



A Special Arab Roundtable

The Arab World in a New Era:

Assessing the key Implications

Executive Summary

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The revolutions and turmoil sweeping the Arab world have put an end to “business as usual” in the region and mark the start of a new era characterized by a race against time to meet exploding expectations, the challenge of creating or re-shaping political institutions and paving the road to a lasting new “normal” for the region.

As much as *what* has happened in the region it is also the *intensity* and the *speed* of the events that have surprised the international community. 350 million people in the Arab world no longer want to be mere subjects of their governments but want to be citizens. Events since December 17, 2010 have filled the Arab world, especially the youth, with a sense of excitement and inspiration that has not been felt for decades.

Egypt and Tunisia have unleashed the dynamic, but each Arab state will need to determine its own political transition. Five years from now, the type of Arab world that could emerge may look fundamentally different from what we think it will look like today.

Whatever happens in the short term, governments in the region can no longer expect to maintain their power just through violence and repression. Many of the protesters in different countries of the region have aspired to express their aspirations for freedom, dignity and opportunity without violence. The

revolutions in Tunisia and Egypt have broken the barriers of fear as citizens have been willing to risk their lives for a better future without resorting to violence. However the ruthless repression of protest in countries such as Yemen, Bahrain, Libya or Syria demonstrates that the transition towards more open forms of government will not be achieved without a lot of blood and tears to be shed.

The Arab Spring is a story still being written. So volatility will remain in the short to medium term.

The characteristics and geography of the new Arab world

Young people in the Arab world are vehemently rejecting the myths that have long been used to justify a debilitating status quo, like the “reform vs. security” argument used by Arab regimes according to which political liberalization would only result in putting the Islamists in power. The trigger for the region’s transformation has come from within, from the women and men going to the streets to vent their frustrations and their long repressed expectations. They have had a glimpse at the possibility for a better future through connectivity and communication with the international community, particularly through the new social media.

It is not clear whether the new Arab world that is emerging will be more – or less - friendly to the United States. However, if these countries do transition toward democracy or do have greater popular participation, the United States may hope to have better and more credible interlocutors in the region. Although political divergences will exist, there will be a sounder and more solid basis for a long term relationship.

While it is too early to pretend to have definitive answers to the questions raised by rapidly unfolding and complex events in the region, one element is that the impact of the “Arab Spring” might lead in the medium term to a weakening of Al Qaida’s presence in the Arab world. Another immediate factor is that events in the region are challenging the diplomatic, military and economic resources of Western countries. This will continue to wear down US and European capabilities in the next few years, especially if we are confronted with a new crisis – for instance in Somalia.

The Arab world is not monolithic but people across the region are protesting about the same issues: the widening gap between the rich and the poor, widespread corruption, bad governance and the stagnation of the political system. They are demanding dignity, strengthened rule of law, and democracy.

Commonalities: the 4 Ds:

- 1) ***Demography:*** young people make up the highest proportion of the population – more than 50% of the population in the Arab world is under 25. This can be an advantage for countries with open political, economic and educational systems, but it also represents a tremendous pressure and creates the potential for explosive conditions as the Arab world’s youth has a very high rate of un- and under-employment. ***This is linked to the region’s education deficit:*** Compared to most regions, investment and resources committed to education in the Arab world far outweigh the outputs of those investments. Results for student achievement tests, even in the best Arab countries, come in well below the world median scores. Education systems have prepared their young people poorly for the insufficient quantity of jobs being created.
- 2) ***Democracy deficit:*** this is a common factor across region, as regimes – whether monarchies or republics - are far from fulfilling the principles of democratic practices.
- 3) ***Demonstration effect:*** the spark from Tunisia’s Jasmine Revolution has had a powerful snowball effect across

the region. Seeing desperation translated into action has inspired many to follow suit. In light of what is happening in the Middle East the reaction against the democratic deficit might prove to be as mobilizing a factor as the lack of economic prosperity.

- 4) *Domestic focus*: people are focused on their internal political, social and economic issues – not on other issues outside their country – and the focus on domestic preoccupations and priorities is likely to continue for the foreseeable future.

Differences:

- 1) *Amount of money available*: the funds available to each government in the region to head off popular uprisings are very different. The regimes of oil producing countries such as Saudi Arabia or Kuwait have been willing to make extensive use of additional spending programs and subsidies to quieten protest movements.
- 2) *Degree of repression*: most regimes in the Arab world – whether monarchies or “dynastic republics” are authoritarian by nature but they vary greatly in the degree of repression they apply on their society.

