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Conclusion

The central economic challenges confronting the Arab world are to provide employment for its rapidly growing labor force and raise living standards. Continuation of past performance will not be sufficient to accomplish these goals: Achievement of these objectives requires rapid, sustainable expansion of labor-intensive activities and growing labor productivity, which necessitate a more successful integration into the global economy than has been witnessed to date.

The region's reputation as a risky business environment, due in part to deep uncertainty about the future of many of the region's political regimes, inhibits successful globalization. Economic and political uncertainty and risk thus lie at the heart of the region's challenges. The central role of oil in the economic and political life of a number of these countries creates additional opportunities—and potential pitfalls.

These societies are not without achievement: As documented in chapters 2 to 4, in a number of the Arab countries economic growth has been steady, albeit inadequate to generate the employment opportunities to absorb their rapidly growing workforces. In recent decades, advances in fundamental indicators of social welfare such as life expectancy, childhood mortality, and literacy have been impressive for the region as a whole, and in some cases spectacular. On poverty incidence and many social indicators of health and education, most of the Arab countries are at, or above, the achievements of other states with similar per capita income. However, this performance is not uniform: The experience of Yemen has not been encouraging, and Iraq and the Palestinian Authority territories face extraordinary problems. Nevertheless, for the region as a whole, the improvements have been substantial, considerably exceeding widely held impressions. At issue is not the extent of past achievements, which look similar to many other middle-income developing countries, but rather whether the existing economic and political models that delivered these gains in past decades are adequate to successfully address the current demographically driven pressure to deliver jobs in the context of an increasingly competitive global economy. The answer is almost surely no.

Fortunately, many in the region recognize the need for change, indeed with a nuanced understanding born of daily experience that those of us from beyond the region cannot hope to match. They face a situation in which the required policy adjustments are complex, the payoffs uncertain, and the potential political risks enormous. Yet, one important insight emerging from our analysis is that the substantial intraregional variation in achievement in many of the relevant benchmarks that we identify suggests that these outcomes are not determined by intrinsic cultural factors. The influence of Islam or the anthropology of Arab culture may have many effects on local institutions and practices, but they cannot explain why it takes 15 times as long to enforce a contract in Egypt as it does in Tunisia. This simple example is emblematic of a very important point that we have tried to convey in our analysis, namely that considerable improvements in economic efficiency are consistent with the maintenance of fundamental aspects of local identity, and indeed, in many cases, significant improvements in economic outcomes could be achieved by simply matching the best practice standard established by others within the region. Egypt need not turn into Norway.

Identifying the Constraints

If the growing labor force is to be absorbed productively, an acceleration of aggregate growth will be necessary, and this growth will have to be labor-intensive in nature. Given the growing competitiveness of low-income rivals, the existing economic, political, and social practices may inhibit or preclude the type of growth necessary for these economies to succeed or indeed for their governments to maintain political viability. The task is to identify the most acute constraints on development whose relaxation might accelerate growth in the short run (i.e., pick the low-hanging fruit) while a long-run strategy is formulated.

We begin by identifying what is not the problem. As alluded to earlier, the evidence that we have reviewed indicates that Islam is not the issue, at least not in a simple sense that the adherence to the faith encourages behavior antithetical to economic development. Neither the simple observation of relatively strong performance among some predominantly Islamic countries such as Indonesia and Malaysia nor the econometric evidence summarized in chapter 5 supports the notion that adherence to Islam is a drag on development. Islam is relevant, however. It is the spiritual prism through which many in the region interpret existence; many adherents increasingly regard it as being under threat; and for a variety of reasons, political opposition to the region's ubiquitous authoritarian regimes has an increasingly Islamist bent.

Turning to more conventional economic explanations, our analysis suggests that macroeconomic instability is not the main culprit in slowing growth either. While macroeconomic policy management may not be perfect, and the presence of oil and other natural resources may present "Dutch disease" challenges for some of the countries of the region, macroeconomic management is sufficiently good that, as the analysis presented in chapter 6 suggests, alterations in macroeconomic policies are not likely to deliver large improvements in outcomes.

