

forum forum

Newsletter of the Economic Research Forum

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A Word from the Managing Director

Towards a New Development Agenda for the Middle East

The Economic Research Forum held its 22nd Annual Conference on March 19-21, 2016 in Cairo under the theme of 'Towards a New Development Agenda for the Middle East.' The conference brought together distinguished experts and policymakers from the region and abroad in an attempt to identify the shortcomings of previous development strategies and to chart more sustainable and effective development agendas for Arab countries in transition. The timing of this discussion could not have been more opportune given that policymakers in the region are eagerly searching for new answers to old questions.

It is within this context that plenary speakers examined such questions as: what is the best way to navigate the transition in the short run? In the medium to long run, what should the main features of a new development agenda that meets the aspirations of citizens for inclusive and sustainable growth be? And, since some countries in the region are still mired in bloody conflicts, what can be said about development under these conditions and beyond?

Moreover, ERF held two special events during the conference, exploring the Forum's work on the themes of labor markets and natural resources and diversification. You can find detailed coverage of these two events and others in the coming pages.

Otherwise, this issue of Forum also contains the usual news about ERF, the new additions to the ERF community as well as research and communication activities.

The conference and other ERF activities are the product of collective efforts on the part of many individuals within out and outside of ERF. To all of them I am grateful. I would especially thank our conference guests who contributed to the success of the conference and to ERF's staff, affiliates, donors and Board of Trustees who continue to make ERF an institution of excellence.

Happy reading,

Ahmed Galal

A handwritten signature in black ink, appearing to read 'AGalal'.

ERF's 22nd Annual Conference

Towards a New Development Agenda for the Middle East



Speakers during the ERF 22nd Annual Conference

The Economic Research Forum The Economic Research Forum's (ERF) 22nd Annual Conference kicked off on March 19, 2016. This year's conference was set to last for three days and to explore the development models followed by Arab countries before the uprisings and evaluate why these strategies failed to convince the majority of the populations of their effectiveness.

Around 200 renowned economists, political scientists and policymakers from the region and abroad came to attend the conference to address this year's theme of 'Towards a New Development Agenda for the Middle East.'

The conference began with an opening session chaired by the Chairman of the Board of Trustees of ERF Abdlatif Al-Hamad. Following Al-Hamad's

welcoming of participants, ERF Managing Director Ahmed Galal outlined the agenda of the conference and provided a rationale for the relevance of the chosen theme.

Galal pointed out that we know the uprisings were an expression of the failure of previous development agendas in the region. However, he said that while the demonstrators knew what they did not want and chanted for bread, freedom and social justice, they were unclear on how to reach these aspirations. The big challenge for all of us, he said, is to help our societies figure out the best way to navigate the transition process in the short run while adopting reforms to bring about sustainable development for all. Finally, he noted that one of the plenary sessions was devoted to countries in conflicts, as these deserve special attention.

Plenary Session 1:

Navigating the Transition in the Short Run

Following the opening remarks, the first plenary session on 'Navigating the Transition in the Short Run' kicked off, with World Bank Vice President for MENA Hafez Ghanem presenting on 'The Arab Spring Five Years Later.' Ghanem noted that while Arab transition countries saw GDP increases before the uprisings, people were dissatisfied. He added that while some have gone to say that this shows that the revolutions had nothing to do with economics and were all about demand for political freedoms; this premise is not supported by data. In fact, he asserted, economic factors were at least as important as political ones in fueling the uprisings. In this sense, economic factors were indeed at the heart of the uprisings; however, they had a lot more to do with calls for distribution and inclusiveness rather than growth.

Speaking next, the Rafik Hariri Center for the Middle East's Mohsen Khan presented on 'Economic Fallout from the Arab Spring.' Khan first talked about economic development since the 2011 uprisings, noting that transition countries were doing relatively well from 2000-2010, but then saw a sharp decline starting 2011. He then went over the economic policies followed and noted that they were generally populist in nature, reactive, and not based on any certain development model.

In conclusion, Khan advised that that the first order of business for Arab transition countries is to achieve macroeconomic stabilization and get public finances right by reducing deficits. However, he noted that one thing often overlooked in the search for higher growth is increasing capacity utilization in existing industries. For instance, Egypt was able to grow at 6-7% per year with the same level of existing capital it now possesses; yet many industries

in Egypt now operate at 60% capacity due to shortages. In this sense, if transition countries were to properly utilize existing capital, this would have a significant impact on economic growth in the short term.

Finally, Oxford University's Adeel Malik presented on 'Toward a Political economy of Transition.' Malik stressed that the region needs a new social contract with a stronger role for the private sector, but



"You have to create jobs, but you have to generate investments.. and compete in a globalized world"

Mohsen Khan, Rafik Hariri Center for the Middle East

explained that getting there is extremely difficult, especially with an unconstrained political domain. He noted that falling oil prices offered a more evolutionary moment than the Arab uprisings of 2011, with some countries now being forced to undergo reforms, such as imposition of taxes on idle land owned by elites.



"The region needs a new social contract with a stronger role for the private sector "

Adeel Malik, Oxford University

Malik then outlined seven dimensions for changing social contracts in Middle Eastern countries: Time, Ruler Incentives, Rents, Uncertainty, Process, Coalitions, and Nonlinearities. He concluded that these countries need a comprehensive and coordinated development strategy to achieve the desired goals.

Plenary Session 2:

Navigating the Transition in the Medium to Long Run

ERF kicked off the second day of its 22nd Annual Conference on 'Towards a New Development Agenda for the Middle East' on March 20. This day's plenary session was held under the title of 'Navigating the Transition in the Medium to Long Run' and was chaired by Former Tunisian Central Bank Governor Mustapha Nabli.

The session began with a presentation by ESCWA's Khalid Abu-Ismaïl on 'Arab Development: Challenges and Elements for a New Vision.' Abu-Ismaïl's main premise was that a comprehensive vision and strategy was needed for true development to happen. In this sense, he noted that current Arab development outcomes cannot solely be blamed on bad governance but also on the adoption of the wrong economic policy options. He presented a new Arab human development index as a more comprehensive lens for viewing Arab development and referred to ESCWA's Vision 2030 report, noting that while outlining a complete vision is extremely difficult, the report highlights some suggestions that can be used as a trigger point for further discussions. Such suggestions include the need for a developmental state; pursuing political stability, good governance and structural transformation; and exerting efforts to achieve Arab regional integration.

Speaking next, the World Bank's Shantayanan Devarajan presented on 'Managing the Transition to the Long Run in MENA.' During his presentation, Devarajan stressed that democracy and GDP growth are strongly correlated and that economic growth would see a significant jump if Middle East-



"How do get to the steady state in the MENA region? Democracy and GDP growth are strongly correlated and that economic growth would see a significant jump if Middle Eastern countries become democracies."

Shanta Devarajan, World Bank

ern countries become democracies. He further noted that democracies are more able to align economic performance and life satisfaction. In terms of how to get there, Devarajan said that the region suffers from a broken social contract and thus needs a new one in which "teachers and doctors are accountable to students and patients." However, he noted that this is a not a "one-size-fits all" issue and proceeded to divide the region into transition countries, post-conflict countries and other oil exporters -- each category with its own specific requirements.

Speaking last, the Peterson Institute for International Economics' Caroline Freund presented on 'Activating MENA's Private Sector.' Freund's main premise was that the region needs more big business



"Actually what this region needs is more big business, not more SMEs. Big businesses provide better jobs, and more productivity growth."

Caroline Freund, Peterson Institute for International Economics

as there too few large firms in the region and noted that excessive attention was being paid to SMEs as the best vehicle for employment. She explained that SME promotion "is not bad" and that there are a lot of social reasons for SMEs, especially in terms of empowering women, but that they are not the way forward for employment and that big firms should be the target. In this context, she said big firms can be fostered through better firm entry, more privatization and increased global integration.

Plenary Session 3: Development Under Fire

ERF held its third and final day of its 22nd Annual Conference on March 21. The day featured a plenary session on 'Development Under Fire,' a number of parallel sessions, a special event on 'Natural Resources and Diversification,' and a closing session where winners of the Best Paper Awards were announced.

The plenary session was chaired by Paris School of Economics' Ishac Diwan and began with a presentation on 'Conflict, Security, and Development' by New York University's Sarah Cliffe. Cliffe's talk touched on trends in conflict, causes and correlates, characteristics of successful transitions, violent extremism and geopolitical conflict.

Cliffe noted that the common challenge facing conflict-ridden countries is a combination of internal and external stressors hitting societies with weak institutions. She further explained that countries that successfully transition are not ones that simply lay out grand plans to reform all of society at once, but are countries that go through period of confidence building between all the different parties to lay the foundation for a period of building strong institutions. Finally, she noted that transformations take time and that the average country takes around 20-35 years to undergo a successful transformation.

Speaking next, Former Egyptian Foreign Minister Nabil Fahmy presented on 'The "#Arab Awakening" at the Five Year Mark: Looking Towards the Future.' During his presentation, Fahmy said politics and economics were intertwined and noted that both political and economic agendas were necessary to move forward. Fahmy attributed the reasons for the Arab uprisings to 1) a breakdown in social justice, 2) demographics in the region (with at least 35% of the population being younger than 30), 3) new technologies that empower citizens and

eat away at government power, and 4) the longevity of Arab leaders that made them lack the desire to pursue change.

Fahmy also noted that Arab countries suffer from a foreign policy deficit in that they are overly reliant on external powers to satisfy economic and security needs. Fahmy then proceeded to divide countries into groups. The first comprised Tunisia and Egypt, countries that saw homegrown frustrations that can ultimately only be solved through homegrown solutions. The second group continued Libya, which saw homegrown frustrations and Ghaddafi's efficiency in destroying all government institutions leaving "no one to manage the ensuing disorder." The third group contained Syria and Yemen, which saw homegrown frustrations quickly transform the



"We need to change (we as Arabs) our security paradigm, more self dependence and more regional interdependence."

