Statement by Stanley Fischer
First Deputy Managing Director of the International Monetary Fund
at the
Middle East/North Africa Economic Summit
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Mr. Chairman, Your Excellencies, Ladies and Gentleman,

I am grateful to His Majesty King Hussein and the organizers of the Summit for inviting the IMF to participate in this conference. It is an honor to be here; it is also a great pleasure to have the opportunity to take part in a discussion on the economic climate of this region, in Amman, among friends.

I. From Casablanca to Amman

The first Middle East/North Africa Economic Summit in Casablanca a year ago was a celebration and a beginning. More than a year after the Israel-PLO agreement, and shortly after the Jordan-Israel peace agreement, the region celebrated the increasing likelihood of a comprehensive, just and durable peace in the region. And, at the same time, businessmen, policymakers, and opinionmakers -- some from this region, many from other regions -- began to transform the economic possibilities created by peace into a reality.

One year after Casablanca, the peace process continues and deepens. Despite all the difficulties encountered in their immensely complex negotiations, Israel and the PLO signed the new Interim Agreement last month. The Agreement is a critical step towards a final Palestinian-Israeli peace.

Our meeting here is also evidence that the economics of peace is gathering strength. The economic fruits of peace and stability should be rising living standards, declining unemployment, and improving social conditions. The Middle East and North Africa region is potentially rich; it has 6 percent of the world's population, two-thirds of the world's oil reserves, many talented and highly-skilled people, and a GDP of over US$600 billion.

II. Economic Performance and Policies

Unfortunately, economies in many countries in the region are operating far below their potential. To reach that potential, in this region as in the rest of the world, the emphasis must be on a private sector-led, outward-oriented economic strategy, with a more dynamic export performance and greater integration into the world economy at its core. This has been the secret of success in East Asia, it is increasingly producing success in Eastern Europe and elsewhere, and there is no alternative. To be sure, governments have a critical role to play in providing the appropriate legal, macroeconomic, financial, social, and physical infrastructure -- but theirs is an enabling role.

The policy priorities for economic growth are also no secret:

- Achieving macroeconomic stability;

- Creating the right environment for investment and saving, through privatization, deregulation, investment in human capital, reform of labor markets, and tax reform; and

- Liberalizing international trade and capital markets, moving towards integration with the world economy.

Macroeconomic stability: Fiscal sobriety and monetary virtue are necessary conditions for sustainable growth, and for the effectiveness of structural reforms. High inflation is fortunately rare in this region, but large budget deficits are not. Large fiscal deficits create inflationary pressures, crowd out the private sector, and result in large external deficits. Getting the budget in order is often the first step, albeit typically a politically difficult one, on the road to growth.

For many countries in the region, the tax system needs to be strengthened by moving away from trade taxes toward broad-based domestic consumption taxes. There is also much to be gained on the expenditure side of the budget. Many MENA countries spend too much on defense, subsidies, and wages and salaries. The peace process will make it possibile to reduce defense spending. Subsidy programs, an important source of support to low-income groups in many countries, can be made more effective through better targeting. And most governments in the region need to reduce their large work-forces and increase the productivity of those who remain in the civil service.

In reorienting public expenditures, it is particularly important to invest in human resources, through a greater emphasis on education and health. This is a matter not only of economic efficiency, but also of social justice -- and growth without social justice will not be sustainable. In particular, school enrollment, literacy, and labor market participation of females should be encouraged.

Promoting investment and saving: Red tape is the bane of those doing or frustrated from doing business in this region, be they domestic residents or foreigners. Deregulation is essential -- but deregulation requires a profound change in the government's view of its role in the economy. Bureaucrats used to assuming their job is to say no have to learn to say yes. They will not change their ways unless the governments for which they work are firmly committed to encouraging rather than discouraging the private sector.

Foreign investment brings both capital and new technology, and it should be encouraged, not feared. This Summit is itself evidence of the importance that many policymakers in the region now place on foreign investment. Policies that encourage foreign investment also encourage domestic investment.

In many countries in the region, there is ample scope for privatizations that can attract foreign investors into the economy. Privatization provides the best signal of the government's commitment to private sector-led growth. A well-designed privatization strategy can also help reduce the public debt. It is particularly important that privatization be carried out in the context of systematic multi-year programs that incorporate safety net and labor retraining measures. A simultaneous effort to improve the functioning of the labor markets can enhance the economy's job-creating potential.

The lack of long-term finance in the region has often frustrated business initiatives. A well-functioning financial system can help not only by enhancing domestic saving, but also by channeling resources to the most productive uses. This means: first, increasing competition by removing barriers to foreign entry into banking and capital markets, and by privatizing public financial institutions; second -- and absolutely critical, as the number of banking crises around the world grows -- strengthening supervisory regimes consistent with international standards; third, establishing clear property rights, effective custody systems, transparent trading conditions, and a more level playing field among participants; and fourth, improving the instruments of monetary control.

