Global Policy Essay, August 2013

The Arab Spring Can Bring a Demographic Dividend: That is Good for Business and Investors

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Abstract
For decades the Arab Middle East was seen as resisting economic liberalization. Once it opened its doors to economic liberalization and foreign investments, the region failed to achieve inclusive economic growth. The Arab Spring, in part, was borne out of people's frustrations with non-inclusive economic growth. It is argued that the 'relative deprivation' felt by many of the Arab masses was a contributing factor to why the Arab people chose to rise against their governments. While the region is in a period of difficult transition, there is reason to be hopeful and optimistic that the Arab Spring will lead to progress. The Arab Middle East is going to experience a demographic dividend: economic growth due to its educated, youthful population. The challenge for policymakers will be to ensure that this is productive economic growth and to not repeat the errs of past mal-investments into non-productive sectors.

Policy Implications

- Policymakers in the Middle East and North Africa need to recognize the importance of creating policies that unlock the potential of the burgeoning youth population of the Arab World. Doing so would increase economic growth and help to create happier, more stable, and inclusive societies. Failing to do so will lead to high unemployment and unrest.
- In order to enhance economic opportunities for youth, it is critical that states in the Arab World work to further integrate their economies into the broader global economy so as to increase inflows of foreign direct investment. This would help to increase the productive capacity of youth there, while also imparting knowledge and technical know-how into the population.
- Governments should identify opportunities to work with the private sector so as to maximize investment in physical infrastructure and tailor education efforts geared toward benefiting from the interconnectedness of country economies. Improving infrastructure and knowledge within economies will promote movement and innovation, allowing for increased productivity and helping to alleviate unemployment, particularly among Arab youth.
- Governments need to ensure that the jobs they pursue run in line with the cultural and educational expectations of their youth. Undesired jobs will not help to alleviate unemployment and will create friction between nationals and foreign workers.

The causes and determinants of the political revolutions sweeping the Arab world are still too complex and nascent to explain with the definitiveness of an academic analysis. Yet there is an overwhelming belief that economic factors are a key part of the larger puzzle of the events of the Arab Spring. In many transition countries, the Arab Spring was not instigated by the poor underclass of the Arab world; instead, it was the educated, unemployed, disenfranchised, and likely lower middle class youth of the region that took to the internet and the streets to protest. The Arab Spring started in countries that had economic growth and were leading economic reformers: Tunisia, Egypt, Libya, and even Syria were 'successfully liberalizing' their economies, according to the World Bank, the IMF, and rating agencies. But the revolutions hit these same countries where the elite did not distribute the economic growth to the masses at a pace that met the rising expectations of the educated youth. Undoubtedly, other factors have included autocratic governments and abuses by policy and security forces. Nevertheless, a key factor to understanding the revolutions is to understand the underlying economic factors of the Arab Spring..

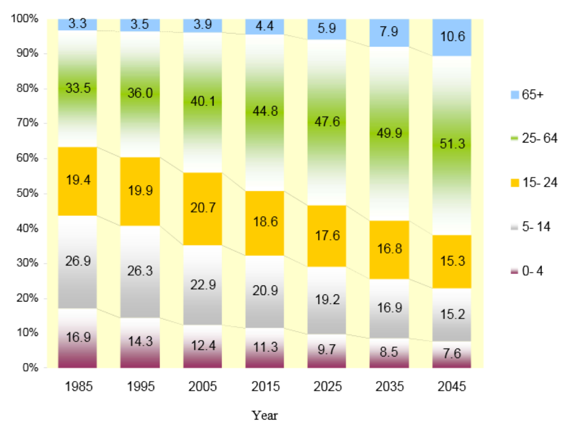
What does this Arab Spring's economic determinants say to foreign investors who want to invest in the Arab world? Undoubtedly, the non-oil producing Arab world needs foreign investment to provide technological know-how and innovation in short-supply throughout the region's production value-chains and energy facilities. Doing so would create labour-intensive jobs, augment the technical and post-secondary education sector, and lead to investment in infrastructural development projects needed in meeting urbanization challenges such as transportation, housing, food security, and sewage systems. There is simply not enough domestic capital and know-how to generate the kinds of employment and productive capacity needed to meet the needs of many Arab people that live in non-oil producing countries. Foreign investment is needed to the produce the kinds of economic growth sought by many job-seeking Arabs, but not all foreign investment is created equal. The lesson for businesses who have a longstanding presence in the Arab world is to invest in increasing the productive capacity of the Arab world. There is immense opportunity with an educated and eager workforce ready to become a powerful force of consumers and producers in the global economy.