Nabil Fahmy, Former Egyptian Foreign Minister

countries into regional and international geopolitical playgrounds.

Finally, Fahmy predicted that on the long run, people will slowly be empowered through technology. He also warned of the threat of changing historic boundaries between countries on ethnic bases and advised Arab countries to pursue more self-dependence and regional interdependence.

Speaking last, International Crisis Group's Joost Hiltermann gave his view on conflict-ridden countries in the region and said that the issue is not primarily economic in nature but that psychological factors (mostly related to human rights) were strongly at play. He noted that a social contract assumes a degree of mutual consent, but in the case of the Arab World contracts are mostly non-negotiated and imposed from above. He also noted that social

contracts are not only about economics but are also about provision of protection, stability and security. He said that previous social contracts were coming apart due to privatization, corruption etc., and are being renegotiated without political participation. Hiltermann warned that regimes were manipulating ethic fault lines to achieve political goals and called for a new social contract to repair the social fabric.

Parallel Sessions

A number of parallel sessions were held during the Annual Conference's three days, covering the six themes of Macroeconomics, Microeconomics, International Economics, Finance, Labor and Human Development, and Institutional Economics. The papers ranged in their topics from Productivity, 'Exports Performance and Investment Climate' to 'Asymmetric Growth Impact of Fiscal Policy' and 'The Role of Religion in Transition to Democracy'

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Contact Information
Address: 21 Al-Sad Al-Aaly St. Dokki, Giza, Egypt
Tel: +202 33318 600 | Email: erf@erf.org.eg
www.erf.org.eg

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Special Events

Labor Markets

ERF held a special event on 'Labor Markets' chaired by Koç University's Insan Tunali on March 19 in the context of the 22nd Annual Conference. The session featured presentations by the University of Minnesota's Ragui Assaad, the University of Southampton's Jackline Wahba, Virginia Tech's Djavad Salehi-Isfahani, and Harvard University's Richard Freeman.

Assaad began the session by presenting on 'ERF's Work on MENA Labor Markets Since its Inception.' He noted that Labor and Human Resource Development has been a central theme of ERF's work since the Forum's inception in 1993, adding that ERF owes its success in this area to an integrated strategy that entailed providing greater access to high-quality micro data on labor markets and other human development topics.

Next, Wahba presented on 'Migration and Informality: ERF's role.' She outlined ERF's achievements in the areas of migration and informality and noted that "ERF has played, and continues to play, a pivotal role in advancing the literature on migration and informality." Speaking next, Salehi-Isfahani presented on 'Human Capital in the Middle East and North Africa.' He tackled the issue of education and noted that it has stopped delivering on its promise of social mobility and that "reforms should focus on sharpening the signals of how skills are rewarded by private employers."

Finally, Harvard University's Richard Freeman presented on 'Problems and Research in MENA Labor Markets.' He went over the presentations of the previous speakers and praised their work in the field of 'Labor Markets.' Moreover, he suggested that future efforts should work on improving existing data sets and analysis by seeking to resolve debates by surveying the right people with the right questions instead of just relying on fancy models.



From L to R: Insan Tunali and Djavad Salehi-Isfahani

Natural Resources and Diversification

The ERF region is distinguished by its abundance of natural resources, especially oil. It was therefore necessary to devote time and resources to better understand issues of macroeconomic management and diversification under these conditions. This special session is held to share some of the key findings on these questions.

It is worth noting that this special session on 'Natural Resources and Diversification' was chaired by the University of London's Hassan Hakimian and featured a presentation by ERF's Hoda Selim on 'Avoiding the Oil Curse in the Arab World,' a presentation by Dubai Economic Council's Ibrahim Elbadawi on 'Resource Rents, Institutions and Development,' and a presentation by Jeffrey Nugent on 'Oil and Fiscal Institutions and Macroeconomic Management in Arab Economies.'

Celebrating Excellence

Best Paper Awards

Papers submitted to ERF's Annual Conference are assessed by a committee of internationally-recognized academics from the ERF network. The papers are judged on the soundness of their methodology, the strength of the research, policy relevance, and the extent to which they substantially add to existing research in their field. The awards are presented to the authors of the best paper(s) presented under each theme. The winners of ERF's 22nd Annual Conference Best Paper Awards are listed below, along with abstracts of their papers.

The winners of this year's 'Best Paper' Awards are: Fouzia Ejjanoui (Microeconomics), Nooman Rebei (Macroeconomics), Fatma Chakroun (Finance) and Max Gallien (Institutional Economics).



From L to R: Ibrahim Elbadawi and Nooman Rebei



From L to R: Touhami Abdelkhalek and Fouzia Ejjanoui

Microeconomics

- *A propos de l'impact du non accès au crédit sur les ménages agricoles au Maroc, Fouzia Ejjanoui*

Ce papier cherche à analyser l'impact d'une politique de relâchement de la contrainte de crédit sur le bien-être des ménages agricoles et, par ricochet, sur la pauvreté. Pour ce faire, nous construisons un modèle de ménage non séparable micro-simulé qui intègre par construction des contraintes de crédit et de liquidité auxquelles les ménages ruraux font face. Plusieurs scénarios ont été simulés. Les résultats du modèle

relèvent que la levée de la contrainte de crédit pour les ménages agricoles a eu un effet positif sur leurs activités agricoles et aussi sur leurs dépenses de consommation. Les différentes approches d'analyse conduites permettent de montrer que le bien-être des ménages augmente et que la pauvreté diminue, sous les trois scénarios, suite à l'élargissement de l'accès au crédit. En termes de politiques économiques, il ressort, dans notre cas, que qu'une politique de relâchement de la contrainte de crédits peut être qualifiée de « pro-pauvres ». Son impact est crucial en termes de lutte contre la pauvreté.

Macroeconomics

- *Stochastic Trends and Fiscal Policy*, Karim Barhoumi, Reda Cherif and Nooman Rebei

We study empirically the reaction of fiscal policy to changes in the permanent and transitory components of GDP in a panel of countries. We find evidence that government spending tends to be counter-cyclical conditional on temporary shocks and pro-cyclical conditional on permanent shocks. We also find no evidence that developing countries are systematically different from developed ones in terms of fiscal policy. We present a theory featuring a fiscal reaction function to the output gap and a measure of debt sustainability. The fiscal impulse response to a permanent (temporary) shock to GDP is positive (negative) as the effect on debt sustainability (current output gap) dominates. The results are mostly sensitive to the relative weight of debt sustainability in the fiscal reaction function as well as to the extent of real rigidities in the economy.

Finance

- *Capital Adequacy and Risk Management in Banking Industry*, Fatma Chakroun and Fathi Abid

The present paper deals with the issue of bank capital adequacy and risk management within a stochastic dynamic setting. In particular, an explicit risk aggregation and capital expression is provided regarding the portfolio choice and capital requirements special context. Such a framework leads to a nonlinear stochastic optimal control problem whose solution may be determined by means of dynamic programming algorithm. The pertaining analysis relies heavily on the stochastic dynamic modeling of such balance sheet items as securities, loans and regulatory capital with stochastic interest rates. In this respect, the special Kalman filter approach is used for the purpose of estimating the model parameters. The findings reveal that the Tunisian bank, the subject of study, generally exceeds the minimum requirements and is adequately capitalized to maintain the appropriate capital amount level commensu-

rate with the aggregate risk. Besides, empirical evidence on the regulations' impact on driving bank capitalization and risk-taking behavior has also been highlighted.

Institutional Economics

- *Unpacking Informality: Towards a Political Economy of Illegal Trade*, Max Gallien

Scholarship on economic informality in the social sciences is divided between macro-level accounts and detailed micro-level case studies, with widely different conclusions. This paper calls for a political economy approach to integrate insights from these divergent lines of scholarship. It presents a detailed case study of illegal trade networks in Southern Tunisia. It outlines the heterogeneity of trade networks in their personalization of access, predictability of interaction, and willingness to invest, which defy many of the typical macro-level characterizations of economic informality. It demonstrates how this heterogeneity can be explained by making reference to an imperfect local enforcement environment as imagined by New Institutional Economics. It then further demonstrates that this enforcement environment is endogenous, by tracing its changes after the 2011 revolution. The paper concludes that a consideration of an imperfect, endogenous enforcement environment should stand at the center of a new political economy approach to unpacking informality.



From L to R: Fatma Chakroun and Mine Cinar



Insights

Structural Transformation is Key for Poverty Reduction in Arab Countries

By Khalid Abu-Ismael

The long-term development vision for the Arab region should address the core challenge of poverty reduction, especially in middle and lower-middle income countries. Such a vision must also build on an understanding of the order of magnitude and evolution of poverty in Arab countries. The Arab poverty story, however, depends crucially on our choice of poverty measure. For example, if we rely on international poverty lines based on PPP exchange rates, it would seem that the Arab poor and middle class generally benefited from the liberal economic and social reform policies adopted by most Arab countries since the late 1980s. Accordingly, we may be inclined to accept the view that the Arab Spring was driven by a failure in governance rather than a failure in economic and social policies per se. The basic premise of poor governance being correct, I would argue that on the contrary, the consequences were quite different, namely the Arab poor and middle class were negatively affected by these economic reform policies. The basis for this position is not to rely on international poverty lines, given their problems related to PPP adjusting for exchange rates and inflation. Based on national poverty lines for a large number of Arab countries, the (non-GCC) regional poverty rate may have actually increased slightly from 1990 to 2010.