However, the portrait derived from a variety of measures on microeconomic policies and institutional characteristics presented in chapters 5 and 6 is less positive. The Arab countries, with some exceptions, generally do not score highly on these measures (though in many cases they do not appear to be distinctly weaker than the relevant comparators from outside the region) and do not appear to have made significant progress over time—at least relative to their extraregional competition.

Specifically, the Arab countries score poorly on a nexus of indicators relating to cross-border economic integration and transfer, dissemination, and application of technological knowledge and innovation. Outside of the special cases of the extractive industries (such as oil) and tourism (where geology or special assets like the Pyramids confer unique and irreproducible advantages), as a group, the Arab countries appear to have weak linkages to the outside world, whether measured in terms of merchandise trade, import of capital goods (which embody technological advances from abroad), cross-border investment, integration into transborder supply networks, technology licensing, patenting, and internationally recognized intellectual achievements, as well as a number of other indicators that we have reviewed. In short, the neural synapses that would link the latent productive possibilities of the Arab people with the goods and services demanded by the rest of the world appear to be weak or nonexistent.

Building such links presents a formidable challenge. Unlike issues of macroeconomic policy management—where policy change can be implemented by a relatively small number of centrally placed technocrats and is subject to relatively straightforward feedback mechanisms to facilitate benchmarking progress (i.e., one can observe changes in inflation, the money supply, the exchange rate, or the budget deficit fairly rapidly and alter policy in response)—addressing the institutional weaknesses that we have identified requires a much more prolonged and uncertain slog.

Moreover, while lessons can be derived from the experiences of other countries, at this level of microeconomic and institutional reform the particular priorities and constraints, much less the specific political tactics needed to achieve reform, will differ country by country and will require sustained diligent activity by a broad group of actors. Long-run progress is likely to reflect the cumulative impact of many small reforms and innovations over a protracted period, rather than a small number of bold moves. Indeed, one of the themes that we have emphasized is the region's diversity, and while there are important commonalities, there are obvious differences as well. Formulating detailed country-specific prescriptions lie, beyond the scope of this book. Instead, we point at some general issues and tendencies, recognizing that their salience will vary across countries, and emphasize that addressing them is neither straightforward nor trivial in either a programmatic or a political sense.

Designing Solutions: An Example

One of our fundamental contentions is that education and technology are complements. To take a simple illustrative example, the returns to a country training software engineers may not be very high in the absence of computers; conversely, building or importing computers may not have a high payoff if no one knows how to operate them or if local conditions prevent their efficient usage. Properly measured, the social returns to education in the Arab countries may not be particularly high in the absence of complementary technology and an enabling business environment. However, there is often a high private return to education, inducing individuals to obtain more schooling than can profitably be deployed. One understandable, if regrettable, response by local governments to this circumstance has been to warehouse college graduates in public-sector employment to buy social peace. A second salient point is that much of the relevant technology, defined broadly, originates outside the region and will continue to do so for the foreseeable future.

These two facets of the economic landscape suggest that the Arab countries face a coordination task that is more complex than the simple example above suggests. At the first level, educational and training programs need to be coordinated with the skills demanded by the market—but even this may not be easy to accomplish, as the example of garment factories in Jordan, recounted in appendix 8B in chapter 8, illustrates. In this case, the supply of adequately skilled local workers has been problematic, and the newly created jobs in large part have been filled by migrant workers from South Asia. The coordination problem is particularly difficult in situations where the emerging industries and occupations do not yet exist, and hence the market is not signaling to either students or administrators into which activities resources should be deployed.

Even if countries are successful in addressing these initial tasks, the payoffs cannot be realized in the absence of commercial activity. The experiences of Taiwan, South Korea, and more recently China have been that the initial response to the expansion of science and engineering education was the emigration of a substantial number of highly skilled workers. Ultimately some of them returned, in effect creating a critical connection between the local economy and technological development abroad, but the initial social return on this human capital investment was not high. In the case of the Middle East, this particular trajectory may be impaired by the post-9/11 diplomatic environment and restrictions on cross-border movement—i.e., at present it may be difficult for graduates to emigrate to seek greater returns on human capital. The absence of this option may pose a particularly acute dilemma for local governments insofar as educated but underemployed young people may pose a significant latent threat to domestic political stability.