While the region is in a period of difficult transition, there is reason to be hopeful and optimistic that the Arab Spring will lead to progress. The Arab Middle East is soon going to experience a demographic dividend: economic growth due to its educated, youthful population, coupled with declining fertility rates. The challenge for policymakers will be to ensure that this is productive economic growth and to not repeat errors of past mal-investments into non-productive sectors.

Hope after the Arab Spring: A Demographic Dividend

Despite the socioeconomic difficulties facing the Arab youth today, it is argued that the Arab world will likely experience a demographic dividend. Arab societies are young, increasingly modern, and increasingly more educated; this can be a future asset, and not a liability. The Arab world's younger demographics suggests that they will likely become the main catalysts of a growing economy. In contrast, a very young or very old population means a high proportion of income goes towards consumer spending, leaving less to national savings and to national investments in productivity and innovation. "Economic growth improves only when the growth of the working population is almost double that of the total population" (ESCWA, 2008, 7). Throughout the Arab world, the first age band (0-14) is shrinking and the aged group band (65+) is growing negligibly, but the age band (25-64) is expanding (See Figure 1). This is an opportunity for economic growth and development. In contrast to the Arab world, the West, Europe, Japan and even China face a future of high dependency ratios, and so we are seeing economic growth shifting from one economic pole to the emerging market economies.

Figure 1: Trends in the age structure of the population in the Arab countries (1985-2-45)



Source: UNDP, 2008.

http://www.arab-hdr.org/publications/other/escwa/demographic-change-08e.pdf

Given this young demographic (with ages ranging from 25-64), low dependency ratios and rapid economic growth can be expected for at least the next 25 years. As many countries of the Arab world will have increased both individual and national savings, it will become more hospitable to foreign and domestic investments. It is forecasted that by 2015, the labour force will be composed of 62 per cent of the population, a labour force increase of 4.7 per cent (or an increase of 105 million people). By 2050, almost three quarters of the Arab Region will be urban. This development is promising for the creation of economies of scale as urban areas spark consumption and innovation.

Seeing the Arab Middle East as a potential for economic growth and success has not always been easy for businesses. However, Vijay Mahajan (2012) in *The Arab World Unbound: Tapping into the Power of 350 Million Consumers* argues that the region is a flourishing marketplace that is ripe with business opportunities. As Mahajan points out, the Arab Middle East has 350 million consumers, and as a region it ranks as the world's ninth-largest economy. In contrast to common misperception, the region's cultural uniqueness is not a barrier to businesses, but instead can be seen as an opportunity to create vibrant and innovative new products and services (Mahajan, 2012). These sectoral opportunities are discussed in turn.

Middle East stock markets have become seen as a "new frontier" for economic exploration (Slater, 2007 cited in Meric, Ratner, and Meric, 2007: 61). Today they provide attractive portfolio diversification and optimization opportunities for investors (Meric, Ratner, and Meric, 2007; Abumustafa, 2008; Mansourfar, Mohamad and Hassan 2010). The impact of the financial crisis on Middle Eastern markets has varied by country, depending on the level of market maturity and openness (Neaime 2012: 269; Onour 2009: 2; Mansourfar, Mohamad and Hassan 2010: 417). Moreover, although the Dubai debt crisis seems to have slowed market recovery following the global economic downturn, and fluctuating oil prices often create volatility in localized economies (Onour 2009: 2-3), interest in Middle Eastern markets, while relatively constrained, is likely to increase given increased market integration (Abumustafa 2008: 229-230; 235-236).

Greater liberalization has made the banking sector in the Arab Middle East one of the fastest growing industries in the world (Al Shaher, Kasawneh, and Salem 2011: 101-102; Imam and Kpodar 2010: 14; See also Neaime 2012: 269). The expansion of Islamic banks during the 1980s and 1990s (Bashir 2003: 31) has also allowed what was once a niche market to develop into a key sector of emerging economies throughout the region (Imam and Kpodar 2010: 6; C□ihák and Hesse 2008: 3; Hell 2006). Since the Arab world has generally been characterized by a lack of well-functioning financial institutions, Islamic banking – governed as it is by Shariah law and thus removed from the problems plaguing poorly-functioning institutions – has proven to be a welcome and innovative solution that complements conventional, interest-based banking (Imam and Kpodar 2010: 20; Ali 2010). According to one IMF study, "[b]ecause Muslim populations are [have underdeveloped banking infrastructure], and given the tremendous need for infrastructure projects like roads and housing across the Muslim world, development of Islamic banking can spur growth in these regions and can be part of the solution to the slow development process" (Imam and Kpodar 2010: 20).