- 3) *Sectarian and tribal divisions*: While they are quite pronounced in countries such as Bahrain, Libya or Syria, they don’t play a role in countries like Tunisia or Egypt with a more homogeneous population. One may assume that countries like Iraq that have suffered from sectarian violence recently are less likely to reproduce the situation, even if the tide of turmoil in the region also affects them.

The anger that accumulated over time has made events across the region irreversible.

Whatever the ruthless resistance to change in countries such as Libya, Syria or Bahrain, or the regimes attempts to buy out protesters with money, as in Saudi Arabia or Kuwait, the pressure from the new generation, from the frustrated fledgling middle class, is putting the Arab world’s culture of repressive control through state, economic, social and religious institutions under pressure which will be irresistible over time. In looking at their parents and siblings, many members of this generation have decided that they did not want to live the same way. They want to have rights and a system that would respond to their aspirations.

A quest for independence from the current political regimes not been seen since the uprisings against colonial powers: This “second independence movement” is premised on the realization that people have - in fact - power and is creating a paradigm shift. While there will be setbacks and not all expectations will be met, the opposition movements in the region will not go back to square one, as the culture of repressive forms of control through the state, through religion, has collapsed under the pressure of the new generation. The whole view that government should serve the people instead of being its enemy is beginning to assume a new appeal. However, public empowerment will not necessarily translate into the spread of democratic institutions, as the protests movements will increasingly take diverging paths in the Arab world. In fact, for many in the Arab world, it might be more a transition to the rule of law than a transition to some “Jeffersonian democracy”.

The success of the transition in Egypt will be crucial to the whole region. Somehow, the revolution has brought Egypt back to its traditional role as the center of the Arab world.

However, the transformation will not occur overnight in Egypt, and there is now a distinct possibility of a conflict arising between old and younger Islamists, as the

Muslim Brotherhood gets integrated/ institutionalized into the country’s political life, and the Islamic “brand” evolves. An intellectual and political vacuum – if the new moderate political forces don’t get enough time to organize themselves – would facilitate the Muslim Brotherhood’s grasp for power and this will require a strong presence of Egypt’s military in the short term. The US has been pushing for expediting the process of achieving civilian democracy, not realizing that the people in Egypt want to keep the military present because of the fear of a vacuum that would open the way for more Muslim Brotherhood control, or even takeover. Expediting the process of transitioning to a civilian democracy would thus only undermine political stability.

The three forces trying to control Egypt today are the military, the Muslim Brotherhood and its people. From the very beginning, the military has been the protector and a solidifying force behind the revolution, particularly after it allowed the vote on the process of democratic transition to go forward.

Egypt’s opposition has been fighting small battles and has not focused enough so far on the longer-term needs for the kind of institutions building essential for a successful transition to democracy. The shape of these institutions – for instance, whether to opt for electoral majority or

proportional rule – will have a direct impact on the type of regime that would emerge. A majority electoral system would give more power to better organized political forces – the Muslim Brotherhood and the remnants of the previous governing party which might resurface under a new label - while a proportional system would give smaller groups the opportunity for a voice in government.

While there has been a lot of discussion about Egypt moving towards some kind of a “Turkish model”, in fact such a model does not seem very much applicable to Egypt, and as the country moves ahead, some observers consider that it might get closer to “the Indonesian model” of democracy.

In the GCC countries, particularly in Saudi Arabia, Bahrain, Oman and Kuwait, there is a strong or wide spread determination to maintain the status quo. However, the reverberations from protests in neighboring states are greatest on the economic side, particularly with regards to employment, corruption and income inequality. On the social side, there is a quest for more relevant training and education that would be market-oriented and would thus provide employment opportunities that would allow people to marry, to have access to affordable housing and have a family. This, however, is not likely to be fulfilled in the short-run.

The greatest causes for concern in the GCC remain Bahrain and Yemen. Yemen has an under-policed population that is equal to that of the rest of the GCC, with over 130’000 villages in the country with less than 200 inhabitants. Much of the country lacks electricity, running water and sewage systems, and there is a severe shortage of education and health services. Even if the transition plan achieved through the auspices of the Gulf States that has President Ali Abdullah Saleh leaving peacefully the country works, there is no underestimating the potential for additional crises and conflict that lies ahead.