Likewise, data on the distribution of expenditure derived from household survey (such as the Gini and the share of the bottom 40%) will show inequality is low and slightly declining in Arab countries since 1990s. However, discrepancies between household expenditure surveys and household final consumption expenditures from national accounts suggest that inequality is much higher than we think and that it may have risen particularly during the decade leading up the Arab uprisings. The estimate by

Alvaredo and Picketty (2014) that the share of top 1 percent income receivers might exceed 25 percent of the region's income (compared to 20 percent in the United States) supports this conclusion.

One would like to corroborate this alternative assessment of the poverty and inequality narrative up to 2010 with progress in other aspects of development, which would also give a better sense of the broader Arab development challenges. Although economic growth has been relatively high over the past three decades, per capita growth was modest and there has been a region-wide increase in informal sector activities and vulnerable employment. In parallel, there has been a notable rise in undernourishment (since 1990).

Regional conflicts since 2010 have no doubt exacerbated these challenges. For example, according to the ESCWA Arab middle class report, the middle class size may have declined from 45 percent in 2000 to 37 percent in 2013 while the share of the poor and vulnerable groups is estimated to have increased by an equivalent rate (from 39.5 percent in 2000 to 52.9 percent). The size of the middle class today is likely to be even lower given regional instability since 2013.

What should Arab countries do to make growth pro-poor and in the long-run pro-middle class? If growth is pro-poor, the income of the poor is growing at a faster rate than for the rest of the population. This implies, over time, poverty reduction and an expanding middle class. How can growth be pro-poor? This necessarily implies more effective social and fiscal policies. One concrete example is to redirect the fuel subsidies that mainly benefit the affluent groups to better targeted expenditures

such as income transfers and employment schemes for the poor. Concurrently with poverty reduction, we should also aim to increase the welfare of the middle class so they do not slip into poverty. In the Arab context, this can be done by generating decent employment for the millions of young job seeking Arabs (an estimated 60-100 million jobs are required in the region by 2030). To this end, the pattern of growing informalization of the labor market and/or the concentration of economic activities in low value-added sectors must be reversed by enacting economic policies that increase demand and real wages of the skilled middle class. Employment-led structural transformation can be induced through public investment programs and regional integration.

Is there fiscal space for financing a decent-work led economic transformation? Internal fiscal space exists in resource-rich labor-poor countries but not in resource-poor labor-rich countries. However, the natural complementarities between Arab countries can contribute significantly to improving productivity of the former and alleviating the fiscal constraint in the latter with economic regional integration. There is also much more that can be done to mobilize resources and financial flows, which are amongst other things, attracted by a good institutional environment. This brings us a full circle around, back to governance failure and the need

for governance reform, which at the end of the day, costs little in extra finances.

The solution to the region's poverty and inequality problems lies in providing decent employment, which past economic policies have failed to do. No doubt major reforms in governance practices are also needed. However, they are not sufficient unless accompanied by an ambitious long-term program of economic transformation and regional integration. Finally, the reconstruction of war-torn economies provides an entry point for revising policies along these lines.

About the Author

Khalid Abu-Ismaïl is the chief of the Economic Development and Poverty Section at UN-ESCWA. He held senior positions at USAID, Egypt's Cabinet's Decision Support Center and the UNDP, where he led and co-led several UN flagship publications, including Arab Development Outlook: Vision 2030 (ESCWA, 2015), Arab Development Challenges Report (UNDP, 2009 and 2012), The Arab MDG Report (UN and LAS, 2013) and many others. His research interests include macroeconomic (fiscal) policies, employment, food security, poverty (money metric and multi-dimensional) and inequality. He holds an MA and PhD in Development Economics from the New School for Social Research in New York, and a PhD in Development Planning and Environment from the University of Dundee in Scotland.



Insights

What You Gonna Do When the Robot Does the Job Better Than You?

By *Richard Freeman*

This week Google's AlphaGo artificial intelligence program defeated human champion Lee Se-dol in the ancient game of Go. This triumph of artificial intelligence follows computers beating humans in Jeopardy, Chess, and enough other activities to suggest the world of work is entering a new era. In 2015, Stephen Hawking warned of the dangers of artificial intelligence and robotics. Elon Musk, and many others, raised concerns about machines that could outperform humans in diverse ways. Every day the media reports new robots able to do human work – as surgeons, nurses, receptionists, accountants, and so on.

Economists tend to view the fears of robots taking our jobs as science fiction that ignores economic history and logic. Past fears of automation have proven false as economic growth has turned recession joblessness into booms. Comparative advantage tells us that as long as machines and humans have different skill set, the economy will allot the work that machines do relatively better than humans to the machines and the work that humans do better to humans, even if machines have an absolute advantage in all work tasks. To overcome global problems from climate change to poverty for billions of people requires lots of work from both humans and robots.

And yet... the constant flow of reports of better computer programs and robots able to do our work is not science fiction but reality ... today we follow the GPS program that tells us where to drive our car but tomorrow we will sit in driver-less cars. What will the Go learning algorithm do next?

Today's technology differs from the mechanization and automation of years past, by being increasingly

based on learning algorithms that continually make the computer better at its task, and on soft robotics in which the machine mimics human behavior. Developments in quantum computing that increase the speed of machines millions of times faster than current computers will likely create ever stronger machine competitors for the work humans do in the next decade or today.

Today's economy is also different from the economy of years past. In nearly all countries capital's share of income has risen. Inequality in labor earnings has increased as the gains of technological advance accrue to those at the very top, whose pay is linked to capital through stock grants, options, and bonuses. The labor unions whose task is to raise workers' pay and give them a share of increased output are weaker than they have been in decades.

My analysis of the future of technology and jobs follows from the three laws of robo-economics:

- Robots become increasingly better substitutes for people over time;
- Technological advances reduce the cost of robots in doing work tasks and the wages of workers competing in those tasks;
- The share of income earned by robots increases over time.

With the current distribution of capital ownership, the beneficiaries from improved robotic technology will be the small number of people with great wealth. To assure that the workers who will face increased robotic competition benefit from this, technology ownership of capital must spread to more people. The million dollar prize that went to AlphaGo for winning the Human/Artificial Intelligence contest is just the tip of the rewards that will go to

robots able to do our jobs better than we can. The solution lies in public and private policies to spread ownership.

About the Author

Richard Freeman holds the Herbert Ascherman Chair in Economics at Harvard University. He is currently serving as faculty co-director of the Labor and Worklife Program at the Harvard Law School, and is senior research fellow in Labor Markets at the London School of Economics' Centre for Economic Performance. He directs the National Bureau of

Economic Research / Sloan Science Engineering Workforce Projects, and is co-director of the Harvard Center for Green Buildings and Cities. Freeman is a fellow of the American Academy of Arts and Science and the AAAS. He is currently serving on the AAAS Initiative for Science and Technology. Freeman has served on 11 Panels and Boards of the U.S. National Academy of Science. He has published extensively on a variety of labor markets issues. His current research activities include role of firms and institutions in inequality and unions and workplace organization.

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Insights

Lessons from the Arab Spring: Toward a New Development Agenda for the Middle East

By Hafez Ghanem

Tunisia and Egypt were growing at around 4-5 percent during the period 2000-10, and yet their peoples revolted against existing regimes. A possible explanation for this is that the revolutions were not about economics. They were about demands for greater political participation. But the data does not support this explanation. According to the Arab Barometer, more than 60 percent of Tunisians revolted against the Ben Ali regime because of a perceived economic weakness. Data from the World Values Survey indicate that in 2008 more than 30 percent of Egyptians were dissatisfied in spite of economic growth.

This does not mean that there were no political drivers for the Arab Spring. However, economic drivers were at least as important as the political ones. Arab dissatisfaction with economic conditions was probably due to the fact that the growth was not inclusive. There was a feeling that inequality increased and that a small minority, usually connected to political elites, reaped nearly all of the benefits of growth while most other groups were excluded.

Hence, a key lesson from the Arab Spring is that development policies need to focus on inclusion, and target excluded groups. Youth, smallholder farmers and women suffer most from economic and social exclusion in the Arab world. Young people face huge problems finding decent jobs, and the probability of unemployment even increases with the level of education, which explains widespread unhappiness among educated youth. Whole regions of countries (e.g., Upper Egypt or Western Tunisia) feel excluded. Those lagging regions are home to the majority of the poor who largely depend for their livelihoods on smallholder agriculture. Arab women have the

lowest labor force participation rates in the world and very high unemployment rates.

A development agenda that focuses on inclusion would have at least four components: developing small and medium enterprises (SMEs) in order to create jobs for youth and women; reforms of the education system to enhance quality; rural development and support to lagging regions; and institutional reforms to enhance implementation of policies and programs.

SMEs generate more than 60 percent of jobs in OECD countries. In the Arab world, SMEs are virtually non-existent as the business landscape is dominated by a few large firms and many micro-enterprises. Reforms of the business environment, together with programs targeting SMEs, are needed to encourage SME growth, create decent jobs and expand the middle class.

Over the last few decades Arab countries have succeeded in expanding access to education but quality is a serious problem. Arab students continue to fail basic literacy and numeracy tests, and there is a disparity between the skills that students acquire at schools and universities and those required by employers. In particular, students do not develop 21st century skills like problem solving, communications, and working in teams. Therefore, education reforms need to include changes in the curricula and pedagogical methods, as well as institutional enhancements to hold schools and teachers accountable for student learning.

Support to lagging regions requires paying special attention to smallholder and family farming. This

would include helping organize smallholders and linking them to domestic and international markets to increase their share in value added; improving access to land and securing titles; and increasing investment in research and extension and adapting them to the needs of smallholders.

