

Interview with Mr. Talal Abu-Ghazaleh  
Arab expert and economic intellectual

The Future of the Arab Economy in the Next  
Century

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**Broadcaster:** Welcome to “Markets” from Abu Dhabi TV, with this episode devoted to the future of the Arab economy in the next century.

Here in the studio, we have Mr. Talal Abu-Ghazaleh, the well-known expert and Arab economic intellectual to discuss this. But before we do, we have a report issued recently from the World Bank that gives a dark picture of the economy of the Middle Eastern and North African countries. It states that the region is still unable to integrate into the global financial market because of the high customs, in addition to the fact that the volume of non-oil exports of a region that has a population of 260 million is less than the volume of exports of Finland for example, whose population is only 5 million.

The most glaring of the challenges recorded by the World Bank is that of unemployment, which Arab states suffer from greatly. It mentions that for the Arab nations and North Africa, one million people will attempt to enter the workforce, however only about 200 thousand will actually find jobs, and the rest will join the unemployment lines. Therefore, how can the Arab countries find work for these massive numbers?

**Chairman:** Firstly, I hope you’ll allow me to object to everything stated in the World Bank report. This is because it has conclusions in it that were reached based on certain assumptions, as with any report dealing with the future. The assumptions made –in my view- are not accurate and so the conclusions aren’t either.

The report is wrong, especially considering that it was issued from the “Mina” area, and it should have been issued from the Arab region, because including Israel in the report – and I am talking here about the economic aspect of things regardless of my political views- may distort it as it said that the average individual’s income is 20 thousand dollars.

**Broadcaster:** But the report didn’t focus on Israel as much as it did the Arab region.

**Chairman:** The report was about everyone with comprehensive statistics that included Israel, which was only one aspect of it. But in international organizations and associations, I always state that the region should be dealt with as an Arab region and not a Middle Eastern one.

**Broadcaster:** Can it be said that the Arab region is homogenous?

**Chairman:** I’m not saying it is homogenous, I am saying however that if we took Arab statistics into consideration, then the possibility for making Arab-related conclusions would be bigger.

For example, we are talking about the problem of unemployment, which does not apply to Israel in the same way it applies to the rest of the region. The issue of foreign or external trade similarly doesn’t apply to both sides in the same fashion. Let me move on from this point into the core of our subject.

In regards to the expected rate of unemployment, I am optimistic that it will not be too severe, and the assumptions seem to be optimistic as well. As for the price of oil, the World Bank drew its conclusions on the fact that it will be 15 dollars in the next decade. In my view, this is too optimistic, and I actually think that it will be much less than that, and I will give specific data to back up my claims.

Recall that in 1973, which was the famous year where the oil war began, if we consider the price of oil back then and compare it with today's prices, we'll note that it was reduced by 53 dollars in comparison with today's prices. In the area of oil, new facts have emerged in the last quarter century. For example productivity has increased by 21% , and we've been told that the reserves have doubled, whereas we used to hear that the reserves were fixed, and that this resource will expire and is non-renewable.

Also in 1981 we heard in an American report that digging for oil in the USA is non-feasible economically and that the price for oil exploration was reduced 6 times.

In Newfoundland (Canada), a platform for digging oil was set up at a cost of 4 billion dollars in 1994, and the price of oil will be 8 dollars. This is if we assume that the population growth rate is 2.5% per the report, and my assumption is that it will be 3%. The report also concluded that the growth rate in national income will be 305%, and I think this rate is closer to zero. The last WTO statistics show that the growth rate in global national income last year was 3%, and in the USA it was 4% and in the Arab countries it was zero and the relevant assumption will be reflected in this growth rate. So if we say that the growth in national income will be less than the World Bank expectations, and that population growth will add to the problem in addition to other variables I do not want to get into, then I am saying that unemployment will be the direct result of economic growth or lack thereof.

**Broadcaster:** The World Bank report mentioned that the states in North Africa and the Middle East witnessed significant progress during the 1965-1985 period, which occurred at a faster pace than most other developing nations, with the exception of East Asia. However it has witnessed a depression since 1985 till now. The numbers aren't available, but what we'd like to ask Mr. Abu-Ghazaleh is that to find jobs for more than a million persons in addition to the vast numbers already out of work, what must be done? Surely there are significant shortcomings in the economic policies of Arab states when we cannot find jobs for Arab nationals, in addition to a deficiency in investments, projects and manufacturing plants. We see an emigration from North Africa to Italy in boats and a large influx of people from North Africa towards the European countries.