Bahrain is at the physical and ideological crossroads of the Sunni and Shiah populations of the region. Its Shiah community - now about 65-70% of the population - has been deliberately diluted by the regime through its policies of facilitated immigration and accelerated citizenship for Sunnis. No GCC state has a similar population demographic, employment situation, sectarian situation, and unemployment situation (which is double that of the rest of the GCC). Although the uprising has not been initiated by Iran, the more than one century of Iranian meddling in its sectarian divide has had an impact. However, the rebellion is not expected to turn into a revolution; so, this situation is not seen as “a game changer”. Nevertheless, pressure from the

Saudis and the Americans has been mounting on the regime since a political precedent would be set - were it to lose control or be deposed. Bahrain will have to undergo some degree of democratization, with the establishment of new Sunni-Shiah balance of power- although the aspirations for political liberalization run through the Sunni-Shiah divide. Whether this happens through peaceful negotiation or through a renewed spasm of massive violence will depend on how imbalances are handled by the regime.

Although NATO's military involvement in the civil war in Libya creates additional stakes in the turn of events there and in the demoting of the regime of Muammar Qaddafi, Syria has become critical as the outcome of the ruthlessly repressed popular unrest will have regional consequences. The unraveling of the Syrian regime would have serious spill-over effects on the stability of its neighbors.

Countries like Tunisia, Egypt, Morocco, Jordan are in search of a new social and political contract as a basis for political stability in the medium and long term, as Arab political economies transition to the rule of law and government accountability.

The Middle East is facing a new reality that is not unlike what happened in Eastern Europe and Latin America; however, the democratic transition in these regions had

far more economic support from the international community. While the implications are hard to predict, at the end of the day people within the region will have a greater voice and greater opportunity to embrace political and economic modernity in a more robust manner.

Volatility and uncertainty will be the key operating words in the Arab world in the coming period, as the break with authoritarianism will not mean a seamless transition to democracy, and countries like Egypt might be oscillating between periods of reform and period of nostalgia for the authoritarian era.

The international machinery to coordinate responses to crises is under mounting pressure. The United States, often the leader in mobilizing other nations, is under tight budgetary constraints, which makes it more critical than ever to develop stronger regional and international institutions to help find new ways of encouraging investments and stability.

How can the gap between expectations and reality, between needs and resources, be bridged? Events are unraveling so rapidly in the Arab world today that the resources required to handle and to contain events will strain the global economy for the coming period.

The historic events in the Arab world have thrown the region into a race against time to meet some of the expectations that have been unleashed. The inability of the current systems to provide the requisite education and job training is going to create even greater pressure in the region.

The lack of leadership in all aspects of life in the Arab world has had a crippling effect, especially with regards to education and developing creativity. Future regimes will need to help develop the critical thinking that is essential to unleashing entrepreneurship and helping promote economic development. New leaders will also have to develop policies that encourage enough job creation – especially in the private sector – to absorb the unemployed youth.

Despite progress in some areas, growth in the region has not been inclusive: Nominal GDP growth has been accompanied by a widening of the wealth distribution gap in most Arab countries.

Large segments of the population have not been able to participate productively in their economies and societies, which have failed to create enough jobs for their young and growing populations. Before protests in Egypt began on January 25, unemployment among young, college-educated Egyptians

had reached a high of 33% – the 2nd highest rate in the world after that of Indonesia.

Unemployment has been exacerbated by high levels of corruption and oligopolistic economic practices that often prevent new and young talent from starting their own businesses, or that impede the growth of small and medium sized businesses. The limited integration of women in economic life in most countries of the region has also taken its toll, hampering growth the increase in standards of living.

In the same way, the lack of connectivity between the economies of the region and their insufficient integration into the global economy have also been major impediments to economic development that will need to be reversed as new regimes and governments emerging from the present turmoil will be engaged in a race against time to enable their countries to reach higher, more balanced and sustainable growth rates.

Additional dislocations are also taking their toll on regional economies since the revolutions erupted. For instance, the sudden collapse of the tourism sector in Egypt has put an estimated 2 million Egyptians out of work and will cause a 4-7 billion USD decline in revenues for 2011. In the same way, with its economy struggling to get back to normal activity after the revolution, Tunisia has to cope with the

impact of the flood of refugees created by the war in Libya.

Will the new spirit in the Arab world be translated into a long term force for change – in other words what are the prospects for this Arab spring? An ideological vacuum has been created and needs to be filled. Political parties can play positive roles in forming new transitional governments, but the ones which get organized first also have the potential to hijack control and introduce principles and policies far different from those underlying the calls for change today.