Arab countries often adopt plans and policies that are technically sound but may not always reflect the needs of various stakeholders. Lack of sufficient buy-in by stakeholders leads to non- or partial- implementation. That is why there is a need to reform economic institutions to make them more inclusive and responsive to citizens' needs. Arab countries could benefit from the experience of successful East Asian economies that put in place consultative processes (including concerned government departments, the private sector, and civil society) to agree on national development plans and monitor their execution.

About the Author

Hafez Ghanem is the Vice President of the World Bank for the Middle East and North Africa. He is a development expert with more than thirty years of experience in policy analysis, project formulation and supervision, and management of multinational institutions. Prior to his appointment as vice president, Ghanem was a senior fellow at the Brookings Institution in the Global Economy and Development program leading the Arab economies project, focused on the impact of political transition on Arab economic development. Between 2007 and 2012, he served as the Assistant Director-General at the Food and Agriculture Organization of the United Nations (FAO). He holds a bachelor's and master's degree in Economics from the American University in Cairo and a PhD in Economics from the University of California, Davis.



Insights

Converting Oil Rents to Inclusive Growth – Missing Ingredients

By Hassan Hakimian

The burgeoning resource curse literature is mainly focused on the link between oil rents and poor economic performance in resource-rich countries. The yardstick for evaluating economic performance in oil exporting countries, such as those in the MENA region, has largely been GDP growth. Little attention has been devoted to whether the experience of economic development in these countries has been inclusive and, if not, why not? This is at odds with the fact that the relationship between growth and equity has a long tradition and deep roots in both economics thinking and development policy debates – an interest that has been revived in recent years.

Inclusive growth can be broadly conceived of as policies that make growth more ‘inclusive’ for the benefit of ‘the widest’ social and economic groupings. Although there is not a universally agreed definition of inclusive growth and also operationalizing the concept has not met with consensual success, recent interest in ensuring that growth is inclusive has been on the rise. The Asian Development Bank (ADB) now features inclusive growth as a long-term strategic framework and the African Development Bank (AfDB) lists it as a development objective. Various governments too openly espouse the virtues of this policy with India, for instance, building concrete strategies into its Eleventh Five-Year Plan (2007-12) to safeguard and promote the well-being of the poor and disadvantaged groups.

Such interest has also been bolstered more recently by a desire to understand the economic performance of the Arab countries in the period leading to the spate of uprisings that brought down autocratic regimes from Tunis to Yemen.

The fact that the decade before these uprisings also coincided with unprecedentedly buoyant international oil prices and highly favorable oil incomes for oil exporters has added an interesting dimension to the habitual curiosity about the relationship between richness in oil endowments and performance in this period.

A recent study I have conducted for the AfDB casts an interesting light on this, asking whether, and to what extent, the experience of the region’s oil exporters in this period may be considered to have been inclusive. This study constructs a single composite index for measuring inclusive growth for each country based on a wide range of indicators (14 in all) pertaining to such broad components of inclusive growth as economic, social, political and environmental aspects. It uses a comparative approach to rank all countries for which consistent and reliable data were available (153 in all are included in the dataset) for the two five-year periods: 2001-05 and 2006-10. The results, in particular for oil-exporting economies of the region offer new insights to the resource curse debate and literature.

Accordingly, the oil exporters – both large and small – Algeria and Iran, on one hand, and Libya, Bahrain and Kuwait (and Qatar to a lesser extent) on the other suffered a fall in their overall scores indicating a deterioration in their experience of inclusive growth during over these two sub-periods. What is perhaps additionally interesting is that for these countries the trend line performance is inferior to those of other Arab countries in general including the ‘Arab Spring’ countries such as Tunisia and Egypt. In the wider MENA context, only Syria and Yemen experienced a more inferior record in this regard. The best

improver, on the other hand, was Oman (if we ignore Iraq which has to be considered an outlier due to a low base during the years of the US invasion).

Despite this shared deteriorating trajectory, there is variation among the oil exporters too. Algeria, Bahrain, Kuwait and the UAE all feature amongst the worst performers in terms of per capita GDP growth (ranking 117, 148, 151 and 153 out of 153 countries, respectively). Equally alarming is perhaps their low rankings in terms of unemployment in general and youth unemployment in particular (for instance Saudi Arabia ranks last amongst 153 countries in the dataset for youth unemployment during 2006-10). Other development dimensions such as gender and environment do not help their overall growth inclusivity either (data on poverty and inequality is unfortunately patchy).

This study underscores one overriding economic lesson of a decade which saw an unprecedented surge in oil prices (2001-10): the need to examine outcomes not just in terms of growth but also the quality of growth, its sustainability as well as the degree to which its benefits may extend to the wider sections of the society.

Estimated 'Inclusive Growth' Scores, 2001-05 and 2006-10, Normalized Ranks (min=0; max=100)

	2001-05	2006-10	Change (%)
<i>North Africa</i>			
Algeria	40.8	35.1	-14.0
Egypt	41.5	42.8	+3.1
Libya	43.0	42.3	-1.6
Morocco	40.3	40.1	-0.5
Tunisia	56.6	57.7	+1.9
<i>GCC States</i>			
Bahrain	63.4	54.9	-13.4
Kuwait	65.2	49.0	-24.8
Oman	43.7	51.5	17.8
Qatar	65.1	64.4	-1.1
Saudi Arabia	43.1	45.7	+6.0
UAE	60.6	63.4	+4.6
<i>Other Middle East</i>			
Iran	43.0	35.0	-18.6
Iraq	15.3	30.0	96.1
Jordan	53.8	54.9	+2.0
Lebanon	41.6	45.0	+8.2
Syria	47.7	38.0	-20.3
Turkey	42.2	44.4	+5.2
Yemen	30.3	21.3	-29.7

Source: H. Hakimian, AfDB, *Economic Brief*, forthcoming, 2016.

About the Author

Hassan Hakimian (@HassanHakimian) is the Director of the London Middle East Institute and a Reader in Economics at SOAS, University of London. He has published widely on Middle Eastern economies with a special focus on Iran as well as on human resources and labour markets in the MENA region. His most recent book (co-edited with Parvin Alizadeh) is entitled Iran and the Global Economy: Petro Populism, Islam and Economic Sanctions (Routledge, 2014). His current research is focused on inclusive growth in the MENA region. He is the founder and Series Editor for the "Routledge Political Economy of the Middle East and North Africa."



Insights

How Can We Limit the Damage?

By Joost Hiltermann

The economic challenges faced by states and societies in the Middle East and North Africa are enormous even in the best of times. But today the region is facing a crisis of unprecedented magnitude that will set back efforts to address these challenges and indeed will cause a level of destruction that, assuming a gradual return to stability, will take decades to overcome. The key questions are: how can we limit the damage and prepare the ground for reconstruction, and also make efforts to protect the states still standing?

The region has been hit by an accumulating crisis of governance, culminating in the popular uprisings of 2011. The subsequent collapse of state systems throughout the region further demonstrated the bankruptcy of the prevailing order. Attempts to maintain (Jordan, Bahrain), renew (Tunisia), or restore (Egypt) that order have been feeble, with success far from guaranteed. Local conflicts in Libya, Syria, and Yemen have started to metastasize and intersect, drawing in regional and even global powers, while radical non-state actors – principally the Islamic State and the PKK – are exploiting the opportunity chaos provides to advance their agenda of erasing 100-year-old borders.

Western states, with the U.S. in the lead, have largely been muted bystanders except for their military response to the perceived threat posed by al-Qaeda and the Islamic State. Some claim that the de facto U.S. withdrawal from the region created a vacuum in which regional powers, uncertain of how to protect their interests, started pioneering in dangerous ways, further inflaming the situation. Others argue that U.S. intervention on behalf of its clients (for example, in Syria) would only have made mat-

ters worse, and could have brought the United States and Russia in direct confrontation. The latter scenario remains possible, regardless of how one comes down in that debate.

The way to recovery must be two-pronged, and be driven by goodwill and very hard work. First, in cases of open conflict, concerted efforts must be made to pursue political settlements, mediated by the United Nations or other credible outside actors, as the best way to reduce polarization and radicalization, and thus take the wind out of the radical groups' sails. Once ceasefires are in place, inclusive political processes must be launched to reach settlements that may not satisfy anyone but can bring a modicum of stability and peace for the next generation. At that point, reconstruction can begin, and the deeper economic challenges addressed.

Second, where states are still standing, the focus should be on nudging governments toward structural reforms at all levels in order to better immunize them against the elements that caused breakdown elsewhere. This will be a tricky balancing act, because some of these states face such a legitimacy deficit, and are staying in power through such naked repression, that outside support – based on the perception that their survival in a chaotic region has become an overriding imperative in order to prevent worse – may further entrench them rather than encourage them to reform, and thereby accelerate rather than reverse the process leading to their demise.

In addition to this two-pronged approach, Western states, which have a stake in a return to stability, should beware of overreacting to the threat posed

by radical actors, and understand them as symptoms rather than causes of instability, even if these groups are now also driving events – in Iraq, Syria, Libya, and elsewhere. Domestic pressures in Europe – from the arrival of unwanted refugees and migrants, and extremists’ attacks in cities – may inform resort to military responses outside a political and strategic framework. Such pressures must be resisted, and such responses avoided, if we are to have any hope of recovery at all.

About the Author

Joost Hiltermann is Program Director, Middle East and North Africa, at the International Crisis Group, an independent NGO dedicated to preventing deadly conflict. He was executive director of the Arms Division of Human Rights Watch (1994-2002) and database coordinator and research coordinator of the Palestinian human rights organization Al-Haq in Ramallah (1985-1990). He is author of A Poisonous Affair: America, Iraq, and the Gassing of Halabja (Cambridge, 2007), and Behind the Intifada: Labor and Women’s Movements in the Occupied Territories (Princeton, 1991). He holds a PhD in Sociology from the University of California, Santa Cruz.