A complementary strategy, perhaps more feasible given current diplomatic realities, would be to educate the domestic labor force and encourage foreign firms to establish production locally. This strategy immediately runs into the problem documented in chapter 7, namely that Arab attitudes, both popular and elite, appear to be ambivalent on this score. In this sense, the task is not only a "technical" one of how to marry local capacities to technology derived from abroad but also a political one of how to open up—how to make globalization acceptable to skeptical elites, a dubious "Arab street," and overcome entrenched special interests in an environment in which the high-stakes political conundrum will encourage policymakers to be cautious, hesitant, and risk-averse.

Political Economy of Reform

Local Dimension

The political and economic consequences of the reforms discussed in this volume will lead governments, authoritarian or democratic, to carefully evaluate the prospective benefits and costs before embarking on the path, unless the governments have no choice due to a financial or economic crisis, an outcome less likely in a world of $60 to $70 per barrel of oil, whose rents are widely dispersed. Yet the benefits of reform may be small in the short run if supply response is limited due to a shortage of necessary local skills. It is widely believed that the outcomes in relatively reformist countries such as Jordan and Morocco have fallen short of expectations. Accepting for the sake of argument that these impressions are correct—that the economic response to policy reform has been disappointing—one can posit a variety of responses and explanations, such as the reforms were insufficient, poorly implemented, or poorly designed. Each is possible. Yet other interpretations, emphasizing the absence among local producers of the industrial competence or capacity to take advantage of the opportunities created by policy change, may be germane. However, greater reliance on foreign skills might compensate in the latter case, but such a tack raises another concern, namely, is the added foreign presence socially and politically acceptable?

Both paths—one emphasizing the development of indigenous capacities, the other emphasizing foreign engagement—present their own unique challenges. In reality, the two strategies are complementary, not mutually exclusive. Increasing domestic supply capacities is likely to be a relatively long-term endeavor, and the region's demographic clock is ticking. Although this approach may be desirable in the long run, it may be inadequate in light of the immediacy of the problem.

Nor is it simple—it requires both technical upgrading of skills and complementary improvements in the institutional functioning of the business environment to facilitate the economic mobilization of those skills. With respect to the first challenge, the evidence reviewed suggests that there is considerable scope for improving the quality of education in the Arab world. There may also be a need to establish or improve existing institutions along the lines of India's Institutes of Technology or Taiwan's Institute for Technological Research and Innovation, which closely tie education and research with their ultimate commercial users, recognizing that most attempts to emulate these success stories have failed. Moreover, this local skills–based approach may require controversial changes in education and social organization, for example, a reordering of priorities to place a greater emphasis on science in schools at the cost of religious education. Even in the United States, such measures are not without difficulty—witness the increasing demands for the teaching of "intelligent design." Moreover, improvements in "inputs" may not manifest themselves in better outcomes in the absence of complementary changes in the business environment to support local innovation and entrepreneurship—from improved access to capital and dispute adjudication to improved property rights protection.

If such changes could be implemented, the benefit could be substantial, in essence manifested in an increase in total factor productivity—a "free good" that would permit a permanent rise in income and consumption without necessitating a corollary increase in investment, either at the expense of consumption or through an increased balance of payments deficit. However, none of this is easy, and the payoffs are uncertain.

Alternatively, greater reliance on foreign sources of technology and marketing knowledge may have more immediate rewards but could also have unintended effects. The sorts of international agreements discussed in chapter 8 could considerably ameliorate the problem through the generation of jobs in labor-intensive activities in the industrial and internationally tradable service sectors. In the last 25 years, China has created tens of millions of jobs in the industrial sector, much of it due to direct foreign investment. Initially this strategy was undertaken in special economic zones, operating outside the rest of the economy, but the approach came to complete fruition only when these developments spilled beyond their geographical confines, establishing physical, economic, and ultimately cultural linkages with the broader Chinese economy. A similar transformation, if it were to occur in the Middle East, could imply significant changes in some aspects of these societies, in particular a greater presence of foreigners, who have been key participants in the extraordinary reversals of economic performance in many of the relatively successful Asian countries.