While 18 months ago, policy makers in Washington did not believe that the Arab Street was important or that it carried much weight, today its voice can no longer be ignored. Its expectations must be managed in the short, medium and long term to ensure a sustainable transition to participatory democracy. The economic environment and employment growth will play a critical role in managing expectations in the long term.

The Arab revolutions have not been about poor people, but they soon will be: The gap between rich and poor has widened significantly, eroding the power of the middle classes. Although this upheaval has been inspired by the educated middle class who has been disproportionately affected by the economic down-turn, the poor must not be forgotten. Egypt has been for a very long

time “a rich country with a lot of poor people”. Although none have occurred to date, bread riots are looming in an explosive pressure-cooker atmosphere.

Jobs will have to be the number one priority of Arab policy makers: The region needs to create 100 million new jobs over the next decade to absorb its “youth bulge”. As daunting a task as it is, creating productive jobs for the Arab youth is critical to ensuring growth and economic conditions that will help facilitate and sustain the political transition.

If the present economic stagnation in the Arab countries which are in the midst of political transition were to continue over the next few months, it will definitely hamper the region’s democratization efforts.

The democratization drive and the re-launching of economic development are inexorably linked and will – hopefully – be mutually reinforcing. Effective economic reforms and recovery through modernization must be matched with fundamental social and political transformation in order to promote opportunity and popular participation. The success of transitional governments is thus dependent on the kind of economic growth they will be able to engineer.

In the long term, closer economic integration within the region, and of the region into the world economy, will be necessary to create sustainable growth. Exports from all Arab nations combined to the rest of world are less than those of Sweden's, when excluding oil exports. A number of emerging market economies have recently demonstrated newfound economic dynamism – not just China and India, but countries such as Brazil, Russia, Turkey, Indonesia and Malaysia. The challenge for the Arab world will be to make sure that it is not left behind and that emerging social and political achievements be matched with economic progress.

The Arab world turmoil and its impact on the global economy

Events in the Arab world have frequently impacted world oil prices and energy markets which are driven in large part by political developments as well as by consumption trends and financial market speculation. Three out of the last five economic crises were generated by oil shocks. The impact of the oil shocks of 1973 and 1974 were felt across the international economic arena and the global economy, as were the commodities boom in 2004 and the increase in oil prices at the beginning of 2011 due to expectations of sustained high Chinese growth. The explosion of the Fukushima reactors – halting the

renaissance of nuclear energy in its tracks – as well as further projected turmoil in the Arab world have added a fear premium to the price of energy. ***And this fear premium will remain in the coming period.***

The Middle East holds the largest repositories of available investable capital. It will be crucial to know where those funds will be invested, what safe havens investors from the region will seek and what will be the nature of the investment flows in order to more accurately assess their potential impact on each state and on the global economy. With very few signs of a coherent economic strategy, we are likely to see asymmetrical growth and different reinvestment rates in the various economies across the region.

The confidence that existed over the geostrategic balance – the foundation for oil price stability – has been shaken, leading to greater speculation over the price of oil in the medium to long term. So far the disruption on oil production has been less than 2% of global output. However, the question is: What happens next? Yemen has an 1800 Km border with Saudi Arabia, and the turmoil is not yet abating there.

A scenario in which oil reaches 275-300 USD a barrel would likely lead to a deep depression in the world economy. This scenario might seem far-fetched. However, if oil prices ***move toward 175 USD a barrel,***

then the global economy will be in real trouble. growth in mature market economies would go back toward zero, emerging market economies would slow down dramatically, and global economic recovery will be dead, especially at a time when food and commodity prices are moving steadily higher.

Short term oil price instability is not likely to be problematic. However, whether price instability will be short-lived remains to be seen. Were gas prices at the pump in the US remain beyond 4 USD a gallon for some time, the Administration will have to consider using the Strategic Petroleum Reserves (SPR). Energy security may trump climate change as a global issue.

The major source of US oil today is from Canadian Oil Sands and not from the Middle East. While progress in exploring and extracting technologies has increased US production and important discovery breakthroughs of shale gas deposits in the US have assured about a 100 year supply of gas, continued increase in oil prices may help boost the development of new and cleaner technologies and energies. Substantial investments, especially by Chinese manufacturers, have been made in developing electric cars – this would not be occurring as rapidly if a fear premium had not been factored into the price of oil.