Across the Arab Middle East, intergovernmental organizations have a role to play (Mirow 2012), but it has indeed become clear that the public sector alone cannot meet the demands of current infrastructures (Shah 2010: 40-42; Woods 2011; Imam and Kpodar 2010: 20; Barkatali and Pring 2009: 53). Constrained by limited finances, demands for private-sector employment and pressure from citizens to improve the conditions of their cities (Woods 2011), many states have begun to encourage private sector investment in the development of basic infrastructure (Woods 2011; Barkatali and Pring 2009: 53-54; Shah 2010: 40). To be sure, the emergence of Middle Eastern airlines as serious competitors on the world stage has been impressive, and there is little doubt that Middle Eastern carriers are steadily redirecting international traffic flows to use the region as a hub (Vespermann, Wald and Gleich 2008; Murel and O'Connell 2011). Specifically, the Gulf airlines such as Qatar airways, Etihad, and Emirate Airlines, have been effective in this strategy. Attracting international travellers through the region, either as a node to another destination or as a final destination, is a key goal of many Middle East airlines. The positive spillover effect of this can be to bring more tourist dollars and investment into the region, increase the visibility and cosmopolitan nature of Middle East cities, and encourage foreign investment as business-to-business ties are facilitated by direct links to the region. Similarly, the Burj Khalifa, the world's highest skyscraper, is a testament to Dubai's architectural ingenuity (See Murel and O'Connell 2011: 37). On the other hand, projects well-suited for public-private partnerships (PPPs) can ease the economic burdens of these larger scale developments (or "mega projects") and range from construction, water management and mass transit to education and healthcare (Barkatali and Pring 2009: 54; Woods 2011).

When implemented with proper institutional frameworks in mind – in areas such as financing, bidding and evaluation processes, risk allocation and institutional capacity (Woods 2011) – PPPs inject much-needed revenue into local economies and help close funding gaps in infrastructure development projects (Woods 2011; Shah 2010: 42). As Shah notes, “PPPs in other countries have already demonstrated their ability to create jobs in the private sector, [and] provide higher quality services and facilities for citizens and stakeholders” (2010: 40). Success stories of Middle Eastern PPP include developments in the power and water sectors in the UAE, Saudi Arabia and Oman (Woods 2011) and, notably, the multi-billion dollar modernization of Madinah Airport in Saudi Arabia (Woods 2011; International Finance Corporation 2012).

The Arab Middle East is also home to some of the world’s most important reserves of oil and natural gas. Great though these reserves may be, they are not distributed evenly throughout the region and have not come out unscathed from the credit crisis (Barkatali and Pring 2009: 53). Here too the trend has been to explore PPPs (Shah 2010: 42-43; World Economic Forum 2005: 28 - 29, 37, 47). Sources of sustainable or “green” energy are also now being explored with PPPs in mind. These include wind projects in Morocco and Jordan and Abu Dhabi’s Shams 1 solar power plant project (Barkatali and Pring 2009: 53). Others state the case more strongly, arguing that in order for sustainable energy to remain competitive, more privatization is needed (Aslania, Naaranojaa and Zakeri 2012).

The Middle East’s telecom industry is now approaching maturity; revenue growth in this sector is slowing and the mobile penetration is near saturation (Booz & Company 2011: 4). With saturation come higher demands for better services and products (Sabbagh et al. 2010: 1), and in fact the demarcations between telecommunications and the Information and Communication Technology (ICT) market are becoming increasingly difficult to identify given the overlap of the technologies involved (i.e. smartphones). Current indications are that the ICT market in the Middle East has one of the highest growth potentials in the world; in 2010, the ICT sector was valued at US$81 billion, but is on track to reach $173 billion by 2015 (Booz & Company 2011: 2). Many observers have recognized that the ICT sector has emerged as a key industry for the region’s social and economic future (Booz & Company 2011: 4-5; Dutta and Coury 2003: 117). The Middle East has, for example, one of the fastest growing communities of online gamers in the world, and demographics indicate this is likely to remain true for many years. Indeed, despite differing levels of engagement, awareness, or importance (Dutta and Coury 2003: 126), for public and private actors alike, development of the ICT sector remains a top priority given its potential for job creation, technological innovation, content development and (as seen in the events of the Arab Spring and its ICT-savvy youth, but also more generally in terms of enabling civic engagement) its capacity to help bring about social and political reform (Booz & Company 2011: 4-5; Dutta and Coury 2003: 117; Gianfranchi and Keramane 2005).