Yet in this connection, there is a deeper worry, rarely articulated, that the hesitancy to reform in the Arab world is driven by more fundamental concerns than the usual special-interest politics. Greater international trade typically involves greater contact between local citizens and foreigners. Exporters are often required to spend time overseas, obtaining firsthand knowledge of the types of goods in demand. Nationals must travel abroad to trade shows to evaluate the newest advances in technology in both capital and intermediate goods and to become acquainted with potential suppliers. At home, potential foreign importers will visit to assess the capabilities of local producers and to establish buying offices. In the case of local buying offices established by large multinational retail purchasers, a substantial group of conspicuously foreign personnel will be present, and if this occurs in the clothing industry, a likely sector of early comparative advantage, many will be young women dressed in contemporary styles.

Expanded foreign investment could augment the absent or critically scarce technical and marketing abilities, but it would be implemented by individuals who will be noticeably foreign not only in appearance but also in the different mores they follow, seen, for example, in their choices of clothing and consumption of alcohol. Such considerations do not necessarily preclude cooperation: Despite lingering hostility over Japanese colonialism and World War II, South Korea, in its early industrialization, depended partly on Japanese engineers, who commuted every weekend from Tokyo. The examples can be multiplied, but the general point about the potential social adjustments required for successful globalization should be evident.

The difficulty for the governments in question is whether they can withstand the inevitable, perhaps intense, opposition to very visible Westernization. Polling data discussed in chapter 7 indicate that local attitudes toward manifestations of globalization are ambivalent at best, a characteristic both limiting and informing government choices. The degree to which anti-Westernization feelings are sufficiently strong to make leaders cautious about such an opening is unknown. Anti-Western violence in countries such as Morocco and Egypt cannot be reassuring to the governments nor, very importantly, to prospective foreign investors or suppliers. With respect to the latter, the physical and financial risks will inevitably affect decisions. Whatever the objectives of terrorism in the minds of its proponents, it not only poses a threat to the polity but also severely undermines the likelihood of successful economic development.

Reductions in these risk perceptions would facilitate more genuinely successful globalization than has been witnessed to date. As we have argued, these risk assessments are rooted in reality, and for many of the

Arab countries, transforming public perceptions toward globalization could improve significantly the terms on which globalization occurs. Yet it is not self-evident how public policy can support such a transformation: Beyond public campaigns and high-profile promotional activity by societal elites, there are no obvious policy instruments for encouraging the public to be more tolerant or less xenophobic or to take a more positive view of change, especially change emanating from foreign or nontraditional sources. Moreover, evidence suggests that a self-reinforcing feedback loop from individual preferences to policies decays only slowly—once established, it can take generations for local beliefs to converge toward broader international norms. This raises the possibility that popular attitudes, both by conditioning local policies and by elevating the risk perceived by potential foreign investors, can contribute to long-lasting hysteresis and, in the extreme, to the formation of poverty traps, where a reputation-derived risk premium impedes cross-border economic integration and ultimately economic development.

As discussed in chapter 9, returnees, who presumably have a more nuanced understanding of these issues and perhaps lower subjective assessments of risk, could act as intermediaries in generating a solution to this conundrum, bringing back to the region innovative technology and ideas from abroad, and indeed, such returnees have been an important part of the development story in a number of countries. Taiwan, for example, proactively encouraged émigré scientists and engineers to return home and establish high-technology businesses, which had a significant impact on Taiwan's industrial development. However, for this strategy to succeed and induce individuals of considerable achievement in education and income to uproot their lives in the West, the returnees must be confident that the economic and social environment is fundamentally supportive and welcoming, that they and their families will be physically safe, and that they will not be subject to economic predation. These concerns go to the heart of the political economy challenges facing many of the countries in the Middle East.