OPEC countries will have 1 USD trillion in revenues this year – a significant part of which they will seek to invest. Higher oil prices are allowing Middle East oil-exporters to increase economic stimulus packages and to distribute huge amounts of subsidies to help maintain tighter political control, but this will have numerous adverse consequences. For instance, the 134 USD billion Saudi stimulus package will lead to higher electricity consumption, increased weight of the public sector and a slow-down of the already timid reform process.

Saudi Arabia has announced large spending programs that will soak up a large part of its oil revenues premium – for instance it plans to hire 60,000 new people into public sector jobs. Much of the new employees will join the Ministry of the Interior, bolstering internal security.

The Saudi budget is not an issue in the immediate future; however, with its break-even point now at revenues from oil at 85 USD a barrel, the government will be running a deficit if the price of oil moves any lower. Events in Libya are not expected to have much of an impact on oil prices in the short term since the actual loss of exports is only about 2% of world exports.

In the last few years since the financial crisis, the growth of the global economy has been fueled largely by growth in the emerging market economies.

At the beginning of the year, the recovery was finally gaining some traction and there was a growing sense that the global economic recovery was moving forward. While this is still the case today, the accumulation of uncertainties and causes for volatility, from the turmoil in the Middle East to the disaster in Japan, and debt crisis in Europe, there is a lot less room for error:

Today, it wouldn't take much to derail a global economic recovery that is like a giant ship navigating too close for comfort to the shoreline.

Global monetary policies will have an important impact on increasing inflationary pressures. In a number of emerging markets, many central banks are playing catch up with increasingly higher inflation and the prospect of high growth with low inflation can no longer be taken for granted. *The present context is made even more uncertain as there is little evidence of enhanced global economic policy coordination:* Continued squabbling at the last G20 meeting detracted from the sense of cohesion and coordination that it was meant to provide. The IMF and World Bank

need to devise serious programs of reform aimed at developing transparency in business and better corporate governance rather than merely distributing funds.

The impact of global banking regulatory reforms is beginning to have a bearing on the availability of credit and is constricting economic growth, particularly as corporate credit has not yet begun to expand. Private investment will be needed to drive growth in the years ahead in non oil producing countries in the Middle East but will be hard to get in what may be an extended period of time, especially as measures are taken to get back illegally earned money from people who were close to regimes now deposed or under tremendous popular pressure. This is contributing to further dampen business confidence in most countries in the region. A balance must be found between returning the wealth to its rightful owners and further destabilization of potential investors.

The role of the United States

Historically, the United States has not always been perceived in the Arab world as playing a positive role given its support to Israel and also its support to totalitarian regimes at the expense of democracy for the last few decades. Many people on the ground feel that the US started only to support democratic movements across the region at the last moment – in Tunisia when Ben Ali had already left the country.

Although its special relationships with Israel and Saudi Arabia remains important, Washington is looking for new partners and interlocutors in the region as strains in the US-Saudi relationship begin to show, its warm relationship with Egypt is at best “on hold”, and the whole situation with Syria has to be revisited given the unrelenting turmoil in the country and the harsh nature of the regime’s repression. The United States is beginning to redefine its policy in the region as it needs to reassess the trade-off between its values and interests in the context of the region’s changing geopolitics.

The United States has announced that it will provide immediate economic assistance to help transitional governments in Egypt and Tunisia overcome initial challenges. It has already committed 150 million USD to Egypt. However, the US is unlikely to forgive or reschedule Egypt’s debt. Its budgetary constraints have limited its ability or desire to spend more money abroad or on growing needs in the Middle East. Debt forgiveness would require funds to be rechanneled from current commitments. The view in Washington’s official circles is that Egypt has a substantial amount of reserves and foreign assets on which it can depend for the moment.

In the medium term, as Egypt and Tunisia continue to transition toward more open political systems and build their democracies, they will need to develop

blueprints for sustainable growth, job creation, investment and trade. To this end, the US Overseas Private Investment Corporation will provide up to 2 billion USD to encourage greater private sector investment across the Middle East and North Africa, especially for small and medium-sized enterprises. The US Congress is also working on establishing Enterprise funds for Egypt and Tunisia that will support more competitive markets and provide businesses with access to critical low-cost capital.

While it is not a benign observer, the US is not scheming or conspiring to halt or impede political transition either. The United States has tried to adopt a balanced approach between supporting the leaders it has worked with in the past with supporting the aspirations of the Arab people for greater participation and democracy. The United States is in fact tailoring its response to events in the Arab world on a case by case basis, not bothering to stick to a coherent line and selecting when it can stand for human rights and against dictators – like in Libya – and when – like in Bahrain - its strategic interests collide with its stated policy of promoting human rights and it has to keep a cautious stance.