Chairman: This is true. A new era is the phase of electronic trade. We cannot talk about economic growth without talking about electronic trade. The current volume of electronic trade in the Arab world is one million dollars annually. We should realize that a small company like Cisco has sales of 20 million dollars daily, and General Electric has sales of 5 billion dollars annually. I always like to draw attention to what might occur next year, since we do not consider external trade as one of the elements of national income, since it had no growth as we mentioned.

External Arab trade will decrease because we have not entered and have not been able to enter into electronic trade, which will be the trading means of the future.

Statistics are very important, and they indicate that the number of Arab internet users is about 1 %, whereas those who've utilized the internet for trade purposes are 4% of this 1%. This means that only 0.04% of people in the Arab world have traded electronically, while in the USA, this figure has reached 40%. This means that progress in international trade will increase for those nations that have the ability to trade electronically, and we'll actually decline in this area. This is another field that will lead to a decline in national income, and therefore an increase in unemployment in the Arab region.

There are other variables as well. The Arab world represents 5% of the world's population, and our external trade forms 3% of global trade, and 75% of our imports are agricultural products. This gives an idea about how bad the situation is as far as trade and growth are concerned, and also when considering income, which in turn negatively affects the labor market.

**Broadcaster:** Let's look at this data for a moment. From the World Bank report, it seems that the last decade it talks about was painful since the investments increased as did growth since 1995, but since there was an increase in the population there was not a considerable increase on an individual basis from the GDP. Mr. Abu-Ghazaleh, this confirms what you stated.

However, I would like to go back to another point, which is the topic of electronic trade and utilization of technology. We seem to be running around in circles right now. We talk about our desire to expand on electronic trade and technology in the Arab world, but unemployment is on the rise as is poverty. So how can an Arab national—who according to a previous report cannot even increase his daily income by one dollar—, afford to buy a computer, which might very well be 10 times his paycheck? How can we move forward in the fields of technology and electronic trade with such widespread poverty in the Arab region?

**Chairman:** In my view, there are three major considerations here:

First, there is a cultural consideration. We must change our educational program to teach internet usage in much the same way we teach a foreign language. This is because as I always say, the new illiteracy is internet illiteracy, and no longer the conventional illiteracy of reading and writing that should be eradicated. We need a project to eliminate this new form of illiteracy.

**Broadcaster:** How can you eliminate internet illiteracy whilst there is still much conventional illiteracy in the Arab countries now? Aren't we facing a dual problem now?

**Chairman:** What is meant by the question of internet illiteracy is economic ability. So let's talk about the related segment of society. Is it possible that 99% of our society is unable to acquire a computer and utilize the internet? I do not believe that this is the case. There may be a large segment unable to do so, but what I'm saying, and this is an important point, is that we must focus on this issue and change our priorities. There is a

large segment in Arab society that has the aforementioned ability, and there's no excuse for relieving it from its responsibility.

The state also has a responsibility. Why is it that electronic communication in Arab countries costs 50 times as much as it does in the USA? This must be changed and simplified.

In 1992, the American President spoke at an economic conference in Uruguay about the developing world, and he meant the Arab world. There he said that the developing world spent 30 years wasting a fortune, instead of using this time to create wealth.

The concept of wealth and fortune is changing from what it has been throughout this century, and the wealthiest of the world are now considered those who deal with information. I'd like to mention that already 11% of global trade is in communication and information and when we mention 11% of 5.5 trillion, we'll note that our share of this is zero, as we have not entered this trade at all.

Sources of the upcoming wealth lie in the creation of knowledge, which does not require large capital, because the internet is dependent on an individual's efficiency and ability.

I've participated in numerous international conferences, and have noted an apprehension from the developing world as result of the information revolution. This revolution will allow us to study all human sciences for free, and this is one of its advantages that stands in the face of any disadvantages it may have.

Broadcaster: Mr. Abu-Ghazaleh, the issue of unemployment needs to be addressed via regulating population growth, and absorbing the vast number of workers. Many parties including the International Monetary Fund view this as one of the greatest challenges the Arab states face.

