STRUCTURAL REFORM FOR LONG-TERM GROWTH IN THE MENA REGION AND IN LEBANON

Dr Fouad Zmokhol – Chargé d’enseignement à la FGM

1- REFORMS NEEDED FOR THE MENA REGION

Though oil prices have provided an enormous boost to MENA’s growth over the last two years, the region’s longer-term prospects depend on critical progress made in both consolidating macroeconomic stability for growth and transitioning to sustainably higher sources of growth and job creation. This progress depends upon the region’s success in implementing broad-based Economic structural reform.

Although MENA economies have improved their market orientation, in general they have not kept pace with worldwide progress. Reform has tended to be lacking in coherence. In general, the MENA countries have made substantial progress on reducing tariffs on trade, but tariff barriers in many MENA countries remain amongst the highest in the world. In other areas of reform, the region has lost ground compared with the significant progress taking place worldwide. MENA’s progress with reforming the business environment has been the weakest in the world. Even less progress has been made in improving governance in the region.

Long-Term Prospects for Economic Growth

While MENA faces an extensive list of development challenges, employment creation is the single most important development challenge over the coming decade. Close to 100 million new jobs will be needed over the next 20 years to keep pace with new labor force entrants and absorb the current unemployed. In order to substantially develop its employment-creating growth potential we require three fundamental and interrelated realignments:

(1) from closed to more open economies, to create more competitive industries, benefit from international best practice and gain access to new technology;
(2) from public sector-dominated to private sector-led economies, providing the basis for improved efficiency and expansion of employment; and
(3) from oil-dominated to more diversified economies, to reduce the region’s dependence on volatile sources of growth, maintain fiscal stability, and preserve important social expenditures. Achieving this realignment requires interrelated policy actions on several fronts, including improved governance, particularly with regard to strengthening inclusiveness and accountability, as well as enhancing the inclusion of female labor in the private sector in order to increase the flexibility of the labor force and make better use of the region’s talents.
Reforms often take time to result in measurable development outcomes and we must keep in mind that each country has unique structural characteristics that affect development outcomes, so the same reforms may not lead to the same results. Each policy reform must thus be evaluated in conjunction with the state of other structural reforms.

**Increasing Outward Orientation**

One of the key elements for establishing new engines of growth and employment creation is an expansion of the region’s outward orientation. Economies with greater openness to international trade have higher rates of growth, as a result of both higher investment and sustained gains in factor efficiency. Greater openness and trade are needed not only to achieve faster growth, but also to create more jobs and improve the knowledge, skills, and productivity of the work force.

**Developments in trade reform**

In the last several years, bilateral and regional trade accords have proliferated in MENA, utilized as the primary vehicle for pursuing expanded trade (EU Association Agreements or preferential trade currently in force in Jordan, Egypt, Algeria, Lebanon, West Bank and Gaza, Tunisia, and Morocco, with an agreement signed by Syria in 2004. Pan-Arab Free Trade agreement...). In addition, several countries have signed bilateral free trade agreements with the United States. Nevertheless, a number of MENA countries continue to have extremely high average tariffs relative to other developing countries.

** Liberalization**

Lack of liberalization of services is a crucial issue and could be a powerful mechanism for stimulating trade and growth in the region. Services account for a substantial proportion of GDP in MENA countries, so improvements in efficiency, through trade and competition, could have profound effects. Equally important, a range of services are used as inputs for the production of other goods and services and are often crucial in supporting trade. Lower priced and better quality services can have broad, economy-wide effects by raising productivity across a wide range of activities. Transport and telecommunications are critical in linking the markets, both domestic and international, and financial services are key to helping the MENA countries to adjust away from existing activities to new activities to exploit the opportunities made available by trade.

**Improving the Investment Climate for Private Sector Development**

The most important engine for rapid and sustainable economic growth is a dynamic and competitive private sector, free from excessive regulation. It is vital for most of the governments in MENA to agree that the private sector needs to become the primary engine of job growth, the public sector remaining a major source of job creation.