There is an enormous effort in Washington to try to understand what is going on in the region, to sort out events knowing that some governments are not going to be

there for long, that there is not anymore one person or one group that can speak for a given country. Until the 25 January uprising in Egypt, there were four regional powers in the Middle East: the United States, Israel, Turkey and Iran. Will the new paradigm still have the United States at the center of regional power? How far will the US continue to be in favor of the reform process in the Arab world, while knowing that it cannot claim to know where this reform process will lead?

President Obama's 2009 Cairo speech gave a voice and direction to US policy in the Middle East, but not much progress has been made since then. A 2nd "Cairo speech" would help clarify the US' position in the region, but would have more impact if delivered before the end of May, when Prime Minister Netanyahu is scheduled to address a joint session of the US Congress and will lay out the principles of his government's diplomatic and security policies. The unique opportunity that presents itself must be seized to seek a "real, lasting peace, not peace on paper", as the clock ticks on towards the scheduled September UN general assembly vote on a Palestinian state.

Investing in the Middle East?

The Middle East is competing with the global economy for investors and capital,

more so today than even before. The foreign investors will play an important role in dealing with an unskilled and underemployed work force, particularly in Tunisia and Egypt due to current economic instability. The huge youth bulge will prove to be either a promising or destabilizing force, but investors will wait to see what direction political events push the economies of the region before committing significant amounts of capital.

Bureaucratic red-tape and corruption, the lack of transparency and of rule of law remain the norm and add to the large misallocation of resources, in creating a poor environment for doing business in most countries of the region. There will be a "wait-and-see" attitude before foreign companies start again looking for investing significantly in the region.

No legal infrastructure exists for an Arab common market that could achieve the kind of economies-of-scale needed to compete on a global level. GCC countries compete against each other rather than cooperate with their neighbors. For most Arab countries, regional trade accounts for less than 10 percent of total trade. North African countries have the lowest percentage of intraregional non-oil trade, accounting for less than 5% of total trade.

Trade and investment ties between the US and Egypt, however, have promoted both

job and knowledge creation. The US also has FTAs with Bahrain, Jordan, Morocco, Oman, and Israel as well as additional Trade and Investment Framework Agreements (FITAs) and other bilateral agreements with many other countries that have helped on a regional level.

The Arab spring has for now pushed aside any notion of political or economic stability for the period to come. However, beyond the present uncertainties and the risks, a number of medium to long-term prospects cannot be ignored: The Arab world has a population of 350 million people, 50% of which is under the age of 25. This demographic factor – with its potential for providing overwhelming impetus for growth – requires tremendous infrastructure investment and build-up. Spending in education and infrastructure should represent between 5-7% of GDP, and failure to do so has led to persistent economic underperformance across the region in general. For instance, Saudi Arabia's population has nearly doubled since the 1980s with no significant increases in fundamental infrastructure. The Kingdom has only just recently begun to invest heavily in new development projects.

Telecoms are being developed across the Middle East, but there is a lack of high-speed broadband. The US is using 4G telecom systems – allowing for ultra-broadband Internet access, streaming video

and multimedia, and comprehensive mobile broadband solutions – while the Middle East is still only at the 2G level systems. The development of high-speed broad band would allow some Middle East countries to compete in BPO activities which have the potential for rapid job creation. Studies have shown that a 1% increase in internet translates into a 4.3% increase in commerce and that a 10% increase in broadband penetration translates into a 1.4% increase in GDP.

In the same way, consumer products producers cannot ignore Egypt and the Middle East as a whole – with the significant potential for pent up demand that the region represents.

Foreign investors are looking at countries that have the required growth drivers to ensure maximum returns on their investments. India, in the last 15 years, and China, in the last three decades, have had one common prominent factor in explaining their high growth rates: the restoration and development of a culture that values wealth creation. As this mindset has taken roots in these respective societies, entrepreneurship and SMEs have begun to flourish, and – whatever the existing shortcomings – the basic business environment in China and India became propitious for investment, both domestic and foreign. The Arab world is in dire need of developing this culture of

entrepreneurship to serve as a building block for its own economic growth.

Developing this culture becomes easier when citizens have an incentive to create their own jobs and businesses rather than just wait in line for government jobs and money. As long as large percentages of the population consider that it is still more profitable to remain dependent on the state, the Arab world will not develop the skill sets required to move forward economically.

