



MENA Knowledge and Learning

Quick Notes Series



TRANSFORMING ARAB ECONOMIES: THE KNOWLEDGE AND INNOVATION ROAD

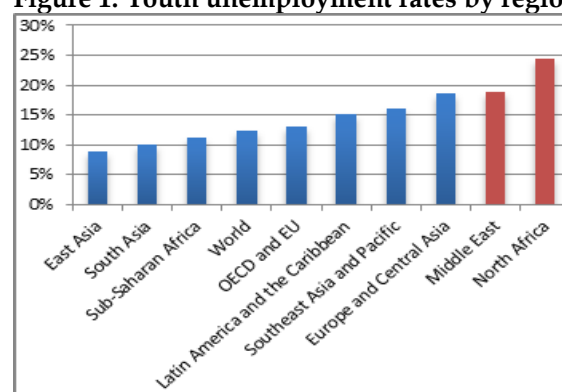
Anuja Utz, Jean-Eric Aubert¹

Introduction: *Knowledge has always been central to development.* A thousand years ago the Arab civilization led the world in knowledge, prosperity, and development. Arab science and technology, as well as free trade and tolerance for all religions, were key to this development. It is time to restore these knowledge-based traditions to the Middle East and North Africa (MENA) region.

Why embark on a knowledge- and innovation-based growth strategy? *Unemployment is incontestably the main challenge facing Arab countries.* The MENA region is characterized by a disproportionate share of young people, and suffers from the world's highest rate of youth unemployment. At 20-25 percent, this rate is twice the global average (figure 1). It is estimated that more than 10 million young people enter the labor market annually, but three out of four working age women do not participate in the labor force. It is estimated that to accommodate the

unemployed, approximately 40 million jobs must be created over the next decade.

Figure 1. Youth unemployment rates by region



Source: World Bank forthcoming 2013.

Globalization, Technological Change, and Competitiveness: The twin forces of globalization and technological progress provide countries with new opportunities for economic development. Thanks to the development of the Internet and a variety of new information and communication technologies (ICT), knowledge is now truly global, accessible, and utterly democratic. Along with this dramatic technological change has come a globalization of economies, with intensified competition and the emergence of more-sophisticated value chains in production processes.

A *knowledge economy*, as observed by the Organization for Economic Cooperation and Development (1996)² and as defined by the

¹ Anuja Utz is a Senior Operations Officer at the Center for Mediterranean Integration (CMI). Jean-Eric Aubert is Consultant (CMI). This Quick Note was cleared by Mats Karlsson, Director, MNCMI. It is based on *Transforming Arab Economies: The Knowledge and Innovation Road*, Prepared by the Center for Mediterranean Integration, with the European Investment Bank and the Islamic Educational, Social, and Cultural Organization. Marseille and Washington, DC.

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² As observed by the Organisation for Economic Cooperation and Development in 1996, "OECD economies are increasingly based on knowledge and information. Knowledge is now recognized as the driver of productivity

World Bank (2007), is one in which knowledge is acquired, created, disseminated, and applied to enhance economic development. Making the move to a knowledge-economy involves more than developing high technology industries, investing in ICTs, or acquiring new technologies for use in a narrow fringe of the economy. It involves a more systemic change in the overall functioning of an economy in which knowledge (both new and existing) and innovation (development and commercialization of products and processes that are new to the firm, the market, or to the world) penetrate all sectors of economic activity. In so doing, it increases productivity and generates new goods and services.

The impacts of this paradigm shift are all around us. We witness countries—small ones such as Finland and Singapore, medium-sized ones such as the Republic of Korea, and large ones such as China and India—that are able to harness the power of technical change, compete in the global economy, and nurture their increasingly skilled populations. Others that fail to acquire, adapt, and use new technologies to upgrade their knowledge capabilities, and express their creative talents are doomed to decline. Across the globe, far-sighted leaders are searching for new ideas and strategies to deal with a changed reality.

A new paradigm of growth for the Arab World: The Arab Spring has shown that countries in the Arab world can no longer rely on narrow, statist paradigms of growth. In the southern Mediterranean, years of autocratic rule, characterized by harsh suppression of political freedoms, lack of justice, and crony capitalism, have been rejected by widespread popular movements for change in a number of countries.

The challenge for these countries is to put in place a system that is free, just, inclusive, creative, and dynamic. Restoring confidence

and economic growth, leading to a new focus on the role of information, technology and learning in economic performance. The term “knowledge-based economy” stems from this fuller recognition of the place of knowledge and technology in modern OECD economies.” See also World Bank (2007).

and improving governance are the needs of the hour, but new governments in the region will also have to deliver growth and jobs—quickly, before disillusioned populations are driven to revolt once again. Although the oil exporters seem to have weathered the storm a little better, their regimes must act quickly too and do more to diversify their economies beyond reliance on natural resources. The era when natural resources dominated trade has given way to an era where knowledge resources are paramount.

