual consultation discussions with all countries in the region;
- financial assistance in support of policy implementation (the IMF currently has arrangements with Algeria, Djibouti, Egypt, Jordan, Mauritania, and Yemen); and
- technical assistance, particularly in the areas of tax reform, monetary policy, exchange and payments systems, and strengthening of data bases. ■

Copies of *Building on Progress: Reform and Growth in the Middle East and North Africa* are available for \$15.00. Also available free of charge is the IMF pamphlet *Growth and Stability in the Middle East and North Africa*. Please send orders to Publication Services, Box XS600, IMF, Washington, DC 20431 U.S.A. Telephone: (202) 623-7430; fax: (202) 623-7201; Internet: publications@imf.org

Economic Reform Crucial for MENA Countries

Following are excerpts from a statement by IMF First Deputy Managing Director Stanley Fischer at the Middle East and North Africa Economic Conference held in Cairo, on November 12–14.

The Cairo conference represents an important step on the path of economic development of the Middle East and North Africa region. It is critical for the future of the people of this region that the economic reform process that is unfolding here continue.

I would like to make three points:

- The economic climate in the region is improving, although at different rates in different countries.
- Further reforms are needed in all countries.
- The IMF is committed to this region and will continue to work to support sound economic policies in all MENA countries.

Recent Progress

For a decade or more, the growth performance of MENA as a whole has been disappointing, as many countries in the region failed to integrate sufficiently into the world economy.

While the region has been beset by a host of exogenous shocks, its poor economic performance can be traced largely to poor economic policies. However, in recent years, several countries have begun major reform programs—among them Algeria, Jordan, Morocco, Tunisia, and Egypt.

These policy changes, together with a more favorable external environment, lie behind the improvement in the region's economic and financial conditions this year.

What Needs Doing?

There is no great mystery about what needs to be done to improve growth

further. The first requirement is the maintenance of macroeconomic stability. The second is the implementation of structural reforms to increase the efficiency of the domestic economy and integrate it into the world economy.

There is now a strong—virtually universal—consensus on what is needed. In pursuit of further consensus, the IMF's study for this conference presents evidence on growth in MENA countries and focuses on key areas of reform.

Growth in this region will not reach its potential until the rate of investment rises from its average of around 20 percent of GDP toward 25 percent of GDP, closer to the 30-percent-plus common in East Asia. Accordingly, a key challenge is to improve the environment for private sector investment. This is critical for three reasons: foreign investment increases capital accumulation; foreign investment brings in new technology and business methods; and most important, the policies needed to make investment attractive for foreigners are precisely the policies that will make investment attractive for domestic residents.

What does this mean in practice? It means further progress in trade liberalization, in financial sector reforms, and in reform of the regulatory and judicial regimes. It also means reorienting the role of government in the economy through privatization, through reducing the government's pre-emptive claim on resources, through the promotion of a resilient revenue structure, and through improvements in the quality of expenditure. The issue is not whether the government has an important role to play in the economy. It does—in ensuring the provision of infrastructure; in protecting the poor, especially from the costs of ad-



Fischer: A key challenge for the MENA region is to improve the environment for private sector investment.

justment; and in protecting social spending, in particular spending on health and education. Such spending is not only a matter of social justice, but also, if efficiently implemented, a sound investment in growth. The government should also help the private sector adjust to globalization, by striking the right regulatory balance and providing for appropriate market discipline. It should also ensure the availability of comprehensive and timely economic data to allow the private sector to make well-informed decisions.

These formulas have been repeated so often by the Bretton Woods institutions—the IMF and the World Bank—that they must begin to sound like mantras. They are not that at all. Rather, they are summary descriptions of a set of policy changes that, if implemented, will help increase economic growth—as has been demonstrated all over the world.

The adjustment process benefits from the policy involvement of an informed and forward-looking private

sector, as it has in Egypt. It takes statesmanship and vision for businessmen who have thrived in a protected and highly regulated economy to press for liberalization. However, the costs of adjustment facing the business community in the short run are greatly offset by the longer-term benefits, including the ability to compete forcefully in international markets. The sheer size of the international market provides scope for growth and enrichment that goes well beyond anything the local markets could ever offer.

The Role of the IMF

The IMF will continue to support countries in the region in their formulation and implementation of growth-oriented adjustment and reform programs. Countries can count on our support in three main ways:

- We will continue our in-depth discussions and reviews of economic policy with member countries, particularly in the context of our annual Article IV consultation with each government.
- We will maintain an intensive program of technical assistance, including for the West Bank and Gaza.
- Where needed, we will provide financial support to countries undertaking stabilization and reform programs.

Our host country, Egypt, presents a good illustration of the IMF's role and activities in the region. A month ago, the IMF's Executive Board approved a two-year stand-by arrangement for Egypt, in support of the government's program of reform. This program—and it is the program of the Egyptian government—aims to build on Egypt's progress toward macroeconomic stabilization and to set the country securely on the path of outward-oriented growth and transformation to a full market economy.

Where does this leave us? Throughout much of the MENA region, there

is a palpable feeling of change and progress in the air. This change is in large part a result of the important reforms begun during the last two years by several countries in the region. The early results are coming in, and that is why this is a time of economic hope—the hope that the potential in this region that has for too long been unfulfilled will be realized. And economic well-being too promotes the cause of peace. ■