Finally, the significance of the hospitality and tourism industries in the Arab Middle East cannot be overlooked, given that investment in these sectors has proven to be a lucrative strategy for economic development and diversification (Imani-Kalesar 2010: 106; Abu Aliqah and Al-rfou', 2010: 173; Hazbun 2004: 313), and particularly given the diversity of the region’s historical, cultural and natural landscapes (Hazbun 2004: 323; Imani-Kalesar 2010: 106). Studies have shown that in addition to infusing local economies with hard currency and supporting infrastructure development, the hospitality and tourism sectors provide important employment opportunities to precisely those most in need of it: minorities, women and youth, which does not necessarily mean they would be satisfied with these potential job offers (Abu Aliqah and Al-rfou', 2010: 173; Imani-Kalesar 2010: 106).

Here, in the opportunities presented by these various sectors, the Arab Spring represents a positive political force. Elected governments will need to shift their focus on improving domestic affairs: specifically, jobs, jobs, jobs. Fostering skill formation and having education curricula work in tandem with market needs will help to address the ailing problem of youth unemployment. In many countries, the quest for improvement begins in trying to respond to the needs of private sector employers and focus on promoting writing skills, critical thinking, and problem solving. There are a number of recent initiatives to build private-public partnerships to enhance the quality and relevance of education, but these need to be scaled up for impact. One such promising initiative is Injaz, a partnership between Ministries of Education and the private sector that enables business leaders to teach marketable skills to high school and college students, including basic business skills, teamwork, leadership skills, and entrepreneurial thinking” (IMF, 2011). Injaz seeks to enhance education curricula, through improving young people's writing, critical thinking, and problem solving to assist students entering the job market. While this initiative does not solve structural unemployment, this does address the criticism of some private sector employers that the region's workforce is in need of better critical thinking skills.

Despite this core argument, policy challenges to capitalizing on this 'demographic dividend' do exist. For instance, Arab countries must create 94 million jobs by 2030 (roughly 5 million jobs per year) just to avoid increasing already high employment rates. Equipped with a growing consumer base of young people that are highly educated, but are a relatively inexpensive workforce, Middle East countries are yearning for human capital investment. Arab governments need to innovate, promote entrepreneurship, and channel investment into labour intensive sectors.

It has become necessary to introduce reforms in macroeconomic policy and in financial institutions to encourage individuals to save and invest. Regardless of past structural reforms, Arab economies lag in their efforts to attract foreign investment. In fact, they compose no more than one per cent of foreign investment at the international level and roughly two per cent of the developing country share. According to the IMF, the future of investments in the region depends on the current process of privatization and economic liberalization, and of driving down the costs of capital and energy relative to the cost of labour (IMF, 2011). While, one may disagree with the IMF's analysis on what is needed to encourage foreign investment, clearly there is a relative dissuasion of investment in the region. Indeed, red tape, corruption, and other government failures are also to blame.

In conjunction with domestic policy reforms, increased integration with international markets could be the proverbial key in unleashing output and labour demand. Evidence seems to suggest that increasing MENA's openness to the level of Emerging Asia could raise the annual per capita GDP of the region by a full percentage point. Ultimately, increased liberalization will be crucial for MENA countries should they seek to further diversify trade with rapidly emerging markets. (IMF, 2011)

Labour rich Arab countries should focus on strengthening their agricultural sector with more government investments and also look to promote non-agricultural work in rural areas by highlighting rural development strategies that will stem the tide of urbanization. In contrast, Arab Gulf states must look to the public sector to foster diversified economies and promote entrepreneurship and innovation (Chabaan, 34). Given the large youth population in Gulf countries, it would be forward-looking to build their labour market policies around them. However, the bane of unemployment currently hampering the youth in the Arab world is a consequence of a much larger problem: the outcomes of the labour market. Youth transitioning to adulthood build their lives around four pillars: education, employment, marriage and housing. First, the region must work on expanding the role of the private sector in order to deter the large number of youth solely intent on acquiring government employment. Second, it must promote skilled workers through the quality of education, university admissions, training initiatives especially targeting marginalized groups like young women. Third, Middle East countries should focus on involving the youth in decision making as well as prioritizing their fiscal stimulus to helping them find employment. In addition to these recommendations there is a need for reforming public sector hiring practices; protecting and improving the security of the informal sector by providing more microfinancing, assisting informal sector employees to transition into the formal economy; and through investing in skills development as well as improving technological investments for better job information and counselling. In the long run, countries also need to work towards providing social security to all workers (Dhillon, et al. 2008; Chabaan, 34-35).