Unfortunately, fear of fundamental political instability, accentuated by concerns over terrorism and the radical Islamist nature of some opposition groups, may discourage even the implementation of incremental reforms, contributing to a dysfunctional dynamic. Greater technological diffusion will require increased availability of computers for individuals, yet these also have obvious potential for allowing political opposition to organize. As another illustration of this tendency, one of the few variables that are routinely found to impede growth in econometric studies cited in chapter 4 is excessive government consumption. Yet, in the Middle East, government bureaucracies often serve as employers of last resort for university graduates, and reducing the drag created by unproductive public-sector employment might significantly accelerate growth in the long run. Under such circumstances, fears about the internal political ramifications of eliminating this social safety valve may overwhelm expectations of long-run improvement. Failure to reform contributes to slow growth, which in turn may make it more difficult to undertake policy changes involving short-run distress. And lurking in the background is the issue noted by a variety of commentators, namely that many terrorists have scientific or engineering backgrounds. Increases in education without addressing the underlying origins of disaffection, whatever their source, could actually increase the deadliness of terrorism, contributing to a vicious circle of terrorism impeding investment and growth, in turn contributing to more terrorism.

While the calculation of beneficiaries and losers from economic liberalization that help or harm particular income, regional, and sectoral groups and their relative political strengths is hardly simple, policymakers understand the rough parameters of the algorithm. The impact of policy changes on prices, wages, and profits—and hence the economic fortunes of different groups in society—is comprehensible, at least in principle. In contrast grasping the political opportunities and dangers created when reforms affect social-religious sensitivities may tax even the most adroit leader, and there is an understandable tendency toward caution that has contributed to the region's stultifying inertia. Yet despite the unknowns, many of the region's more successful countries—which tend to be underendowed in natural resources—have undertaken reforms, though perhaps not as substantial as countries elsewhere. These policy changes were implemented despite conventional special-interest political pressure, as well as more fundamental cultural considerations, which must have informed the calculation. It may be that rents, whether in the form of oil receipts, aid, remittances, or other revenues due to unique geopolitical circumstances, lessen the urgency of reform, while the absence of such financial cushioning encourages greater risk taking. If the historical analogy to European anarchism holds, this challenge may be multigenerational in duration.

International Dimension

Those who maintain that the potential of radical Islam to exploit any short-term problems is sufficient to preclude reform could be correct. If they are, there is a perverse dynamic. Reform is precluded by the fears of Islamic radicalism, which in turn feeds on the stagnation or inadequate growth generated by these fears. Economic growth is, in this view, not a formula for obtaining legitimacy. Some abhor the characteristics of modern economic growth including greater geographic and social mobility, greater participation by women, influx of foreign ideas and domestic effort to absorb them, growing high-quality education system, and less certainty about one's place in the economic and social system. The issues being contested are fundamentally "internal" in nature. In this case, the international community can do little.

Yet the international community has an enormous stake in the developments within the region and has no real alternative but to engage in the hope of reaching mutually beneficial outcomes. The United States bears special responsibility for the situation in Iraq and is often blamed for developments in the Palestinian Authority territories. Yet the advanced nations, particularly the United States, face deep skepticism within the region concerning their interests and motives.[1] Indeed, it is hard to overstate the depths to which America's image within the region has fallen. To cite but one recent piece of evidence, 85 percent of Jordanians—a "moderate" Arab country with which the United States has a free trade agreement—expressed unfavorable sentiments toward the United States (Pew Global Attitudes Project 2006a, 2006b). One might be tempted to dismiss the Jordanian response as reflecting its unusual position of being sandwiched between the conflicts in Iraq and the Palestinian territories. But 69 percent of Egyptians, the other Arab country polled, recipient of billions of dollars in US aid, also had an unfavorable assessment of the United States.

Under such conditions, the industrial nations, particularly the United States, have to tread extraordinarily carefully. As argued in chapter 8, the "deep integration" preferential trade agreements preferred by the United States may confer large benefits on Arab partner countries, particularly if these agreements are accompanied by complementary domestic reforms. Objectively, these agreements may be useful instruments to Arab governments seeking to accelerate employment and per capita income growth. Much of popular and elite opinion nevertheless regards such initiatives as "neoimperialism" aimed at undermining Arab societies, however, and the label "made in the USA" could be a death knell. It may be that the United States simply acts as a lightning rod for the discontent that seems disproportionate to the actual achievements of the Arab countries in income and welfare.