Insights

The Economic Fallout from the Arab Spring

By Mohsin Khan

The promise of democracy and self-determination was the driving force in the uprisings in the Arab world in 2011 that led to regime changes in Egypt, Libya, Tunisia, and Yemen, as well as the granting of greater political freedom by the rulers of Jordan and Morocco. The 'Arab Spring' of 2011 was viewed as an inflection point that would put these countries on the path of political openness and pluralism. However, economic issues were an equally important factor in the uprisings. The explosive combination of undemocratic regimes, corruption, high unemployment, particularly youth unemployment, crony capitalism, high poverty levels, and widening income and wealth inequalities all created the conditions for the uprisings.

Unfortunately, over the past five years since the uprisings, economic issues have largely taken a backseat to politics. Governments of Arab transition countries were late in realizing that politics and economics move in tandem, and political stability is very difficult, if not impossible, to achieve if the economy is in turmoil. As such, the period since the uprisings has been pretty bleak for the economies of the Arab countries in transition, marked by large external and budget imbalances, high inflation, slow growth, and rising unemployment.

Economic growth fell sharply relative to their own past performance, as well as compared to Middle East and North Africa (MENA) countries as a group. The average annual growth rate of the Arab transition countries declined from nearly 5 percent in the previous decade 2000-10 to just over 2 percent

during 2011-15. This low-growth equilibrium was not sufficient to absorb new entrants into the labor force, let alone make any dent in the existing stock of the unemployed.

Governments in the Arab transition countries, although preoccupied with political and security issues, understood that tackling unemployment had to be the main economic priority. But jobs cannot be created out of thin air. The only way to create jobs in the short run is by expanding government employment, which is what several countries did despite the fiscal strains they faced. So far, the public sector remains the largest employer in all the Arab transition countries.

Looking ahead, the growth picture in 2016 does not appear particularly promising for the Arab transition countries, even though some modest improvement is expected. International agencies, like the IMF and the World Bank, are projecting increases in economic growth to a little over 3 percent. Clearly, they are not out the woods.

What should these countries do to become dynamic and vibrant economies that can compete in a globalized world and create sufficient jobs for their young and growing labor force? The first order of business is to bring about macroeconomic stability. Essentially, this means bringing public finances under control, reducing external imbalances, and increasing foreign exchange reserves. But growth and employment are the primary long-term objectives, and governments have to strike a balance between

the sometimes competing goals of macroeconomic stabilization and those of fostering higher growth. Furthermore, political leaders have to do this in an environment where populations are highly impatient and are demanding immediate improvements in their standard of living.

The challenge for the governments is to balance short-term populist measures that they feel politically pressured to take while keeping on a clear long-term economic reform path. High and sustained economic growth that leads to significant job creation will only come about if the Arab transition countries reform their economies to become more market-oriented and allow the private sector to take a leading role. Without these reforms and an expedited economic turnaround, the stability of countries will be threatened. Economic failure could lead to another round of major political uncertainty and upheaval and perhaps new uprisings by the now emboldened populations.

About the Author

Mohsin Khan is a nonresident Senior Fellow in the Rafik Hariri Center for the Middle East at the Atlantic Council in Washington, DC. Prior to joining the Atlantic Council in May 2012, Khan was a senior fellow at the Peterson Institute for International Economics since March 2009. Previously, he was the director of the Middle East and Central Asia Department at the International Monetary Fund. Khan's publications and presentations cover macroeconomic and monetary policies in developing countries, Middle East economies, economic growth, international trade and finance, Islamic banking, oil markets, exchange rates, and IMF programs. He holds an MA from Columbia University and a BS and PhD from the London School of Economics.



Insights

Upward or Downward: Occupational Mobility and Return Migration

By Jackline Wahba

For many poor developing countries, the emigration of high skilled workers is a source of concern. As such, the brain drain is seen as a negative consequence of international emigration. However, international migration can lead to brain gain when the aspiration of emigration increases the incentives to get education, as this increases the possibility of emigration. Another channel through which the emigration of high skilled workers results in a brain gain is return migration, when returnees acquire new skills overseas and return to their origin countries with enhanced human capital.

As such, temporary migration provides an opportunity for workers to acquire physical capital, to accumulate savings and assets and most importantly to acquire new skills and knowledge. Upon return to their home country, migrants represent an inflow of both human capital and financial capital. The return of migrants can be a potential source of economic growth for the origin country through increased productivity and knowledge diffusion.

The literature on the impact of international migration on the human capital accumulation of returnees has focused on the wage premium earned by return migrants compared to non-migrants. Overall the evidence suggests that there is a positive wage premium associated with overseas work migration for returnees in developing countries, see for example Wahba (2015) for evidence on Egypt. Another measure of the acquisition of human capital of temporary migrants is their skill upgrading or occupational mobility. Whether migrants acquire human

capital whilst overseas is an important question for the economic development of the home developing countries since the public debate tends to underscore the negative impact of high skilled emigration, resulting in a brain drain for origin developing countries.

The paper by Nelly El Mallakh and Jackline Wahba, contributes to this literature by providing evidence on the impact of temporary migration experience on human capital accumulation of returnees by examining occupational mobility, a hardly studied issue, of return migrants vis-à-vis working-age individuals who have never migrated, controlling for the non-random nature of migration. Unlike the studies on wage premiums where wages of returnees are only observed at the time of survey, we are able to construct individual occupational mobility based on the first job and the current occupation. Furthermore, we adopt a novel approach in order to identify the impact of overseas migration by constructing cohort groups who entered the labor market in the same decade to control for the initial labor market conditions and examine current occupational mobility relative to their first job.

This research question is important for two reasons. On the one hand, the answer to this question is not straightforward. Temporary migrants might acquire additional human capital due to their work experience abroad and hence, the human capital accumulated abroad might help those temporary migrants to find occupations higher in the skill and remuneration ladder upon return. Conversely, it

might be the case that temporary migration experience is motivated by the shortage of unskilled labor in destination countries and subsequently, the positive effects of temporary migration on human capital and occupational mobility might be contested. Whether temporary emigration and overseas work experience enhance human capital accumulation is an important question. In particular, whether return migration can provide a leeway to promote the economic development of sending countries and compensate for the loss of human capital due to outward migration, through the returnees' higher human capital remain to be understudied issue.

The results show that returnees are more likely to climb up the occupational ladder compared to non-migrants. In particular, the most educated returnees, those who have secondary education or above, seem to climb the ladder more so than less educated individuals. Overall, the evidence from this paper suggests that return migration can lead to a brain gain to countries of origin.

About the author

Jackline Wahba is a Professor of Economics at the University of Southampton in the United Kingdom. She is a member of the UK Migration Advisory Committee. She is an economist with substantial experience in international migration and labor markets in developing countries. She has published in several leading Economics journals. She leads the migration strand within the ESRC-funded Centre for Population Change at Southampton. She has acted as an advisor to several international organizations, including the EC, World Bank, and OECD on labor market related issues. She is also the chair of ERF's Advisory Committee. She is a research fellow of IZA, CReAM, and ERF, a member of the Scientific International Migration Panel of IUSSP and the managing editor of the IZA Journal of Labor & Development. She obtained her PhD from the Department of Economics at the University of Southampton and her MA in Economics from the American University in Cairo.

New ERF Affiliates

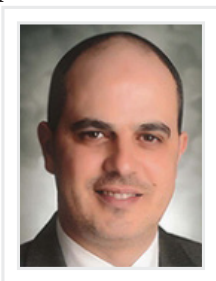
New Research Fellows

Ali M. Kutan

is a Professor of Economics and Finance at Southern Illinois University at Edwardsville, an associate member of the Emerging Market Group, Cass Business School, London. Professor Kutan was a visiting scholar at the Economic Research Department of the Federal Reserve Bank of St. Louis from August 1998 through August 1999. He also served as a consultant to the Asian Development Bank, Bureau of Economic Research, U.S. Commerce Department and the World Bank. He has published more than 150 articles in numerous economics and finance journals. He is currently the editor of *Emerging Markets Finance and Trade* and *Borsa Istanbul Review*, and Co-Editor of *Economic Systems*. His research interests include applied international finance, financial markets and institutions, and financial aspects of economic development.

Moez Souissi

is a Tunisian national with a Ph.D. in Economics from the University of Quebec in Montreal. He currently occupies the position of Economist at the International Monetary Fund, having previously worked at several Canadian public institutions, including the Central Bank of Canada. Building on models on the boundary of finance, network and game theory, his work has been influential in the design and conduct of financial stability policy in Canada. His research explores recent methodologies of bank stress testing, and studies the theoretical underpinnings of systemic financial crises and macroprudential approach to regulating banks. He has several publications in internationally refereed journals, including the *Journal of Financial Intermediation* and *International Journal of Central Banking*.



New Research Associates

Badreldin Mohamed Ahmed Abdulrahman

is a Sudanese national with a PhD in Economics from Sudan University of Science and Technology. He taught at Zalingei University since 2008. He is an associate professor and his fields of specialization are in the area of macroeconomics, microeconomics, economic policies and development, economic growth, gender, poverty and peace-building. He also participated in some conferences and workshops regionally and internationally. He is an editorial member of some international refereed journals and has several publications.



Yagoub Elryah

has received his PhD from Xiamen University with a major in world economy. Currently, he works as an assistant professor to Industrial Research and Consultancy Center (IRCC). He holds editorial positions at the *Journal of World Economic Research*, Science Publishing Group (SciencePG), and *Asian Journal of Business and Management (AJBM)*. He received several fellowship and scholarship awards. He has published extensively in major academic journals on various aspects of macroeconomics, finance and applied microeconomics. Elryah's research interests include macro and microeconomics issues, and academic and corporate research and development.