Clearly, Arab youth face plaguing issues of under/unemployment that affect the region. Job creation in MENA is largely diverted to the government tasked with pivotal roles in economic management. Though the size of government in MENA is no different than that in other developing nations, it nevertheless holds an important place in both the public and private sectors.

This is largely seen in the high demand for employment with the government, as it is the "employer of first choice and last resort." (IMF, 2011) There has been a decline in the share of agriculture in GDP in Arab countries coupled with a decrease in production and efforts vested in this sector. Moreover, the seasonal nature of this sector means that workers are only temporarily employed, facing unemployment the rest of the year. Today, the services sector has grown and counts for nearly 50 per cent of employment. The International Labour Organization (ILO) has argued that 29 percent of the Arab world is employed by the public sector. As an article in *The Economist* noted: "The region manufactures only half as much per head as others at a comparable stage of development. However, it employs twice as many bureaucrats per head as the global average.” (2012). Government jobs – known for their secure benefits and allowances, though lower wages – are largely sought after. The problem, of course, is that the attractiveness of the public sector detracts from building and investing in the private sector. Governments need to promote labour standards in the private sector that will give individuals the perceived job security and benefits. As the highly educated continue to fill the ranks of public sector jobs, opportunities to stimulate economic growth in the private sector have dwindled. This problem is especially prominent among the educated youth who continue to seek employment in the public sector (Chabaan, 15, 17).

Many Arab countries face a twofold dilemma in which they are to create jobs and reduce plaguing rates of unemployment while trying to create labour-intensive jobs that are fulfilling. In the case of the Jordanian economy, this dilemma has not been fully resolved. Though the government had succeeded in creating jobs, non-nationals later filled many of them as this supply of jobs did not meet the preferences of unemployed Jordanians. This dilemma is not unique to Jordan, as expatriates are filling many newly created jobs in other Gulf countries, creating a fierce competitiveness between gulf nationals and foreign workers willing to accept relatively lower paying positions with high productivity (Chabaan, 22-23).

Part of the problem rests in the socio-cultural shame associated with manual labour in some Arab countries that expect high paying jobs with low strenuous labour. In the case of Jordan and most of the Arab Gulf countries, for example, there is voluntary unemployment among many youth who prefer either family or government handouts instead of working in manual labour. In other words, unlike foreign workers in these countries (such as Egyptians, other Arabs, Indonesians, Filipinos and Sri Lankans) who are willing to undertake low paying jobs that involve more arduous conditions, Jordanians and Arab Gulf youth are too attached to their “rosy expectations of employment prospects”, failing to face the labour market reality. This “culture of shame” prohibits them from taking lower paying jobs and as a result they prefer to remain at home (Chabaan, 24). Moreover, a large age differential between the growing youth population and the older governing generation is another problem. The dissonance between the two ages is reflected not only in policymaking, but the fact that youth are seldom represented in the voting process, with those below the age of 21 not granted franchise until recently. Most legal adults represent only one half of the population. To increase the role of youth participation in society, various governments such as Jordan, Egypt and Yemen have undertaken initiatives in conjunction with the United Nations Development Program (Chabaan, 29-30).

Of course, the divided labour force is a reflection of larger problems. Labour markets in Gulf countries face the ongoing struggle between the role of the government and the private sector; and pressing the point of creating youth policies for both young men and women. Improving labour market data transparency and access to this data by policymakers is also of prime importance (Deto, 2009). As mentioned, Gulf countries face the issue of depending on non-nationals as their workforce, which threatens to further isolate nationals along with the youth and female populations. To address this issue, more importance will need to be placed on the creation of policies which better seek to include all demographics in order to create a more well-balance and sustainable local labour force (Chabaan, 29-30).