**Chairman:** The World Bank estimates that population growth in Arab countries is 2.6% annually, and the average is 1.1%. This is a big gap, and I claim that until we take corrective procedures, the Arab population growth will increase to 35 as a result of the following:

First: Improved living and health conditions

Second: Considerations related to the Arab mentality. For example, how can you convince with your opinion a Palestinian mother in the West Bank who bears 2 children with one dedicated towards the revolution and one towards life. Our thoughts of the future must relate to our increased numbers.

There is no doubt that population growth is a problem. In my estimation, the treatment to this must occur at two levels:

First the level of reducing the growth rate through education, and at the same time moving along with economic growth, which I am very pessimistic about.

**Broadcaster:** Why?

**Chairman:** First, let's talk about oil. As I said we'll face a reduction in our oil income and it represents 75% of our exports and our job opportunities, and therefore this will have a negative influence.

Second: Water is a problem that we cannot exclude. In addition to it being vital, it also represents 88% of agricultural uses, and in the field of agriculture we have an annual deficit estimated at 14 billion dollars, a deficit that increases at 14% annually. The total of all external national debts of the Arab countries is 160 billion dollars, at a debt cost of 12 billion annually. The whole economic process is interrelated, and when we talk about reducing the unemployment averages in isolation of other considerations, we must not forget that any economic process has a reaction that propagates in the opposite direction, such as the areas of inflation and growth/investment in other sectors.

So we must adopt a new curriculum in our economic plans. I always criticize something in this regard, as to why is it that in the Arab states we have laws to encourage foreign investments but nothing to encourage national investment? The latter is what attracts foreign investment, so if we can create an environment that promotes national investment, then foreign investment will follow, and not vice versa.

#### **Discussion on comparing between Arab and Israeli statistics:**

**Chairman:** When I mentioned that statistics from Israel are faulty, this is something that I strongly believe and would like to reemphasize this point. These statistics cannot be included as a part of logical statistics, because when you have a country that deals with emigrants from all over the world and considers them unemployed until they start working, then this will obfuscate our numbers. Also, when a country depends on 3 billion dollars annually of US aid, then that confuses the balance of expenses when we talk about foreign debt. So you cannot take a country like this and compare it to Sudan for example, on the issue of employment.

Employment in Israel is artificial, decided upon and streamlined per the laws that are well-known. In particular, there is the Law of Return that states that "every Jew has the right to 'return' to Israel and the state must ensure income, accommodation and work for that individual..etc."

From this perspective, we have a model that has no equivalent in the Arab region. I always say that there is integration in the Arab economies which encourages moving towards an Arab market.

**Broadcaster:** This takes us to the topic of the Arab market. But before doing so, we note that there is renewed talk among certain economic circles about the Arab free trade zone which is considered a precursor to the creation of the long-awaited common Arab market. On every occasion, there is a renewed buzz among optimists whereas pessimists start to list the obstacles that stand in the face of this Arab dream.

Mr. Abu-Ghazaleh, as far as an Arab free trade organization is concerned, there are those who say that there is no cooperation or love lost between Arab countries. Up till now, 14 countries have agreed to the Free Arab Trade Agreement. What do you think?

**Chairman:** As far as the Arab situation is concerned related to the region, I am optimistic. But I am pessimistic about the economic status quo and indicators in general for all the nations. For the first time we see that there is economic injustice throughout the Arab world in almost everything.

On the issue of the Arab market, and the agreement to liberalize Arab trade, it must be looked at from the perspective of their relationship to the WTO agreement. This is because there are bigger problems and engagements that we cannot absolve ourselves from. We must first realize that there is what is called the most-favored nation treatment, which means that any agreements between two member states must be applicable equally to all other member states.

Second, there is the issue of the commitments and pledges that states presented in return for privileges they received when becoming members, and this differs from one country to the next.

Things aren't as simple as we may try to make them sound now, but what I want to say is that the creation of an Arab market is a duty and not an option, and there is no economic alternative to it.

Arab disputes must not hinder this. Europe –during the Second World War- had killed 10 million citizens between the different entities of their continent, and political differences between European countries are now even larger than those among Arab countries, yet Europe's countries found that their individual and collective economic interests necessitated establishing economic cooperation between them.

So I'd like to emphasize that we should not doubt this desire in our media.