However, the present situation provides a good opportunity for GCC countries to play a more important role in the Arab world economies

The Arab world is entering a new era of uncharted waters. It is difficult to predict how, and in what direction, events will evolve.

The region that might emerge five years from now could be fundamentally different from what we expect. With the opening of the political space in the region a number of new parameters have now come to be taken into account. However, the management of the transition has first of all to be oriented towards economic re-activation, to be able to safeguard the political transition and orient it positively.

Looking at some key signposts

In trying to assess how the Arab spring will evolve in the coming period, there are some important determining factors that will be worth watching for:

How will economic activity evolve in the next few months? Will there be some revival of the tourist industry in Egypt, how will the private sector accommodate itself with the new situation and how fast will they be able to get back to “normal”. Complementary to that is the key issue of the ability of the transition government to restore a sense of stability and confidence to help investment to take place again, and government policies that will help support existing SMEs and the creation of new ones.

✓ ***How will the presidential elections and the constitutional reform processes fare in Tunisia and Egypt?***

Will the people who went to the streets to overthrow the previous regimes in Tunis and Cairo feel that their expectations are being met or will they feel betrayed and launch another round of protests and agitation? An orderly presidential election process will be crucial to set the necessary institutional process in motion, to recreate a sense of stability and reliability on the domestic front as well as in the eyes

of the international business community.

- ✓ ***How will political Islam be integrated in the new political structures being put in place?*** This is also where the constitutional reform process and the forthcoming presidential elections in the two countries come into play as a crucial test. The Muslim Brotherhood – and similar organizations throughout the Arab world – are bound to be important political players in the region. What is the balance of forces that will emerge between the young, modernist, wing of the Brotherhood and the more radical wing? And – as a result of that – how will Islamist forces play the game?
- ✓ ***What will be the outcome in Libya and Syria in the coming weeks and/or months?*** Although Libya is not “strategic” in the present context, a continuation of the fighting in the country could create a significant destabilization element in the already difficult situation in Tunisia and Egypt by the flow of refugees that would continue to flee Libya. If Muammar Qaddafi and Bashar Al Assad are able to cling to power for a longer period of time through bloodshed and repression, this will also send the message that

the Arab spring forces can be contained and will further fragment the Arab world between blood-soaked dictatorships, countries going through democratic transition and monarchies trying to preserve some kind of uncertain status quo.

- ✓ ***What kind of support will the US and Europe be able to provide to sustain the political transition processes?*** The effectiveness and targeting of economic assistance to create the maximum immediate impact will be as important at the official amounts devoted. Rhetorical flourish about the benefits of democracy will be of no use if the people in Egypt and Tunisia – and other countries joining the transition process – feel that they have been left alone, struggling with their economic deprivation. In that respect, another question is whether or not the GCC oil producing countries can be made to understand that it is in their interest to see Egypt and Tunisia stabilize and thus contribute to the economic assistance effort – and to invest.
- ✓ ***Last but not least, how will the US be able to reassess its interests and fine tune its policy – or policies – in a region which will evolve in a very diversified – even fragmented – way***

in the years ahead? Will the Obama administration, absorbed in its domestic priorities and focused abroad on its involvement in Afghanistan and its relationship with China, be able to devote enough attention and resources to regaining some initiative in the Middle East? It is one thing to claim, in an initial phase, that Washington stayed largely on the sidelines because it did not want to be seen as trying to pull the strings in Tunisia and Egypt; it would be another thing to fail to come up with a political vision of how the US looks at its role and relationship with an Arab world undergoing a historical transition. In that respect, a key test will be whether the US will just be waiting for a vote on a Palestinian state to be taken at the next General Assembly of the UN in September or it will manage – before that deadline – to take an initiative on the Israeli-Palestinian conflict that will reaffirm the centrality of its role and reassert its credibility – thus boosting the forces for modernist change in the region.

A Special Arab Roundtable

The Arab World in a New Era:
Assessing the key Implications

Ritz Carlton 1150 22nd Street, N.W., Washington, D.C., 12-13 April 2011

| Tuesday 12 April 2011 | |
|-----------------------|---|
| 18.30-19.30 | Participant registration Welcome drink |
| 19.30-21.30 | Public opening dinner <i>The end of “business as usual” and the start of a new era for the Arab world: What does it mean?</i> <i>Keynote speech:</i> Robert Hormats , Under Secretary of State for Economy, Energy and Agricultural Affairs, US Department of State, USA <i>Moderator:</i> Khaled Abdullah-Janahi , Group CEO, Dar Al Maal Al Islami, Switzerland |

| Wednesday 13 April 2011 | |
|-------------------------|---|
| 08:30-10.30 | Private roundtable <i>A new geography of volatility and instability?</i> <i>Where do we stand? A country by country survey</i> <ul style="list-style-type: none"> • <i>The race against time to meet exploding expectations</i> • <i>The challenge of integrating political Islam</i> • <i>The challenge of creating or re-shaping institutions</i> • <i>The road to a new “normal”</i> |