There is an onus placed on Arab governments to entice their populations to work and create an environment conducive to job creation. This can be done through labour market reforms that encourage individuals to seek employment and to keep decent jobs, or by creating linkages for those who are unemployed to gain access to areas with booming employment. Incentives include housing loans to help workers relocate from a rural to urban area; investing in better modes of transportation and subsidized transportation services; and encouraging job creation in areas with high unemployment through tax breaks and other incentives (Chabaan, 35).

Conclusion

The Arab world is at a crossroads. With increasing economic liberalization comes greater demand for inclusive economic growth among those who have traditionally been shut out from participation by the status quo. The Arab spring was an awakening where youth – frustrated, disenfranchised and weary of having to continually live with failed expectations –d demanded government accountability in order to put an end to their exclusion from the benefits of emerging Arab economies.

Yet the Arab world is educated and ready to seize opportunities. For those living in the Arab Middle East, the future is full of both promise and challenges. Now, more than ever, policymakers within and outside of the Arab world must ensure that the mistakes of the past are not repeated in this period of difficult transition. In order to foster sustained economic growth and political progress throughout the region, business, investors, and government need to capitalize on this moment of demographic dividend.

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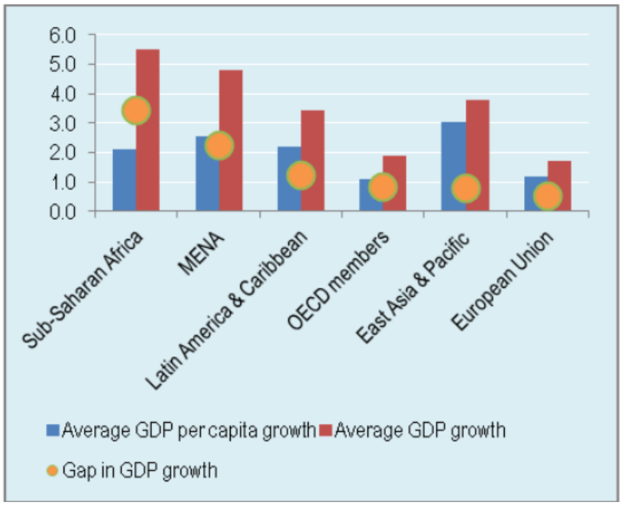
Appendix

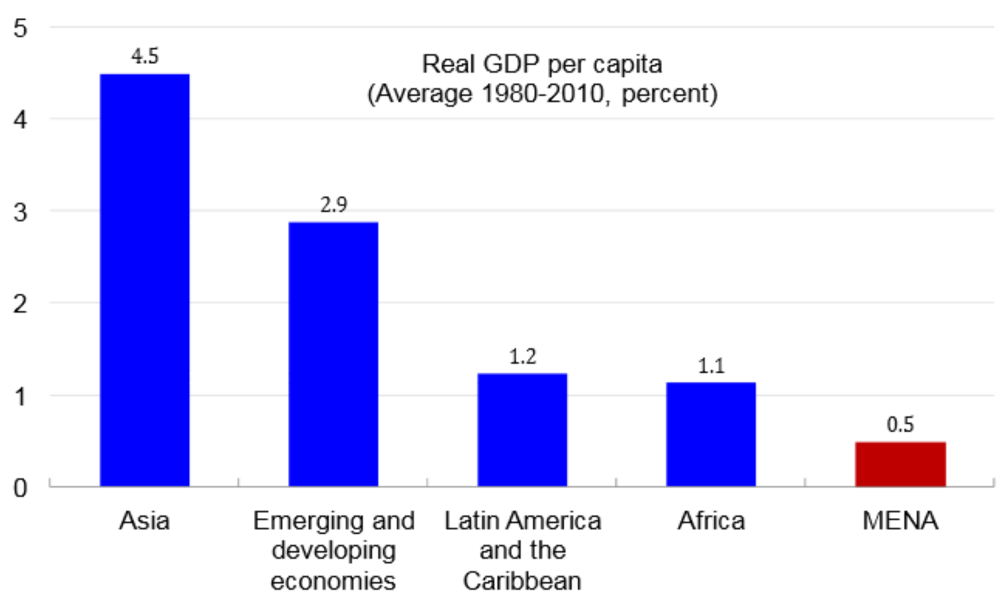
Figure 2: Overall economic growth is not keeping up with income per capita growth
GDP and GDP per capita growth 2000-09/10 by region



Source: OECD, 2011.