**Broadcaster:** Desire is one thing, and execution is another.

**Chairman:** There is media with an agenda, that promotes making us as Arabs doubt the benefit of dealing with one another, and this (not dealing with one another) is wrong. For example, it is stated that the percentage of common Arab trade –a volume of 13 billion dollars annually- is only 9% of external Arab trade. This is true, but we must ask why this is so?

If oil represents 75% of the total exports, how would one expect to export to Arab countries more oil than they need?

**Broadcaster:** So this negates the idea of economic integration among Arab states as long we keep exporting one item.

**Chairman:** Because the composition of our exports is wrong, we must increase the volume of exports other than oil, such that oil represents only 10 to 20% of items exported. Similarly because the composition of our imports is wrong, then they must be adjusted accordingly.

The components of import and export imposed on us that trade be conducted within certain limits. I am confident and hope that every Arab citizen –and I am nothing more

than an Arab citizen- stops doubting the Arab desire concerning Arab multilateral trade. There is a problem with the economic composition as a whole and not with trading amongst each other, and there is a problem of barriers between Arab nations as we previously alluded to, that must be addressed within the trade liberalization agreement.

If we do not address these issues within the Arab framework, then they will be imposed upon us within an international one. I appeal to every Arab national to stop the talk and tendency towards non-desire and non-excitement in this field. I am confident that every Arab, if presented with the choice –without sacrificing quality of course because if we sacrifice quality then we become a burden on the economy- the choice of getting a product of the same quality from an Arab manufacturer vs. a foreign one, then he/she would choose the Arab one, as would I.

### **Phone call from Jordan: Ghaleb Hadidi**

Mr. Abu-Ghazaleh, I was hoping you could answer 2 questions that I had:

**First question:** What do you think of the World Bank policies that are imposed on some Arab states that suffer from economic problems?

**Second question:** The issue of privatization that is imposed on some Arab states to rectify their economic directives, is it in the interest of these states?

**Chairman:** The two questions are important. The World Bank, as with any organization has its policies and tendencies and is not immune to making mistakes. There are many examples to this, such as those of the countries from East Asia.

**Broadcaster:** Are you saying that there are western countries doing this?

**Chairman:** Without a doubt. I did a study at a conference for international intellectuals and authors, where I made an analogy of the world being similar to a corporation, with a board of directors and chairman, and shares. There are those who control shares, and those who own shares with no right to vote, and those who do not have any shares. So the whole world has become managed similar to the American concept of managing a company. The World Bank as well, which is headed by an American that controls its laws, and its board of directors is controlled by the main financing states. It is natural then that there be directives imposed by these parties.

But we are aware to this also, and numerous Arab states have resisted some of the Bank's decisions, when they were seen as being opposed to true economic interests. There are many examples on this, and Jordan's stances have been well-known, and Egypt also has stances that opposed some of the World Bank's ideas. So the World Bank isn't perfect.

**Broadcaster:** What about privatization?

**Chairman:** I always say that if it is run properly and takes the social factor into consideration, in addition to any economic considerations, as is the case with Egypt for example, then it should be fine.

Egypt has undergone a quite successful experience with privatization, and is setting up a plan to transform the public sector into a private one, in a way built upon long-term studies, and through consultation with and opposition to the World Bank, as it doesn't accept the Bank's views unconditionally and opposes it when need be.

But as far as the principle of privatization is concerned, we really have no alternative to it, and we can't think of thriving in this world without entering the phase where we transform organizations across the board to the private sector, while maintaining governmental control relating to the citizens' social considerations.

### **Phone call from Mr. Dahi Khalfan Alkhamis, head of the Gulf Center for Diagnosis**

In my estimation, unemployment is rampant and all countries are suffering from it, but does Dr. Talal agree with me that the solution to this problem will be at the expense of quality in productivity and performance? What I mean is that privatization is a basic element to understanding the concept of unemployment, which is in turn obtaining the maximum productive energy possible.

**Chairman:** I agree completely and say that privatization and economic reforms lead to an increase in the national income, and consequently growth rate with a simultaneous drop in the unemployment rate. This is one of the corrective procedures that Arab nations should move quickly towards in their planning and execution.

**Broadcaster:** I have a question on privatization and economic reforms. Can we say that there is a conspiracy between some politicians and those who benefit from the former socialist system? Is there collusion amongst them, as some states refuse reform and openness?