Bashar Malkawi

is a Jordanian national with an S.J.D from American University, Washington College of Law and LLM in International Trade Law from University of Arizona. His academic career has traversed both business

and law schools, teaching a variety of business law courses in Jordan, UAE, Italy, and United States. He is currently the Dean for the College of Law at the University of Sharjah. His research agenda focuses on the role of the World Trade Organization, regional trade agreements, Arab economic integration, with specific projects examining Arab countries' participation in the WTO dispute settlement mechanism, the application of international law theory to WTO, and the global regulation of intellectual property.

Donia Smaali Bouhlila

is an Assistant Professor a Faculté des Sciences Economiques et de Gestion de Tunis. Her areas of expertise are the quality of education in the Middle East and North Africa, the use of large-scale assessments in education and data analysis mainly the issue of imputing missing data in large databases. Bouhlila is a contributor to several journals specializing in issues of human capital. She is an effective presenter in several languages and is a keen observer of new and potentially important trends in economics, including issues of inequality, statistical modeling, and improvements in data sets with missing values.



Olfa Frini

is a Tunisian national with a PhD in Economics from Cergy-Pontoise, University France. She also took part of her graduate courses at Faculty of Sciences Economiques et de Gestion, University of Tunis El Manar, Tunisia, where she taught as Visiting Assistant Professor following her graduation in 1998. She then taught as permanent Assistant Professor at Institut Supérieur de Gestion of the University of Sousse for six year. She was promoted as an Assistant-Professor in 2011 and taught at Institut Supérieur de Comptabilité et d'Administration des Entreprises, University of Manouba, Tunisia. In 2016, she joined the Tunisian National Board for Family and Population (ONFP) as member of the Scientific Committee in the International Research Training Center (CeFIR). Her fields of specialization are in the areas of economic fertility behaviour, labour, population ageing and macroeconomic policy, and development

economics. Her main research is Tunisia and the MENA region, and Muslim societies. She has several publications in internationally refereed journals.

Hashem About Wafia

is an Egyptian national with an MA in Economic Analysis from the University of Nottingham, UK, and an MSc in Quantitative Finance from the University of Glasgow, UK. He obtained his PhD in Economics from the University of Essex, UK, in 2013. He currently works as a Senior Lecturer in Finance in the Accounting, Finance and Governance Department at the University of Westminster, UK. His research interests include macroeconomic policy and asset prices, financial crisis and applied financial econometrics. He recently published in the International Review of Financial Analysis journal.

Zied Ftiti

is a Professor of Economics at EDC Paris Business School, France. He was associate professor of quantitative methods at University of Tunis, High Institute of Management (Tunis-Tunisia), from 2011-2013. He was an assistant professor at the University of Poitier in 2010-2011. He was an assistant professor at the University of Lyon in 2009-2010. Professor Ftiti holds a PhD in economics from the University of Lyon (2010). His research, academic publications and operational work have focused on two major issues: 1) monetary policy and central bank independence and 2) the financial markets and contagion, and the relationship between commodity and financial markets.

Wifag Adnan

joined Zayed University in the fall of 2013 as an Assistant professor of Economics at the College of Business. She received her PhD in 2012 from Princeton University, where she was the recipient of the President's Award. Her research interests lie at the intersection of Labor and Development Economics and the topics she has worked on thus far include labor mobility, job search, unemployment, wage differentials,



female labor force participation, entrepreneurship, and education. Her doctoral dissertation covered major challenges faced by the Palestinian Labor Market during the period of 2000-2010. She has presented her dissertation chapters at several major academic conferences, such as the Society of Labor Economists (SOLE), European Association of Labour Economists (EALE), and the Institute for the Study of Labor (IZA)/World Bank Conference. She published two of her papers in the Review of Middle East Economics and Finance and Labour Economics, and she has three other papers under review.

Moundir Lassassi

is an Algerian national with a PhD in Applied Economics and Statistics from Aix-Marseille School of Economics (AMSE), France, and the Higher National School of Statistics and Applied Economics (ENSSEA) in Algeria since 2014. He has been a researcher at the Research Centre in Applied Economic for Development (CREAD) in Algeria since 2006 at the Division of Human Development and Social Sciences and a leader of the team "Labor Economics and Social Protection" since 2014 and member of the Scientific Council of Cread. Lassassi's research interest is social sciences with a particular emphasis on the analysis of labor markets in the Middle East and North Africa (MENA) region. His research focuses on Social Networks, Labor Market, Segmentation, Occupation Choice, Informal Employment, Women's employment, Segregation and Wage Discrimination.



Ousama Ben-Salha

is currently an Assistant Professor of Economics at the University of Monastir, Tunisia. Between 2007 and 2013, he taught microeconomics, principles of economics, monetary economics, and international finance at the University of Sousse, Tunisia. He holds a MA in International Economics and Finance from the University of Tunis El Manar and a PhD in Economics from the same institution. His fields of specialization include labor economics, international economics, environmental and energy economics,

and the economics of informality in developing countries. He has published several papers in internationally refereed journals like African Development Review, Economic Systems, Renewable and Sustainable Energy Reviews and Review of Middle East Economics and Finance and made many presentations on various development issues at high level conferences.



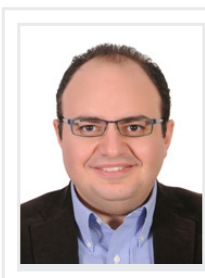
Ahmed Rashad

is an Egyptian national with a PhD in Economics from Philipps University of Marburg, Germany. He earned his MA degree in Economics and Graduate Diploma in Public Policy from the American University in Cairo. He also took part of his graduate courses at Faculté des Hautes Etudes Commerciales (HEC Lausanne), University of Gottingen, University of Kassel, and University of Giessen. After completing the PHD in 2015, he has been teaching microeconomics at the Frankfurt School of Finance and Management. His fields of specialization are in the areas of health and development economics with focus on the MENA region. He has a number of publications in internationally refereed journals in addition to several working papers currently under review.



Moamen Gouda

is currently an Assistant Professor of Middle-East Economics at the Graduate School of International and Area Studies, Hankuk University of Foreign Studies, Seoul, South Korea. He is also a research fellow at Marburg Center for Institutional Economics at Philipps University Marburg, Germany. Moamen Gouda received his PhD in economics from Philipps-Universität Marburg, where he was a Youssef Jameel scholar. He received his MBA from Edinburgh Business School, Heriot-



Watt University, UK. His research focuses on Economics of Religion, Law and Economics of Islam, Constitutional Economics, and Economic History.

Amine Amar

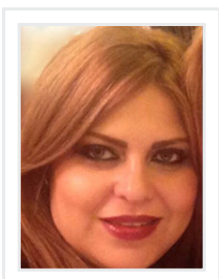
is a Moroccan engineer researcher (National Institute of Statistics and Applied Economics (I.N.S.E.A, Morocco, 2006)) with a PhD in applied statistics from Mohamed V University (Morocco, 2014). 7 experience years in High Commission of Planning (Morocco) and experience on environmental data analysis (MASEN, Morocco). His fields of specialization are in the areas of natural resources and environment, applied statistics, economic development and public policies assessment. Regionally, his main research is related to Africa, emerging countries and Europe. As a researcher, he published papers in scientific internationally refereed journals, related to elaborating and implementing economic and statistical methodologies for some fields, such as hydrology, environment, finance, economy and public policy.



New Policy Affiliates

Faten Al Jabsheh

is a Kuwaiti national with a PhD in Industrial Policy and Economic Development from Boston University, U.S.A (1994). She holds an MA degree in International Relations and Economics also from Boston University, an M.B.A from Roosevelt University in Chicago (1997) and a B.A from the University of Rhode Island, where she worked as a teaching assistant from 1987-88. Between 1992 and 1994, while working on her PhD, she also worked with the World Bank's, Middle East & North African (MENA) Regional Development Program on select research topics in the fields of privatization and public sector management. In 2000, she joined the Kuwait



Institute for Scientific Research's Techno-Economics Division (TED), where she currently works on macro and micro issues of the various strategic sectors of the Kuwaiti economy. Her fields of specialization include economic development, growth theory, industrial policy and trade. In 2009, Jabsheh, worked at OPEC's Petroleum & Market Analysis Department (PMAD) in Vienna on the impact of higher oil prices on the economic growth of developing countries. She has many publications in internationally refereed journals and has been affiliated with ERF since 2003, as a Research Associate.

Khalid Abu-Ismaïl

is the Chief of Economic Development and Poverty Section at UN-ESCWA. He is also teaching at the Economics Department of the Lebanese American University. From 2002-2012, he was Policy Adviser for UNDP where he supported the design and implementation of macroeconomic and poverty reduction policies and programs in Arab countries. He is the lead author of many UN flagship publications including the UNDP Arab Development Challenges Report and the ESCWA Arab Middle Class and Vision 2030 Reports. Prior to the UN, Abu-Ismaïl worked for the Egyptian Government's Cabinet Decision Support Center. His areas of specialization are economic development, poverty and human development, macroeconomic policy, inequality, and international migration. Abu-Ismaïl holds an MA and PHD in Economics from the New School for Social Research in New York, and an MA in Development Planning and Environment from the University of Dundee in Scotland.



ERF News



Ibrahim Elbadawi is the ERF Managing Director Designate

Upon the successful completion of his second term, Ahmed Galal will step down as the Managing Director of ERF on December 31, 2016. Starting January 2017, Ibrahim Elbadawi, will be the ERF's New Managing Director.