http://www.oecd.org/mena/investment/49036903.pdf

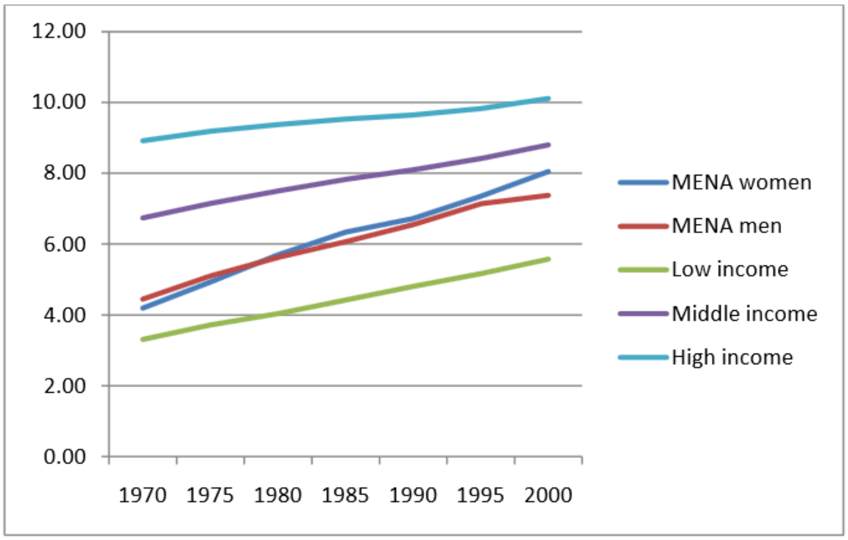
Figure 3: MENA Growth and Employment
Per-capita growth falls far behind all other regions



Source: IMF, 2011.

http://www.imf.org/external/np/g8/pdf/052711.pdf

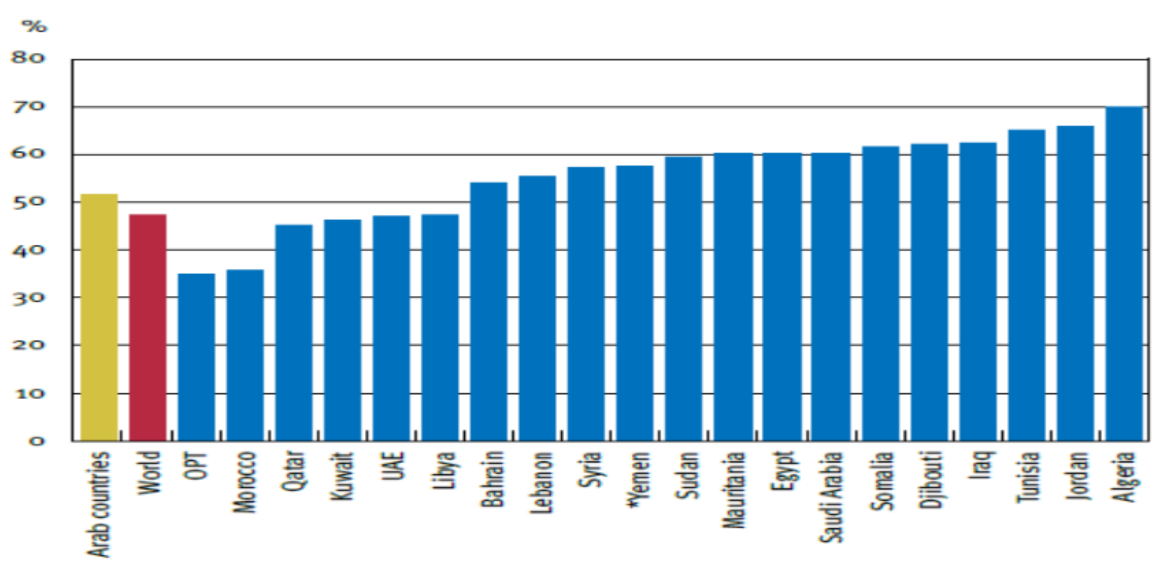
Figure 4: Years of schooling have increased faster in MENA than all other regions listed.
Average years of schooling for both sexes, except for MENA



Source: UNDP, 2010.