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| | <p>Discussion leaders:</p> <p>Khaled Abdullah-Janahi, Group CEO, Dar Al Maal Al Islami, Switzerland</p> <p>John Duke Anthony, Founding President & CEO, National Council on U.S.-Arab Relations, USA</p> <p>Malik Dahlan, Principal and Chief Lawyer, Institution Quraysh for Law and Policy, Qatar</p> <p>Shadi Hamid, Director of Research, Brookings Doha Center and Fellow, Saban Center for Middle East Policy, Brookings Institution, USA</p> <p>Mona Makram-Ebeid, Professor of Sociology and Political Science, American University of Cairo and Former Member of Parliament, Foreign Affairs, Egypt</p> <p>Vali Nasr, Professor of International Politics, Fletcher School, Tufts University, USA</p> <p>Shibley Telhami, Anwar Sadat Professor for Peace and Development, University of Maryland, USA</p> <p>Moderator:</p> <p>Riz Khan, Anchor, Al Jazeera English Channel, USA</p> |
| 10.30-11.00 | Networking break |
| 11.00-12.30 | <p>Private Roundtable</p> <p><i>The Arab world turmoil and its impact on the global economy</i></p> <p>Discussion leaders:</p> <p>Shamshad Akhtar, Vice President, Middle East and North Africa Region, The World Bank, USA</p> <p>Charles H. Dallara, Managing Director, Institute of International Finance Inc, USA</p> <p>Daniel Yergin, Chairman, IHS Cambridge Energy Research Associates, USA</p> <p>Moderator:</p> <p>Al Larson, Senior International Policy Advisor, Covington & Burling and Former Under Secretary of State for Economics, US Department of State, USA</p> |

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| <p>12:45-14:30</p> | <p>Public luncheon</p> <p><i>What should the US do? What can the US do?</i></p> <p>Keynote speakers: Frank Anderson, President, the Middle East Policy Council, USA</p> <p>Wendy Chamberlin, President, Middle East Institute, USA</p> <p>David Hamod, President and CEO, the National U.S.-Arab Chamber of Commerce, USA</p> <p>Hussein Hassouna, Ambassador to the United States, League of Arab States, Egypt</p> <p>Moderator: Claude Smadja, Founder and President, Smadja & Smadja, Switzerland</p> |
| <p>14.30-16.00</p> | <p>Private Roundtable</p> <p><i>How should investors look at the Middle East now?</i></p> <p>Discussion leaders: Justin Dargin, Research Fellow, The Dubai Initiative, The Belfer Center for Science and International Affairs, Kennedy School of Government, Harvard University, USA</p> <p>Theodore H. Kattouf, President, AMIDEAST, USA</p> <p>Marie Royce, Senior Director for International Affairs, Alcatel-Lucent, USA</p> <p>Sheikh Khaled Bin Zayed Al Nahyan, Chairman, The Bin Zayed Group, UAE</p> <p>Moderator: Hisham Melhem, Washington DC Bureau Chief, Al Arabiya News Channel, USA</p> |
| <p>16.15-17.30</p> | <p>Private Roundtable</p> <p><i>Gradual stabilization or more chaos and unpredictability? Mapping out an uncertain transition in the Arab world</i></p> <p>What are the signposts to watch in the coming weeks and months?</p> <p>Discussion leaders:</p> |

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| | <p>Khaled Abdullah-Janahi, Group CEO, Dar Al Maal Al Islami, Switzerland</p> <p>Shafeeq Ghabra, Professor of Political Science, Kuwait University, Kuwait</p> <p>David Pollock, Senior Fellow, Washington Institute for Near East Policy and Advisor to Pechter Middle East Polls, USA</p> <p>Tarik M. Yousef, Dean, Dubai School of Government, UAE</p> <p>James J. Zogby, Founder and President, the Arab American Institute (AAI) and Senior Analyst, Zogby International, USA</p> <p>Moderator: Claude Smadja, Founder and President, Smadja & Smadja, Switzerland</p> |
| 17.30-18.00 | Farewell drinks |