Portfolio-holders in this region have wisely saved a large share of their earnings and have diversified their portfolios by investing abroad. It would take only a small shift of the composition of their portfolios toward the region to make a large difference in the economic prospects of some of the capital-poor countries in the Middle East and North Africa. That shift will take place only if the investment climate improves -- and that depends primarily on the policies pursued in the countries that seek their share of those investments. There is no mystery about what needs to be done.

Integrating into the world economy: Domestic deregulation and the liberalization of trade and payments regimes are two sides of the same coin. Some MENA countries, with the GCC countries among the exceptions, are among the most protectionist in the world. Trade and payments liberalization enhances competition, encourages inflows of foreign technology and capital, and reduces production costs. Key trade measures are the reduction of tariffs and the elimination of non-tariff barriers. These measures are critical if the region is to benefit from the globalization and integration of markets that proceeds apace in this decade, and they are consistent with membership in the World Trade Organization and integration efforts.

The main focus of efforts at liberalization should be multilateral, within the context of the WTO. There is also room within that framework for regional trade agreements that seek to lower tariffs and barriers to trade at a faster pace. The blunt truth is that if countries had to choose between increasing trade within the region and increasing their trade with the world, they would do better to increase their global trade. But they do not have to choose, and they can and should do both. Trade in this region has been so suppressed by political hostilities and adverse economic policies that the revival of regional trade can provide an important boost to the economies of the region. It will also be a by-product of efforts to integrate more fully with the world economy.

III. Recent Progress

If these policies are so obvious -- and they are -- why are they not implemented? The answer lies in the fear and difficulties of change. Economic changes are disruptive, though not as disruptive as vested interests often insist. It is always tempting to delay for another year. But policies that avoid disruption and bring short-run stability cause greater disruption and instability in the long run.

In today's world, people everywhere know what is economically possible. The revolution in Eastern Europe and the former Soviet Union was caused mainly by information, by the growing gap between people's daily lives, and the lives of their neighbors they could see on television. The answer to the difficulties of economic change is not to seek to prevent it, for that only promotes greater, more abrupt change, but to soften its impact, in some areas through the gradual but steady implementation of policy reforms, and by building social safety nets for those who would be adversely affected.

The past year has seen real economic progress in the region:

- The budget situation has been strengthened in several countries, including Saudi Arabia where important steps were taken to increase non-oil revenues and rationalize expenditure, as well as in other GCC countries. I am also particularly pleased to report that the Palestinian Authority has improved its budgetary performance and made progress in building its economic institutions.

- Several countries, including Jordan, Morocco, and Tunisia, have taken further steps to enhance private sector investment. Other countries, including Algeria and Yemen, have undertaken further reforms of their external trade and payments systems.

- Trade agreements among the Palestinians, Jordan and Israel made in the context of the peace process will help increase regional trade. Bilateral Association agreements have been concluded between the EU and

Israel and Tunisia, and progress has been recorded in EU trade discussions with Egypt, Jordan, and Morocco. These advances have taken place in the context of the EU's Mediterranean Basin initiative -- an initiative that can contribute to the region's adjustment and reform efforts and help promote greater regional integration. A Palestinian-United States free trade agreement has just been announced.

IV. The Role of the Fund

While the private sector must assume the leading role in the development of MENA economies, some poorer countries in the region will not, in the near future, be able to mobilize sufficient domestic or foreign private resources to finance growth. Some MENA countries still bear a heavy external debt burden.

Official assistance, multilateral and bilateral, will therefore continue to play an important role in some countries, particularly in supporting adjustment and reform programs and in financing certain infrastructure projects. The role of existing multilateral and bilateral institutions will be supplemented in an important way by the creation of new regional institutions, designed to promote regional development and regional economic cooperation.

The primary role of the IMF is to strengthen the macroeconomic framework for each economy and to encourage its integration into the world economy, through our stabilization and adjustment programs with member countries, through technical assistance, and through our surveillance of the economies of the region. We already cooperate closely with our sister institution, the World Bank, and with existing regional institutions, and we will extend our cooperation to any new institutions, with the goal of contributing to the development and growth of the countries of the region.

A number of countries in the region receive Fund financial support. We are currently discussing programs with a few other countries. Fortunately, some of our members in the region have successfully graduated from Fund financial assistance. We will continue to work closely with the authorities in these countries to assist them in whatever way possible, typically through consultation and technical assistance, particularly in the fiscal and monetary areas.

The economic developments of the last year have contributed to a welcome improvement in the economic climate of this region. The Amman Summit is further reason to hope, and expect, that the people of this region can look forward to a future that is both peaceful and prosperous.

Thank you very much.