http://hdr.undp.org/en/reports/global/hdr2010/papers/HDRP_2010_26.pdf

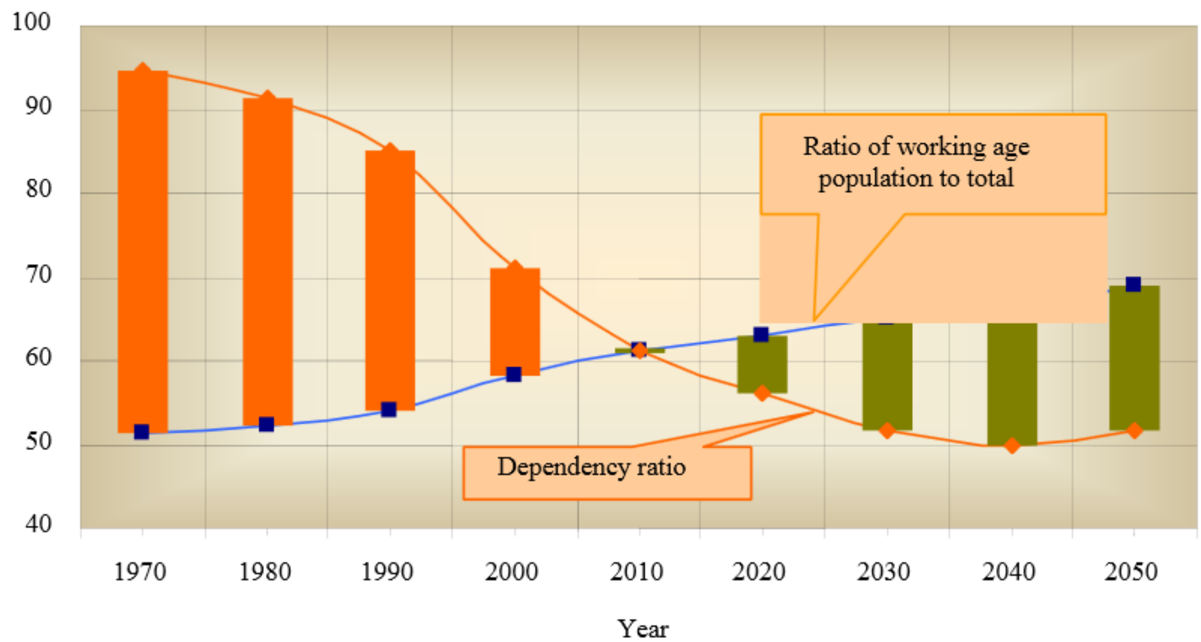
Figure 5: Youth Unemployment as a Percent of Total Unemployment



Source: CSIS, 2011.

http://csis.org/files/publication/111102_MENA_Stability_Security.pdf

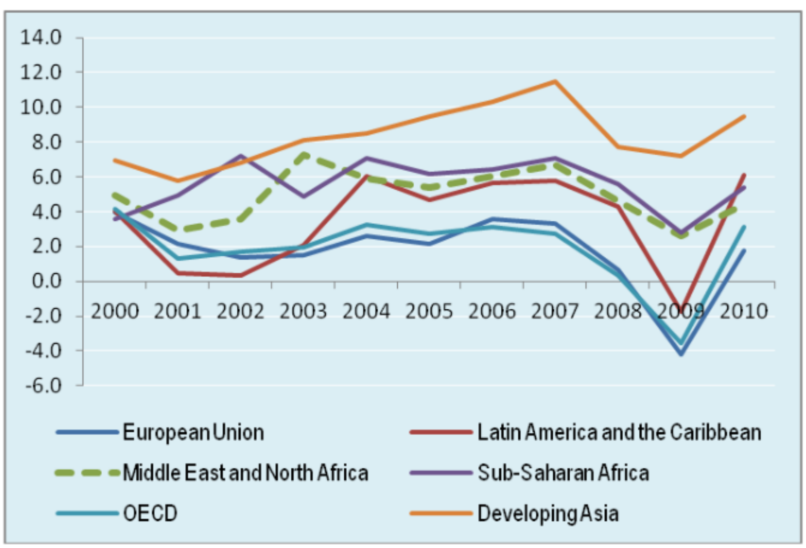
Figure 6: Trends in working age population and dependency ratio



Source: UNDP, 2008.

http://www.arab-hdr.org/publications/other/escwa/demographic-change-08e.pdf

Figure 7: GDP growth in the region has been comparatively high during the last decade
GDP growth by region, percent change, constant prices



Source: OECD, 2011.

http://www.oecd.org/mena/investment/49036903.pdf