**Chairman:** No, I don't see that at all. I disagree with the World Bank if it claims that the refusal of some states to move towards reforms and privatization is due to some Arab officials wanting to benefit from this. I say that if this is the case, then why can't this or that official by the same taken benefit from the privatization institutions? Therefore, I reject these doubts in us, which we hear frequently, and these doubts should really be directed to the outside world.

If we go back to the issue of water that we skimmed over briefly: We represent 5% of the world's population, and our share of the world's water is 0.5%; basically half of what we should be getting. Only 2.5% of the world's water is from rivers and groundwater, with the rest being from wells. 60% of the world's desalinated water is from the Gulf, which led to stopping investment in water technology. The same old technologies will still be working and desalinating water will cost us enormous sums. Therefore we have not been able to solve the water problems in light of non-development, as opposed to other fields such as oil exploration in the USA that advanced six times with new technology in this field and reducing the costs every time.

Water is a basic component of our nation and its future. I have stated on numerous occasions, such as the water conference at Georgetown University in Washington, that is

is necessary to reformulate the agreement to liberalize water. Further, there is a necessity to liberalize water in the framework of a WTO agreement. This is because water is a commodity, and up till now, the UN has not been able to formulate an agreement on how to organize the dealings with this commodity, even though the UN truly isn't the ideal place to do so. The WTO is the place where this should be done. Yet in spite of this, the UN phrased a convention in 1996 that has not been applied up till now, due to the objections of some states and non-ratification by major nations of the world.

Why has this occurred? Because water is an Arab problem. We are the poorest region in the world when it comes to water. Water poverty can be defined at a limit of 500 liters per year, and we'll reach this limit in the whole Arab region by the year 2025 without exceptions. This means that every Arab nation will be below the "water-poverty" line, so if we are talking about conspiracies against us, why not talk about the water issue? In regards to oil, exploration costs in the USA dropped from 22 dollars to four dollars, whereas the price of oil production in Newfoundland dropped to less than 4 dollars when it was previously over 20 dollars.

As for the price of oil now, is it a coincidence that the reserves have doubled in the Arab regions whereas we used to say that reserves are depleting, as it used to seem?

Further, is it also a coincidence that all of a sudden new technology has come about to utilize the gas resulting from digging oil wells and not natural gas which used to be destroyed and had no value?

Now, new technologies will transform this gas into a liquid state, which will lead to a doubling in the amount of fuel reserves in the world. How do we expect this to affect the price of oil?

I had mentioned in a study that the dollar-value per liter of what the Litani River pours into the sea, which is the market price for desalinated water, is equivalent to the value of all of OPEC's production.

**Broadcaster:** However, large quantities of water are lost or evaporate due to negligence in the systems' infrastructure.

**Chairman:** We lose the most in the world due to evaporation.

### **Phone call from the UAE**

Mr. Abu-Ghazaleh, putting politics aside for a moment, do you think that peace will lead to prosperity and limiting unemployment, and do you believe in the inevitability of the creation of an Arab market and what are the best methods to create it?

Chairman: As far as peace is concerned, I say that peace doesn't necessarily lead to prosperity, and this is a misconception. Peace comes about when the elements of a

successful economy are in place. The saying related to the “fruits of peace” is not a valid one, and it should not be taken into consideration.

Peace has no direct correlation to prosperity, which ultimately depends on economic basics. This should be our line of thinking, and we should forget about dollars falling down on us from the sky just because of peace.

**Broadcaster:** But it does reduce the arms race and military expenditures.

**Chairman:** This isn't correct, because if you take a look at nations, the current models and previous examples show that this didn't take place.

As for the Arab market, I think it is inevitable because it is in the interest of the Arab national and every Arab state. The decision-makers know this, and are fully aware that the interest of everyone lies in the creation of this market. I am confident in the wisdom and responsibility of our leaders. I know that there is a definite desire and tendency in this direction and all that is needed is programming and methods of implementation.

One of the suggestions I've put forward is to have an Arab minister in every state dedicated solely to the issue of common Arab trade. This is due to the great significance this issue takes. If we consider the American model for example, we note that there is a minister (or secretary as they call it) specializing in foreign trade, and this is the only minister who has his headquarters in the White House itself, and he is the American trade negotiator. So if one can give this issue the dedication that it requires and if the Arab states take the initiative to study it seriously, I think that these steps will help greatly.

**Broadcaster:** Thank you Mr. Abu-Ghazaleh.