

A new economy for the Mena region

By Rabah Arezki And Hafez Ghanem/Washington, DC

Countries in the Middle East and North Africa (Mena) possess all of the ingredients they need to leapfrog into the digital future. They have large, well-educated youth populations that have already adopted new digital and mobile technologies on a wide scale. That combination has immense potential to drive future growth and job creation. But will it?

Public spending, the region's historical engine of development, has reached its limit. Because the public sector can no longer absorb the swelling ranks of university graduates, the Mena region now has one of the world's highest rates of youth unemployment.

The digital economy holds the promise of a new way forward, but it is still in its infancy, and young people face obstacles in putting technology to productive use. Although the Internet and hand-held devices are ubiquitous throughout the region, they are currently used for accessing social media, rather than for launching new enterprises.

But there are green shoots emerging. For example, the ride-hailing app Careem has grown from a start-up to a billion-dollar company, creating thousands of jobs in more than 90 cities in the Mena region and in Pakistan and Turkey. And new digital platforms are already connecting job seekers and employers, providing vocational training, and hosting start-up incubators. The challenge now is to create the conditions for these green shoots to grow and multiply.

The first, essential step is for Mena countries to become "learning societies," a phrase coined by the Nobel laureate economist Joseph E Stiglitz to describe countries in which shared knowledge leads to increased innovation. This, in turn, fosters development; and in the case of Mena, it could lead to

the creation of a vibrant digital service economy.

To get there, education systems will need to change. For the region's young people, the curriculum is more often a source of frustration than advancement. The concept of a "skills premium" – the difference in wages between skilled and unskilled workers – dictates that higher educational attainment should lead to higher compensation and more secure employment. Yet in the Mena region, the opposite has happened: university graduates are far more likely to be unemployed than are workers with only a basic education.

Two factors work against the region's young people. First, schools are still geared toward channelling graduates into large public sectors, which means they place less emphasis on fields such as mathematics and science. Second, bloated public sectors are crowding out the private sector, which would otherwise be a larger provider of high-skill, high-wage jobs.

Because the future economy will need technologically capable workers, curricula should be reoriented toward STEM (science, technology, engineering, and mathematics) subjects and away from the social studies that were long prized by public-sector employers.

Moreover, education systems should focus on encouraging greater openness to innovation and risk-taking – a significant departure from the attitudes reproduced under a system of public-sector patronage. Specifically, moving toward an innovative "learning society" will require students to hone their critical-thinking and managerial skills within collaborative work arrangements.

In addition to skills, the digital economy will also need technical infrastructure. Connectivity is a prerequisite for the delivery of new mobile and digital services in e-commerce, vocational training, healthcare, and finance, all of which could substantially increase overall welfare. Countries in the region thus need to focus on expanding broadband Internet access.

Education and Internet infrastructure geared toward productive use would provide the foundation of a new economy. But ensuring sustained growth in the region will require improving its financial systems as well. A digital economy depends on payment systems that are not just easy to use and widely available, but also trustworthy. Developing effective peer-to-peer payments that require no financial intermediary like a bank will be crucial for ensuring that digital platforms for ride sharing, on-demand tasks, and other services can thrive. Outside of the Gulf Co-operation Council countries, which have relatively advanced payment systems, the quality of financial services in the Mena region currently lags behind most of the rest of the world. Barring improvements to the financial system, and to the banking sector in particular, the potential of the region's vast human capital will not be realised.

Lastly, governments will need to develop an approach to regulation that encourages, rather than stifles, innovation. To be sure, ensuring confidence, especially in financial systems, is essential; but regulation must be balanced with policies to boost competition, so that start-ups can easily enter the market and test new ideas. There needs to be more space for more companies like Careem to emerge. Policymakers should look to Kenya's model of light but effective regulation, which has fostered the rapid growth of the peer-to-peer payment system M-Pesa.

Seizing the opportunities that the digital economy offers the Mena region will require a big push. Policymakers will need to work on multiple fronts, while making the best use of all available tools. The sooner they start, the greater the chance that today's young people can overcome economic exclusion and gain more opportunities to realise their – and their region's – full potential. – Project Syndicate

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