Creating a climate in which the private sector sees opportunity and will invest and create jobs depends on several factors:

(i) a stable macroeconomic environment where investment decisions can be made with relatively low levels of uncertainty;
(ii) basic protection of property rights and an adequate legal and regulatory framework;
(iii) a regulatory environment that does not disrupt investment with unnecessarily
procedures, excessive regulation and costs.

**Quantifying the progress with business regulatory reform**

The key business regulatory and financial areas include:

(i) starting a business,
(ii) hiring and firing workers,
(iii) private sector access to credit,
(iv) enforcing contracts
(v) closing a business.

**Financial Development**

In order to promote rapid and lasting economic growth in the MENA region, further financial sector reforms should be high on the agenda: policies aimed at enhancing financial sector performance would result in higher economic growth; a more developed financial system would promote efficiency and growth by reducing information, transaction and monitoring costs.

**Human resources development**

A variety of “engine of growth” are usually discussed, which are directly or indirectly related to human capital and the implementation of new ideas. Research on growth in the MENA region has to begin with the examination of the labor market institution that is likely to influence growth outcomes. Under **dynamic efficiency** the emphasis is shifted to the efficiency of the labor market in the provision of adequate formal education, training as well as by informal learning mechanisms. We should always keep in mind that the labor market will have an influence on the quality and the productivity of each individual country.

**Enhancing Governance**

A broad governance agenda is central to reform efforts aimed at improving the business and investment climate, deepening trade integration, and increasing economic diversification. The MENA region faces many of the traditional challenges to efficient public sector management, including reducing state intervention in production and employment and improving the quality of public sector administration.

Countries across the region exhibit a pattern of limited government accountability and inclusiveness. In the area of openness of political institutions and participation, respect of civil liberties, transparency of government, and freedom of the press, the MENA region falls far short of the rest of the world. Not a single country in MENA ranks above the world median for the quality of public accountability. Overall, the region’s progress with governance is in the bottom third of the world, far below the average of other lower middle income economies and behind the pace of every region of the world.
Summary

By far, the region’s greatest progress has come in the area of trade reform. Motivated in part by Trade initiatives and free trade agreements, the region has been able to make strong progress in Tariff reduction over the last few years and two-thirds of the MENA economies have improved Their world standing with regard to unweighted import tariffs.

The MENA region’s long term growth prospects require a fundamental transition from closed to Open economies, from public sector-managed to private sector-led economies, and from oil dependent and volatile to diversified and stable economies.

2- VITAL REFORMS NEEDED FOR LEBANON

A free-market economy is the right system for Lebanon. This economic system enhances the competitive characteristics of the Lebanese economy and asserts those basic characteristics and the possibility of future development. Natural resources have never been the determinant of our local economy. Lebanon is a small country with limited natural resources but we have big opportunities to grow by developing knowledge-based economies.

For Lebanon to develop such an economy, it has to develop intellectual work by reconsidering educational systems and programs. Educational institutions should be rehabilitated to prepare the Lebanese to capitalize on their openness to technological and communication revolutions and their ability to assume a pioneering role in these domains in the Arab region. To put the Lebanese economy on this track, new challenges must be transformed into real opportunities on national and economic levels. The great challenge that faces Lebanon in the future is to develop its economy into a competitive system capable of advancing the potentials and capabilities of the Lebanese according to new economic trends, creating new job opportunities and improving living standards via a comprehensive and balanced development plan.

The realization of these objectives depends on:

I- Consolidating democracy, freedoms, the rule of law and the independence of the judiciary, and developing the foundations of justice in the state: Economic revival requires several conditions, including the establishment of the rule of law, respect for individual freedoms of thought and of expression, and the independence of civil and administrative courts from any pressure by the political authority.

II- Reviewing confidence in the Lebanese economy and polishing Lebanon’s distinctive economic characteristics: In this respect we have to reconfirm the basic characteristics of the Lebanese economy:

- Encouraging individual initiative.
- Safeguarding private ownership.
- Free movement of capital.
- Freedom of transfers.
- Legislative and taxation stability.
- Banking secrecy.
- Market economy.