In this battle for a change in perception and commitment, which has a large noneconomic component, the United States is faring abysmally. Huge majorities in the Arab countries are aware of the abuses at Abu Ghraib and Guantanamo Bay (Pew Global Attitudes Project 2006a, 2006b). The Dubai Ports World debacle exposed US ambivalence in its self-professed support for free markets. In counterpoint to the complex, difficult, and uncertain tasks that the Arab governments face in improving the functioning of their local institutions, the United States faces a difficult path in repairing its standing in the Arab world, though one suspects the hostility would become more muted with more sustained growth in the

1. Such attitudes are manifest despite diplomatic and military efforts that benefited many Muslims: in the Balkans and the Sudan and the relief efforts following the December 2004 Indonesian tsunami and the 2005 Pakistani earthquake.

Arab countries and greater possibilities for political participation within these countries.

Such an initiative would have four components. The first component is regulatory and macroeconomic. Given the xenophobic reaction of some Americans to previous episodes in the 1970s and 1980s—when US external imbalances required substantial inflows of foreign capital and led to foreign purchases of highly visible trophy assets (i.e., Japanese purchases of Rockefeller Center or the Pebble Beach Golf Course)—and the more recent China National Offshore Oil Corporation (CNOOC) and Dubai Ports World cases, oddly enough, reducing the US balance of payments deficit, and hence the likelihood of future irritants such as the Dubai Ports World fiasco, would be a useful first step. Of course, a more careful regulatory process could more directly preclude such blunders. Serendipitously, this first step would largely be a function of US fiscal policy adjustment, which requires no foreign diplomacy and can be undertaken completely unilaterally. Such a policy would also have secondary effects that would be quite desirable, namely reducing the demand for oil.

A fall in the full employment deficit combined with a tax on the use of carbon fuels would reduce demand for oil, generating a variety of beneficial effects. For the United States, a reduction in the trade deficit is desirable on several grounds including the dangers posed to the US economy as a result of the accumulation of dollar-denominated assets in other countries and the danger that a sudden change in the economic prospects of the United States could trigger a dollar crisis. In the Middle East, given the likelihood that a higher price reduces the political interest in reform not only in oil exporters but also in other countries that receive remittances from nationals in the oil-exporting countries, attenuated American demand for oil could encourage reform broadly. Our point is that a reduction in the US trade deficit brought about by a more responsible fiscal policy could have underappreciated benefits for our relations in the Middle East. Resolution of the nettlesome US imbalances is difficult, and the impact on the Middle East will not constitute a major source of political support for the necessary fiscal changes. Nevertheless, it is worth noting the benefits to be derived from such contemplated policy changes.

The second component would be public diplomacy aimed at both improving the image of the United States and strengthening progressive, democratic political forces in the region, which are needed to liberalize their economies if growing unemployment is not to undermine their polities. The latter aspiration derives from the potential gains from greater openness of the economies and an enhanced receptivity to the transfer of knowledge. Such responsiveness might be enhanced if the Arab populations were not suspicious about the sources and implications of growing globalization.

The United States needs to greatly expand, strengthen, and reorient its public diplomacy toward the region in a variety of ways. America does not have powerful levers for achieving such objectives, but given the stakes, the effort is necessary. One possibility would be to redirect resources from the US government–sponsored satellite television channel al-Hurra, which has failed to attract a significant audience (Telhami 2005), and apply these resources to increasing the availability of Western news sources in the Arab world. Evidence suggests that there are not only profound divergences in opinion between Arabs and the West but also deep differences regarding the underlying facts linked to sources of news and information (Gentzkow and Shapiro 2004).