More generally, the Arab world is currently undergoing a transition on three fronts: (i) a political transition, which seeks to replace authoritarian powers with more democratic ones; (ii) a social transition in which equitable programs to protect the poor will substitute for inefficient policies promoting public sector-based employment and the subsidization of basic goods; and (iii) an economic transition in favor of more competitive and productive economic regimes. The three transitions are intimately interrelated and mutually reinforcing (figure 2).

Figure 2 - A triple transition in the Arab world



The report: *Transforming Arab Economies: The Knowledge and Innovation Road* focuses on the economic side of this transition. On which areas must leaders of the Arab countries³ concentrate

³ This study covers all Arab countries, with the exception of Comoros, Mauritania, Somalia, and Sudan. Reference is February 2013 • Number 83 • 2

in order to stimulate growth, create jobs, restore trust, and provide a measure of hope and prosperity for their people? This is a humble effort to try and answer some of these questions in an integrative framework that puts knowledge and innovation-related policies at center stage.

The incorporation of knowledge and innovation, understood as technologies and practices that are new in a given context, is key to boosting competitiveness and overall productivity. Putting this type of approach to work in any country requires a vision, a strategy that articulates that vision, and the participation and coordination of multiple government departments, private sector and civil society stakeholders, and, in many countries, various development partners.⁴

The report addresses three key questions: Why? What? How? Why should countries in the Arab world make the move to a knowledge- and innovation-driven economy? What would that move entail? And how should it be carried out? In response to these questions, the report provides general policy principles, which are illustrated by good policy practices mostly derived from the region.

Main Messages:

Message 1: *To cope with daunting challenges, particularly the need to create millions of jobs, the countries of the Arab world should resolutely embrace an economic growth model based on knowledge and innovation, following a global move toward the “knowledge economy.”* Over the past decade, some Arab countries have already taken steps toward the knowledge economy to spur growth and improve global competitiveness. Such efforts should be intensified throughout the region. These would

often made to the Middle East and North Africa (MENA) as a geographic region. The MENA region within the World Bank is made up of Algeria, Bahrain, Djibouti, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Malta, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, United Arab Emirates, West Bank and Gaza, and Yemen.

⁴ The proposed approach encapsulates a set of policy orientations that have been provided by the World Bank in a series of important reports related to jobs, education, private sector development, and information and communication technologies (see reference list).

help to significantly generate the jobs needed to keep people, particularly young people, productively employed.

Message 2: *Traveling the knowledge economy road means expanding and deepening reforms in key policy pillars: developing more open and entrepreneurial economies, preparing a better-educated and highly skilled population, improving innovation and research capabilities, and expanding information and communication technologies and their applications.* The success of a knowledge-economy strategy depends on coordinated progress on these key policy fronts. Governments across the region would do well to pursue these types of reforms simultaneously.

Message 3: *In addition to nationwide actions and reforms, governments should make focused efforts to establish appropriate conditions for the development of specific sectors and sites that are sources of new activities and jobs.* There are many opportunities in Arab countries for sectoral and spatial diversification. The development of dynamic “growth spots” would help to create trust and confidence in the new economic model, thus facilitating the overall process of change and reform.

Message 4: *The implementation of a knowledge- and innovation-based development strategy requires a vision, strong coordination at the top level of the government, and a participatory approach to mobilize the population to back the needed reforms.* Strong coordination at the highest level of government is necessary because of the cross-cutting, inter-ministerial nature of such a strategy. A participatory approach is needed to catalyze the ideas, energy, interests, and resources of change agents and of the population as a whole around this approach. Sustained strategic efforts are needed to obtain tangible outcomes and to anchor the new practices so that they will endure over the medium- to long-term.

Message 5: *Active regional integration processes within the Arab world and around the Mediterranean would help to speed up the needed evolutions.* Regional integration processes are crucial to expand trade, develop efficient labor markets, and benefit from the synergies in investments and skills that are vital for

successful projects. There are considerable opportunities within the Euro-Mediterranean context to spur collaborative networks, as through joint R&D platforms, innovation support funds, education programs, and diaspora mobilization. International organizations and bilateral agreements have a key role to play in supporting the integration process.

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Contact MNA K&L:

Gerard Byam, Director, Strategy and Operations.
MENA Region, The World Bank

Regional Quick Notes Team:
Omer Karasapan, and Roby Fields
Tel #: (202) 473 8177

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