**III- Activating an economically rewarding foreign policy:** Recent world economic developments have increased the degree of economic competition among countries. As a result, foreign policy has been transformed into an effective tool in boosting economic competitiveness, finding markets for products and services, attracting foreign investments and raising grants and soft loans. Small countries, such as Lebanon, can no longer neglect the potential of diplomacy and foreign policy in securing new markets. An effective foreign policy should be able to cope with current economic developments and place its qualifications and experiences at the service of the national economy. In this respect, Lebanon can rely on the support of Lebanese communities in the rest of the world, sisterly Arab states and other friendly countries.

**IV- Resolving the public financial situation:** Economic growth is the best means of solving the deficit problem. It enables the state to reduce its share of the national income without affecting the income levels of the population.

**V- Reducing production cost:** Stimulating economic growth requires the reduction of production cost in the private and public sector. This process requires the following policies:

1. **Privatization**
2. **Encouraging productive sectors**

These include for example:

- The capitalization on the tourist sector and preserve its integral and environmental wealth by adopting the following policies:
  - Activating tourist media outside Lebanon and expanding the tourist market to the Far East and developing countries.
  - Establishing tourist offices inside and outside of Lebanon.
  - Developing the standard, service and quality of the tourist sector’s personnel by intensifying and widening technical and professional training. Concentrating on meeting all modern industrial and tourist requirements.
  - Preserving our natural environment, one of the most important and fragile of our many tourist attractions.

- Co-operating with various productive sectors in small and medium sized institutions either through the Authority for Guaranteeing Credits or through service centers that provide these institutions with services like business management, public relations, accounting, and economic feasibility studies. It is also useful to encourage small and middle-sized institutions to form associations that can facilitate the creation of joint projects and close co-operation with similar associations in Arab and foreign countries.

- Parts of modern agricultural and industrial systems of production are no longer based on mass production. Rather, they rely on the quality of production and niche markets. Thus, it is possible to activate both sectors by encouraging their restructuring to attract new investment.

- Encouraging the export of industrial and agricultural products by signing commercial agreements with other countries and creating incentives for exporting these products to foreign markets.
VI- Capitalizing on human resources, developing their qualities, encouraging their productivity and establishing a system of accountability, according to levels of productivity and quality of performance: One of the gravest losses that Lebanon has sustained during the past two decades may be the fact that the war stalled efforts to develop human resources inside the country. This situation has forced qualified people either to isolate themselves or emigrate; it also prevented qualified emigrants from interacting with each other and playing a positive role in Lebanon’s domestic reconstruction.

Enhancing the educational sector requires a clear vision of a long-term educational program that gives all social groups equal access to it. There should also be a parallel plan that attempts to create an advanced elite in the fields of technology and scientific research. Educational institutions must link their programs with the future needs of the labor market and orient the young to specialize in fields that correspond with economic growth and arising Arab and international economic trends that advocate knowledge-based economies. Moreover, public and private institutions have to be established (in co-operation with developed countries whenever needed) that would look after ambitious and qualified young people who can help Lebanon achieve the qualitative technical leap that it needs to provide new jobs. Lebanon also needs to encourage scientific research and allocate funds to enhance its progress and reward its staff.

It is clear that the strength of Lebanon’s resources lies in the way these resources – being touristic, economic, natural, human, democratic, intellectual or cultural – are being capitalized on and rebuilt.

3- CONCLUSION:

One of the most important factors that attract investment in any country is its degree of legislative stability. Citizens as well as foreign investors do not feel secure if the investment climate is subject to continuous changes. Also, investors are discouraged by radical changes in legislation policies and the interpretation of laws and regulations. Key countries have adopted the policy of legislative stability. They also honor their commitments, whether to their citizens or to foreign investors. Lebanon should address this matter. It has always stressed the importance of legislative stability and the respect of commitments. Therefore, it has to reaffirm its adherence to this policy, which plays a major role in attracting investments and makes citizens and investors feel secure.

(This paper has been based by the author from his speech and presentation at the MENA Ministerial meeting organized by the OECD in Jordan)