A complementary approach would be to expand two-way exchanges of opinion leaders through programs such as Fulbright exchanges, to revitalize support for engagement of US *nonofficial* opinion leaders in the region along the lines of the Amparts program formerly operated by the USIA prior to its merger into the State Department, and to create a Middle East Foundation along the lines of the existing Asia Foundation as suggested by Amr Hamzawy (2005). Conversely, the United States also needs to reconsider Department of Homeland Security policies that significantly impede the issuance of visas to legitimate Arab scholars and opinion makers, discouraging precisely the sort of contact that should be encouraged, and generally conveying a poor image of the United States.[2] To be clear, we do not believe that mere familiarity or the provision of more accurate and diverse information will breed love—but what is being communicated today is *so* negative that almost any kind of truthful and noncondescending engagement would represent an improvement over the status quo.[3]

The bottom line is that improving the image of the United States and indeed the West in general including Britain and France, the former colonial powers, and strengthening moderate elements within the Arab world are going to be long and difficult endeavors involving many people making

2. In this regard, a critical issue is identifying Arab counterparts in these endeavors. Maghraoui (2006) identifies four broad constituencies comprising "Islamic Renewal": civil society organizations; proponents of "Islam and Democracy," i.e., moderate Islamist parties; proponents of "reform within Islam," i.e., modernizing clerics; and "culturally modern Islam" trying to articulate "western Islamic identity" mainly in the diaspora. Maghraoui would count the Malaysian government as an example of Islamic renewal, and in certain respects, the Moroccan monarchy. Among the moderate, democratically committed Islamist parties, Hamzawy (2005) identifies the Moroccan Justice and Development Party, the Jordanian Islamic Action Front (IAF), the Yemeni Reformist Union, and the Egyptian not-yet-legalized Center Party (Al Wasat). Intriguingly, the leadership of the Jordanian IAF has cited Malaysia as a model.

3. In this respect, the nonofficial status of the US participants in such programs is critical since within the region, statements by US officials are almost entirely discounted. This runs against the alleged tendency of the current US public diplomacy effort to select participants in officially supported outreach efforts from the ranks of the politically reliable, narrowly defined. It would also be desirable to draw upon a pool of participants that goes beyond the regional specialists, who oddly enough may convey a skewed notion of American attitudes and interests.

incremental contributions, strangely reminiscent in its essence to the difficult and uncertain task facing the Arab countries in reforming their internal institutions. In the words of Abdeslam M. Maghraoui, "Prospects for an Islamic renewal across countries and regions remain slim, unless these scattered efforts and networks coalesce in a coherent movement that can articulate a common modernist vision and propose concrete reforms to achieve it" (Maghraoui 2006, 9). To be fair, since the December 2002 announcement of the Middle East Partnership Initiative, the US government has undertaken a variety of possibly underappreciated programs aimed at strengthening civil society and improving public-sector institutional capability (Wittes and Yerkes 2006). Pop music radio stations are not the answer, however.

The third component, as discussed in chapter 8, should be preferential trade agreements. In general, we believe that these could have a positive role to play, though obviously the impact of any specific agreement will depend on its particulars as well as complementary policy changes undertaken by the partner country. Robert Z. Lawrence (2006) presents a sophisticated analysis of the potential benefits and demerits of expanding US preferential agreements with countries in the region along the lines of the Bush administration's Middle East free trade area proposal. In this regard, he raises two ancillary, though important, points.

First, the way that the United States has gone about negotiating these agreements is effectively creating a "hub-and-spoke" system in which individual Arab governments have strong bilateral agreements with the United States but weak or nonexistent agreements between themselves. In part this would appear inevitable, if regrettable, reflecting both differences in capacity and orientation across the Arab governments and, in the specific cases of the militarily vulnerable Gulf oil exporters, a particular interest in deepening ties with a strategic partner. If it were just an issue of variable speed geometry, to borrow a European phrase, that would be one thing. The bilateral agreements themselves contain mutual inconsistencies, however, particularly with respect to "rules of origin," which make incorporating them into a single regionwide accord difficult. The situation is further compounded by the fact that the rules embodied in the US agreements are inconsistent with the agreements that the European Union is reaching with the Arab countries. It would be desirable to increase the internal consistency of these arrangements to facilitate integrating them together in the future, but frankly such coordination does not appear to be a particularly high priority of either the United States or the European Union and possibly of the Arab countries themselves.