Prior to that, Elbadawi was the Director of the Macroeconomics Research Department at the Dubai Economic Council since March 2009. Previously, until February 2009 he was Lead Economist at the Development Research Group of the World Bank, which he joined in 1989. Before that he was Associate Professor of economics at the University of Gezira in Sudan. He holds a PhD in economics and statistics from North Carolina State and Northwestern universities in the USA.

During his work at the World Bank he also served as Research Director of the African Economic Research Consortium (Nairobi, 1993-1998), on external leave from the Bank. He has published widely on macroeconomic and development policy and the economics of civil wars and post-conflict transitions. His regional specialization covers Africa and the Middle East, where he is widely networked with academic



Ibrahim Elbadawi

research and policy forums in the two regions. He is also a (non-resident) research fellow with the Center for Global Development; Associate Editor of the Middle East Development Journal; and Thematic Leader for the "Natural Resource Management and Economic Diversification" theme at the ERF.

Recent Events and Capacity Building Activities

Training Workshop on Applied Micro-Econometrics and Public Policy Evaluation

January 4-6, 2016, Cairo, Egypt

The aim of this course is to provide participants with a deeper understanding of micro-econometric estimation techniques that are widely used in public policy evaluation. Several methods will be illustrated and discussed such as selection correction models, instrumental variables, difference-in-difference, panel data models (fixed and random effects), regression-discontinuity design, and matching estimators. The workshop will be split into theoretical and practical sessions. The workshop will be conducted mainly in English, with the possibility of using Arabic and French if needed. The training was conducted by Ragui Assaad and Caroline Krafft. The workshop was part of the capacity-building activities under ERF's Arab Spring Development Initiative (ASDI).

The Fundamental Economic and Social Choices to Support the Democratic Transition in Tunisia

February 24-25, 2016, Tunis, Tunisia

In collaboration with the Association of Tunisian Economists, ERF held the first round of national dialogue for "The Forum of the Future" under the title of "The Fundamental Economic and Social Choices to Support the Democratic Transition in Tunisia." About 250 participants, including policy makers, government officials, experts and academia, national organizations, civil society and the me-

dia joined the dialogue to discuss some of the most pressing economic, social and political challenges facing Tunisia. Five main pillars were discussed over the two days' event: economic growth and the major choices and reforms; social equity and economic inclusion; reforming the state institutions; the role of the private sector; and, finally, social relations and the labor market. The discussion of the different pillars showed that despite the progress in the political transition, social and economic progress is still fragile especially in light of the current uncertain and unclear vision on how to restore the strength of the Tunisian economy. Tunisia society needs to agree on a vision and make some basic choices regarding these issues in order to move forward.

22nd Annual Conference "Towards a New Development Agenda for the Middle East"

March 19-21, 2016, Cairo, Egypt

This year's conference was set to last for three days and to explore the development models followed by Arab countries before the uprisings and evaluate why these strategies failed to convince the majority of the populations of their effectiveness.



Oil, Middle East, and the Global Economy

April 1, 2016, Los Angeles, California, USA

In collaboration with the University of Southern California (USC) and the Institute for New Economic Thinking (INET), ERF organized two sessions at the conference on “Oil, Middle East, and the Global Economy,” that took place at the USC, Los Angeles, California, on April 1-2, 2016. As oil prices have dramatically declined reaching a level below \$50 per barrel (Brent crude) in early January, a drop of 50 percent since their peak in mid-June 2014), a session was organized on “The Impact of the Fall in Oil Prices.” The sessions brought together experts to review the decline in oil prices within a global perspective, assess its implications for the Arab region and discuss the policy options to cope with this trend. Another session on “GCC Sovereign Wealth Funds” showcased ERF’s own work under the research theme of natural resources and economic diversification. The purpose of this session was to review the links between SWF and fiscal policies and structural features of their home countries.



Some of the participants at the Oil workshop

The Economics of Healthcare in the ERF Region

May 22, 2016, Cairo, Egypt

Equity and efficiency of healthcare services are fundamental drivers of social justice and economic development. The MENA region has made remarkable progress in terms of expanding access to basic health services and improving the health status of its population, yet problems of inadequate and inequitable access to modest quality health care persist. Against this backdrop, ERF launched a call for proposals, in the context of the 16th round of the ERF-GDN Regional Research Competition, under the theme of “Economics of Healthcare in the ERF Region.” ERF received nine proposals, out of which the refereeing committee selected seven projects for funding. The draft papers of these projects were presented and discussed in this workshop.

The Economics of Life Course Transitions in MENA

May 26, 2016, Cairo, Egypt

ERF launched a research project that focuses specifically on the economics of the life course and the way in which life course transitions relate to markets. This research has a strong gender component given the very different trajectories pursued by men and women over their life courses. A central part of such a gender perspective is the understanding of household dynamics and bargaining and how they affect decisions relating to various markets. The objective of the workshop was to provide a platform for discussing the first drafts of the six papers generated under this project, which cover a variety of topics including the relationship between life course transitions, and the markets for human capital formation, labor, and housing, intra-household bargaining, and inter-generational ties.

Incentives in Higher education Tunisia Seminar

June 4, 2016, Tunis, Tunisia

Following ERF's previous work on financing higher education and continuing its partnership with Ford Foundation, ERF launched a new project on Aligning Incentives for Better Quality Higher Education. The study was based on surveys tracking graduates from two fields (business and information technology) into the labor market in Egypt, Jordan and Tunisia. These fields were selected since they are the ones most likely to have significant participation by private and public sector institutions in delivering higher education and thus different incentive structures. The study attempts to exploit these differences to explain variations in the performance of their graduates in the labor market, after accounting for student quality and pre-university preparation. The study then interprets these results in light of information about the institutional framework governing higher education in different types of higher education institutions. The seminar was to provide a platform for presenting the research findings based on the data collected throughout the project in the three countries: Egypt, Jordan and Tunisia.



From left to right: Mongi Boughzala and Samir Ghazouani



From left to right: Ghada Barsoum and Ragui Assaad

Latest ERF Publications

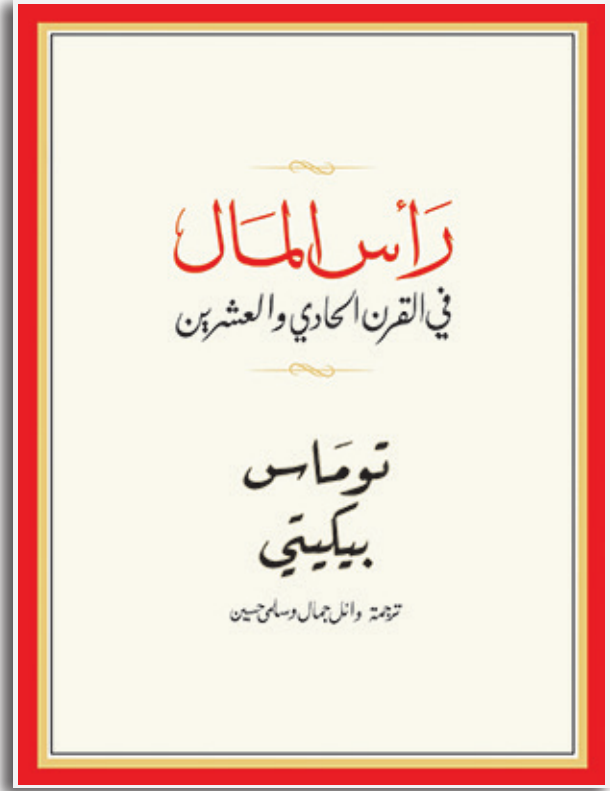
Arabic Version of Capital in the Twenty First Century Thomas Piketty

ERF is pleased to announce the publication of the Arabic translation of Thomas Piketty's book: Capital in the Twenty-First Century. The book is co-published by Dar El Tanweer and ERF and translated by Wael Gamal and Salma Hussien.

A lot of books see their way to the print shops every day, but a few leave their mark on our thinking and promise to withstand the test of time. Capital in the Twenty-First Century is one of those few books.

Intellectually, Piketty's book makes a serious contribution to our thinking about inequality. Its first, and not insignificant, contribution is about facts. Using tax statistics to measure inequality, Piketty documents the evolution of income and wealth over the past 300 years, particularly in Europe and America. He shows that the period from about 1914 to the 1970s was a historical outlier in which both income inequality and the stock of wealth (relative to annual national income) fell dramatically. Since the 1970s, both wealth and income gaps have been rising back towards their pre-20th-century norms. This trend declares the death of the Kuznet's hypothesis, which predicted that inequality would first worsen at the early stage of development but then improve.

Piketty's second contribution is theoretical. His main thesis is that the free-market system has a natural tendency towards increasing the concentration of wealth, because the rate of return on capital has consistently been higher than the rate of economic growth. Two world wars, the Depression and high taxes pushed down the return on wealth in the 20th century, while rapid productivity and population rises pushed up growth. Without countervailing factors, Piketty argues, higher returns on capital will concentrate wealth



— especially when an ageing population means that growth should slow.

The final contribution of the book is related to policies. Facing the prospects of a growing concentration of wealth in the future is what matters to most people most. And his basic recommendation is progressive taxation, both within countries and globally.

When I read the book the first time, I felt ERF has a responsibility to make it available in Arabic. We began to explore the possibility of securing the right to translate it into Arabic from the French publisher. Well, it turned out that Tanweer was ahead of us and had in fact acquired that right. We met with them and quickly came to the conclusion that we will join forces. The book is the product of this joint collaboration. *Ahmed Galal (ERF Managing Director)*

The book will be available for purchase very soon on: <http://jamalon.com/ar>. For more information and inquiries, please contact: Dar Al Tanweer for Printing and Publications: <http://www.dar-altanweer.com/main.aspx>

Latest ERF Publications

The Middle East Development Journal (MEDJ)

The Economic Research Forum is proud to announce the publication of the fifth volume of the Middle East Development Journal (MEDJ).

