

October 31 1994

OUTLINE: REGIONAL DEVELOPMENT IN THE MIDDLE EAST

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Mr. Chairman, Your Excellencies, Ladies and Gentlemen:

I would like to express my gratitude to His Majesty and the organizers for being invited to participate in this extraordinary event. The peace process makes this conference possible--and this conference in turn can help strengthen the peace process.

I will make two important points in my presentation:

First, despite the pessimists, this region has great economic potential;

Second, to exploit that potential, it is necessary both for countries to follow the right policies and to build an institutional infrastructure to support growth and cooperation. The proposed regional development bank can play a key role in the creation of that institutional framework.

1. It is easy to denigrate the economic potential of the Middle East, and it is easy to denigrate the possibilities of economic cooperation in the region. Here is the pessimists' case. Despite oil, the region is not a very rich one. Per capita income in the region has hardly grown over the past decade. The volume of intra-regional trade is minuscule, and there is no good reason for it to increase. Distances are enormous, communications are poor, the region's natural trading partners are outside the region.

¹First Deputy Managing Director, International Monetary Fund. This is the outline of a presentation made at the Middle East/North Africa Economic Summit in Casablanca, October 31 1994. (Presentations were limited to five minutes.)

There have been numerous attempts to set up regional or sub-regional free-trade areas or common markets, and almost all of them have failed; the region is riven by strife and historical hatreds.

2. That is an easy story to tell; indeed I have told it myself. But it is the wrong story. The truth is that there is much to be gained by regional cooperation. The gains are economic, political, and--as everyone who has watched the peace ceremonies in this region knows--the gains are also human.

3. Let me start with some economic facts about the Middle East. For purposes of this discussion let me define the region as consisting of the members of the Arab League plus Israel.

- First, the population of these countries in 1992 was about 250 million. Their GDP in 1992 was about \$600 billion, bigger than that of Canada or Spain, and about 2/3 the GDP of the United Kingdom. The biggest economy in the region is that of Saudi Arabia, with a GDP of \$110 billion in 1992. Israeli GDP was \$70 billion, about 12 percent of the regional total.
- Growth has indeed been slow for the last decade. The Arab countries have grown at under 2 percent per year over that period, with several of them experiencing negative per capita growth; the Israeli growth rate since 1983 has averaged 4 percent, which is 2 percent per capita.
- Total exports by the countries of the region, including exports to countries within the region, amounted to \$145 billion in 1992. But

the volume of intra-regional trade was indeed small, amounting to less than 5 percent of the total.

- However, there is an extensive trade in services within the region, primarily labor services.

4. The right conclusion to draw from these facts is that this is a large and important region, which has great potential, much of it arising from the gap between the current situation and potential.

- A GDP of \$600 billion is large.
- Economic performance in the region as a whole has indeed fallen short of potential, but some countries in the region have done better recently. Where economic policies have been strengthened--and the needed policies are well understood, as in Morocco, Tunisia, Jordan, and in important respects Egypt, economic performance has improved.
- This is not the only region in which earlier regional cooperation attempts have failed. Regional arrangements will succeed when carried out in a context of multilateral liberalization. And now, in this region as elsewhere, some of the regional groupings, particularly the GCC, are doing better.
- There are genuine capital-labor complementarities in the region. There is a large stock of Middle Eastern capital outside the region; with domestic economic liberalization and stability, part of it will come back. The Gulf needs only redirect a small part of its portfolio to make a major difference in the northern Middle East.
- This is the start of a new era. As the economic and political barriers to trade come down, and precisely because the level of

intra-regional trade is so small, we can rely on businessmen to take advantage of new opportunities and thereby increase the volume of intra-regional trade.

In brief, the region is operating nowhere near its potential--this can be a dynamic part of the world economy.

5. The Middle East Bank

1. The need for an institutional framework.
2. Why a development bank?
3. What will it do?
4. The big questions: regional membership, etc
5. Cooperation with IFIs.
6. The way ahead.
7. The need to move fast.

6. We should make no mistake about the importance of the decisions that will be made in this conference and elsewhere in the region in the next few months. The region stands at a crossroads. One way lies cooperation, economic growth, and modernization--a modernization that permits each country and culture to live according to its beliefs and traditions. The other way lies continued strife and misery.

The choice is clear. This conference and the decision to set up a regional bank represent the path of peace, cooperation, and prosperity. We must act to make sure that is the path that is taken.