However, a renewed emphasis on multilateral coordination should be the fourth component of US policy toward the region. As we have argued, much of what is needed amounts to institutional reform and capacity building. The United States as a national government obviously has a role to play in providing technical assistance and support—its US Agency for

International Development mission in Cairo is the largest in the world, and a new program, the Fund for the Future, emerging out of the Broader Middle East and North Africa Initiative (BMENA), will support small and medium-sized enterprises.

The United States should not limit itself to unilateral measures, however, and ought to make use of the whole panoply of international institutions including the World Trade Organization (WTO), International Monetary Fund (IMF), and World Bank, as well as cooperative institutions such as the G-8. The IMF and World Bank are ideally placed to provide such services, the former on macroeconomic and financial-market issues, affecting countries of the region, and the latter on a broader range of development issues that are particularly relevant for the poorer Arab countries, while the WTO has been expanding its capacity to offer technical assistance in the trade field. The Bank and Fund have received considerable criticism over the years, some of it deserved. Yet they are well suited for a patient process of engagement with the countries of the region, which given the profound uncertainties associated with reform, is precisely what is required. In essence what one is doing with the Bretton Woods institutions is buying an option on reform: maintaining contact and a local knowledge base in anticipation of the day when the host government will be ready to move forward, recognizing that at any given moment the payoffs to engagement will be low insofar as local governments are either incompetent, uninterested in reform, or simply too risk averse to pursue it.

The BMENA and its annual Forum for the Future meetings were unveiled during the US chairmanship of the G-8 in 2004. The financial contributions of the European Commission and its member states to the program have been small, however (less in total than that of Qatar), while Europe's own programs "give short shrift to advancing political freedoms or the role of civil society in EU-Arab relations" (Wittes and Yerkes 2006, 10). Nevertheless, given the problematic image of the United States in the region, pursuing constructive initiatives through multilateral channels is not a bad tactic.

Concluding Thoughts

The proof of the pudding is in the eating. The critical issue is whether sustained accelerated growth of employment and income is achieved or not. Realization of this outcome requires both supportive policies and sufficient local productive capacity organized by indigenous entrepreneurs or foreign investors to take advantage of the opportunities presented. The international community can certainly help with reducing the conventional redistribution costs of reform and thus its political riskiness. Broadly defined to include the private sector, it can also play a role in fostering the requisite supply response to reform to make faster growth a reality.

The most problematic scenario is created by the possibility that inefficiencies embodied in the status quo are not simply the outcome of standard interest-group politics, but rather reflect either a religious and social consensus that trumps economic efficiency, or that reform is precluded by fears of political radicalism unleashed by short-term dislocations. To the extent that such an outcome could be interpreted as accurately reflecting social preferences, there is little ethical basis for the international community to encourage changes that are contrary to local values. While there may be negative transborder externalities associated with slow growth in the Arab countries—such as the encouragement of illegal emigration to other regions or the externalization of political discontent—these cannot be the basis for advocating altered economic policies that are rejected by the countries themselves, though the representativeness of the political mechanisms that have generated the prevailing choices is admittedly questionable.

Though the prevailing situation could represent a religious-social equilibrium, we are skeptical. As observed in chapter 10, the Arab political elites have made far less use of international assistance in holding elections than other similarly situated countries and appear to have chosen a distinctly undemocratic path. More likely, these outcomes reflect the preferences of dominant, though possibly unrepresentative, groups within the society that may not reflect the true underlying preferences of the community more broadly. Perhaps the most likely interpretation is that the reluctance with respect to reform reflects simple apprehension that change could be profoundly destabilizing.

The Middle East has long been a politically contested region of global significance. The demographic pressures the region faces to productively absorb and employ its young people entering the labor force raise the stakes even higher. It is not difficult to envision the region caught in a downward spiral where impoverishment, discontent, militancy, and repression feed upon one another. Yet this is not the only possible future. If the region's daunting employment challenge can be successfully addressed, the region's demographics could turn from a potential liability to a valuable asset. Growing prosperity, confidence, and optimism about the future could underpin movement toward greater political openness and social tolerance. The recognition that neither of these alternatives can be excluded is both an antidote to despair and a call to action.