Vol. 8, No. 1.
June 2016



Labor mobility, economic shocks and jobless growth evidence from panel data in Morocco
Paolo Verme, Abdoul Gadiry Barry, Jamal Guennouni & Mohamed Taamouti

Institutional evolution and economic development in Iran and Turkey
Esra Ceviker Gurakar & Emin Koksal

Competitiveness assessment of the Palestinian economy: a long-run perspective
Shaker Sarsour & Michel Dombrecht

Macroeconomic effects of pension reforms in the context of aging populations: overlapping generations model simulations for Tunisia
Tahar Abdessalem & Houyem Chekki Cherni

Rethinking interest rate volatility as a macroprudential policy tool
Burak Dogan, Afsin Sahin & M. Hakan Berument

The oil cycle, the Federal Reserve, and the monetary and exchange rate policies of Qatar
Khalid Rashid Alkhater & Syed Abul Basher

Threshold effects in the capital account liberalization and foreign direct investment relationship
Mouna Gammoudi & Mondher Cherif

Policy Briefs, Perspectives and Research Reports

The Fable of the Bees: Humanity in the 21st Century – Begin or End?
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Lessons and Pitfalls of Transitions to Democracy
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Tackling Poverty and Poor Health in Turkish Widowed Households State Benefits Work
Oznur Ozdamar and Eleftherios Giovanis
Policy Brief 15

Boosting World Trade in Tunisia and Egypt by Cutting Non-Tariff Barriers Better Imports for Better Exports
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Policy Brief 14

Employment and Rates of Return to Education in Arab Countries Gender and Public Sector Perspectives
Zafiris Tzannatos
Policy Brief 13

Reducing Air Pollution in Cairo: Raise User Costs and Invest In Public Transit
Alban Thomas
Policy Brief 12

Trade Liberalization in Egypt: Let the Informal Labor Market Take the Strain
Abeer Elshennawy
Policy Brief 11

Replace Discretion with Rules: How Policy Reform Can Boost Economic Performance
Izak Atiyas
Policy Brief 10

Sticks Rather than Carrots to Induce More Formality

Aysit Tansel

Policy Brief 9

Modifying the Path of Fertility Rates to Accelerate Egypt's Entry in the Demographic Window (in Arabic)

Sara El Khishin

Policy Brief 8

Going beyond Doing Business to Foster Job Creation in Arab Countries

Jamal Ibrahim Haidar and Hedi Larbi

Policy Brief 7

Working Papers Series

Since the last issue of Forum, 41 working papers have been published and disseminated electronically. All papers can be downloaded from the ERF website: www.erf.org.eg. The recently published papers are listed below:

Labor Market Effects of Pension Reform: An Overlapping Generations General Equilibrium Model Applied to Tunisia

Mouna Ben Othman and Mohamed Ali Marouani

Working Paper 1019

The Effect of Survivors' Benefits on Poverty and Health Indicators of Women and Children in Widowed-Mother Households: A Turkish Case Study

Oznur Ozdamar and Eleftherios Giovanis

Working Paper 1018

Does Microcredit Reduce Gender Gap in Employment? An Application of Decomposition Analysis to Egypt

Mohamed Arouri and Cuong Viet Nguyen

Working Paper 1017

Inequality Decomposition in the Arab Region: Application to Jordan, Egypt, Palestine and Tunisia

Racha Ramadan, Vladimír Hlasný and Vito Intini

Working Paper 1016

Decomposing Welfare Inequality in Egypt and Tunisia: An Oaxaca-Blinder Based Approach

Yosr Abid, Cathal O'Donoghue and Denisa Sologon

Working Paper 1015

Do International Remittances Affect the Performance of Labor Market in Jordan? An Empirical Investigation

Ghazi Ibrahim Al-Assaf

Working Paper 1014

Social Transfers and Income Inequality in Turkey: How Important Is the Gender Dimension?

Cem Baslevent

Working Paper 1013

Services Trade Policy and Manufacturing Productivity: The Role of Institutions

Cosimo Beverelli, Matteo Fiorini and Bernard Hoekman

Working Paper 1012

Socio-Economic Inequalities in Maternity Care Under Political Instability: Evidence From Egypt, Jordan and Yemen

Ahmed Shoukry Rashad and Mesbah Fathy Sharaf

Working Paper 1011

Upward or Downward: Occupational Mobility and Return Migration

Nelly El-Mallakh and Jackline Wahba

Working Paper 1010

Exploring the Determinants of Welfare Distribution in Tunisia and Egypt Using a Welfare Generation Model

Yosr Abid, Cathal O'Donoghue and Denisa Sologon

Working Paper 1009

Measuring Pro-Poor Growth in Egypt, Jordan, and Palestine

Ali Hashemi

Working Paper 1008

Rates of Return to Education in Twenty Two Arab Countries: An Update and Comparison between MENA and the Rest of the World

Zafiris Tzannatos, Ishac Diwan and Joanna Abdel Ahad

Working Paper 1007

Popular Grievances and Perceptions of Socioeconomic Conditions in the Arab Region Prior to the Uprisings

Melani Cammett and Nisreen Salti
Working Paper 1006

Determinants of Contribution Density of the Tunisian Pension System: A Cross Sectional Analysis

Mehdi Ben Braham and Mohamed Ali Marouani
Working Paper 1005

Does Exchange Rate Undervaluation Matter for Exports and Trade Margins? Evidence From Firm-Level Data

Ibrahim Elbadawi and Chahir Zaki
Working Paper 1004

Inequality of Opportunity in Income and Consumption: The Middle East and North Africa Region in Comparative Perspective

Ragui Assaad, Caroline Krafft, John Roemer and Djavad Salehi-Isfahani
Working Paper 1003

Inequality of Opportunity in Wages and Consumption in Egypt

Ragui Assaad, Caroline Krafft, John Roemer and Djavad Salehi-Isfahani
Working Paper 1002

Informalization Dynamics and Gains: Why Want a Job Contract?

Ahmed Elsayed and Jackline Wahba
Working Paper 1001

Returns to Schooling in Egypt

Ragui Assaad, Abdurrahman Aydemir, Meltem Dayioglu and Murat Guray Kirdar
Working Paper 1000

Women's participation in Labor Market in Egypt: Constraints and Opportunities

Hanan Nazier and Racha Ramadan
Working Paper 999

Gender and Labor Allocation: The Role of Institutions and Policies in the Allocation of Female and Male Labor

Hadi Esfahani, Roksana Bahramitash and Bin Lin
Working Paper 998

Southwest as the New Internal Migration Destination in Turkey

Ali T. Akarca and Aysit Tansel
Working Paper 997

Out of Pocket Education Expenditure and Household Budget: Evidence from Arab Countries

Reham Rizk and Hala Abou-Ali
Working Paper 996

Patterns of Veiling Among Muslim Women

Ishac Diwan and Jeni Klugman
Working Paper 995

Comparing Retrospective and Panel Data Collection Methods to Assess Labor Market Dynamics

Ragui Assaad, Caroline Krafft and Shaimaa Yassin
Working Paper 994

Labor Market Dynamics and Youth Unemployment in the Middle East and North Africa: Evidence From Egypt, Jordan and Tunisia

Ragui Assaad and Caroline Krafft
Working Paper 993

Identifying Sources of Inefficiency among Students of Five MENA Countries

Mohamed Ayadi and Abdelali Ben Mbarka
Working Paper 992

An Analysis of Education Expenditures in Turkey By Income Groups

Elif Öznur Acar, Seyit Mümin Cilasun and Burak Günalp
Working Paper 991

Algeria and the Natural Resource Curse: Oil Abundance and Economic Growth

Sidi Mohammed Chekouri and Abderrahim Chibi
Working Paper 990

Export Orientation and Exchange Rate Changes: Do Firms React Differently and Why?

Khalid Sekkat
Working Paper 989

Population Dynamics and Carbon Emissions in
The Arab Region: An Extended Stirpat II Model
*Hala Abou-Ali, Yasmine M. Abdelfattah and John
Adams*
Working Paper 988

Determinants Of Emigration: Evidence From Egypt
Anda David and Joachim Jarreau
Working Paper 987

Returns To Education: An Updated Comparison
From Arab Countries
Reham Rizk
Working Paper 986

Financial Stability and Macro Prudential
Regulation: Policy Implication of Systemic
Expected Shortfall Measure
Hatem Salah and Marwa Souissi
Working Paper 985

Access To the Labor Market and the Impact of
Passage Through an Introductory Traineeship
in Professional Life (SIVP1): The Example Of the
Graduates Of Higher Education in Tunisia From
2004 To 2008
Imen Mouaddeb and Mohamed Kriaa
Working Paper 984

Understanding The Dynamics of Household
Enterprises in Egypt: Birth, Death, Growth and
Transformation
Caroline Krafft
Working Paper 983

Is Corruption "Greasing" Or "Sanding" The Wheels
of Innovation of Firms in MENA?
Tamer Taha
Working Paper 982

Individual Preferences For Democracy in the Arab
World Explaining the Gap
Mohammed Al-Ississ and Ishac Diwan
Working Paper 981

Capital Account Liberalization and Financial

Deepening: Does the Private Sector Matter?
Mohamed Trabelsi and Mondher Cherif
Working Paper 980

Rent Control Dilemma Comeback in Egypt's
Governance: A Hedonic Approach
Shereen E. Attia
Working Paper 979