

# Mideast leaders defend free market at economic forum

**Despite capitalism's recently damaged reputation, participants at the World Economic Forum on the Middle East this weekend agreed that minimal regulation was key to growth.**

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*DEAD SEA, JORDAN* - With US policymakers focusing on bailouts, stimulus measures, and expanding social welfare programs, it can be easy to believe that the whole world's economic agenda has changed. But in Jordan and other countries in the broader Middle East, the drive for economic liberalization is alive and well.

At the World Economic Forum on the Middle East this weekend, the economic crisis and reforming institutions dominated much of the agenda – but for many of the participants, reform meant pushing for freer trade, more foreign investment, and minimal regulation.

"I hope governments do not take what has been happening in the last eight months as an excuse to interfere more with business," said Khalid Abdulla-Janahi, chairman of the Ithmaar bank in Bahrain, in a panel discussion at the Forum. "[allow governments to come] in again, that is going to be the biggest damage that we're going to have [from the crisis]."

And the panel on reforming financial markets concluded that "regulation may, in fact, create more problems in the short and long terms, especially vis-a-vis the pre-eminent goal of furthering economic growth."

## WHY THE DISCUSSION IS DIFFERENT IN THE MIDDLE EAST

There are many reasons the discussion in Jordan sounds very different from the one in Washington.

For one thing, says Mahsood Ahmed, regional director for the International Monetary Fund (IMF), Middle Eastern nations simply weren't hit as hard by the crisis. The IMF is predicting growth in the region will slow down to about 3 percent for the oil exporters, and 2 to 2.5 percent for the non-oil economies. That's down significantly from recent years, but it's still not contraction.

Another reason is that the non-oil producing states of the Middle East simply don't have the cash for bailouts and stimulus packages; their budgets rely on foreign investment, foreign aid, and remittances.

But perhaps most important, the Middle East has a pressing concern that Europe and North America don't: a massive youth boom. According to one estimate floated often at the forum, the Middle East will have to generate 100 million new jobs in 10 years – and it only has about 100 million jobs now. Youth unemployment in Jordan is currently at about 73 percent, according to a report on the topic released this week by the Middle East Youth Initiative.

The youth bulge was perhaps the most-discussed topic at the Forum, and another major argument for open markets: liberalization fueled the high growth rates of the past decade, the reasoning goes, so more liberalization is needed to create jobs for millions of young people.

"The only sustainable way to provide jobs for the young and growing population is by encouraging a lot of small and middle enterprises, and private sector activity," says Ahmed. "And the role of governments has been to create the regulatory framework and infrastructure and support that would make that possible."

Over the past decade, many Middle Eastern countries have been involved in IMF structural adjustment programs, which offered them economic support in exchange for liberalizing, or "reforming" their economies. The progress of those reforms hasn't always been even, but open markets and foreign investment have become rallying cries that neither Arab businessmen nor governments are likely to give up, analysts say.

## JORDAN'S FREE-MARKET SUCCESS

Jordan accepted an IMF structural adjustment program after it had its own debt crisis and currency collapse in the late 1980s. Since then, it has heavily promoted its liberalism in a bid to attract foreign investment. It embarked on an ambitious program of privatizing state-owned industries, joined the World Trade Organization (WTO), opened a free zone

in the city of Aqaba, and embraced public-private partnerships to implement everything from municipal projects to tourism developments.

The drive for foreign investment is evident at the forum, where the Jordan Investment Board has set up a huge booth in the central hall. Their brochures tout the country's "reformed and liberal legislation" and "streamlined regulations and procedures."

And in Jordan, at least, the effort has been fairly successful, earning good reviews from the IMF, and contributing to the country's huge currency reserves in 2007 and 2008.

According to members of the government, those reformed markets are what enabled Jordan to weather the financial crisis.

"The reforms that we've had over the past 10 years will help us take the shock of this year, and accept a high deficit," said Finance Minister Basem Al Salem, in a panel discussion. The priority now, he said, was to continue those reforms.

"We're concentrating very much on the reform process ... to make Jordan a very competitive place to invest in," he said.

Egyptian Minister of Trade and Industry Rachid M. Rachid responded that his country's situation was very similar.

"If we had not done the [structural] reform in the last 10 years, we would be in a really terrible situation," he explained. "By letting go of the government, giving more space to a private sector ... we created confidence, we created momentum.... If we are reform-minded and we want to continue [opening up the economy], we should not miss this fantastic opportunity of a crisis."

## CONSERVATIVE BANKING HELPED MITIGATE THE CRISIS

But while it's true Middle Eastern countries haven't yet been hit as hard as the rest of the world, most analysts, including Ahmed, say this was actually because their banking sectors were very conservatively regulated, and weren't involved in the kind of dubious financial products that caused problems for more open economies.

"The region has been extremely prudent," said Loay Nazer, chairman of the Saudi Arabia-based Nazer Group, in a televised discussion panel. "A big part of monetary and fiscal policy is determined by very conservative governments."

But Mr. Nazer is also among those who says that this crisis will be an opportunity for more deregulation. "We need to be less conservative going forward, because if we don't take advantage of the opportunity we have right now," we won't see the benefits in the future, he said.

Mr. Abdulla-Janahi also said he worried that more banking regulation would make Middle East banks "uncompetitive."

But some at the forum did say that free-market reforms were a harder sell than they used to be.

"It is becoming much more difficult now to push [for] reform," Nazer said. "Many people say, if we had not been integrated [into the global economy] we would not have felt the crisis."

"People are citing the experience of Saudi Arabia, which because of its conservative policy, and not being as liberal or as opened up, was protected, in a way, against the major crisis that happened – compared to a place like Dubai, which was more open," said Henry Azzam, Deutsche Bank's CEO for the Middle East and North Africa, just before the panel discussion on finance reform.

"But again, if you are conservative, on the way up, you will be conservative on the way down, and you will not benefit when the crisis ends," Mr. Azzam added.