

ECONOMIC CONDITIONS AND TRENDS IN THE REGION

Potential Strategies to Encourage Foreign Direct Investment¹

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Let me start with a puzzle. In 2002, everything we know about human beings says that we are normally distributed. Some of us are very tall, some of us are very short, but most of us are average. Some of us are very smart, some of us are very dumb, but most of us are average. In anything you look at in human beings, you tend to come to that conclusion, but if you look at countries you see something very different. In 2002, the range in per-capita income across the world using purchasing power parity was about 500 dollars in the poorest countries in the world and 40,000 dollars in the richest countries in the world. In 2002, there were 28 countries with 847 million people living in those countries whose per capita income was above 15,000 dollars. At the same time there were 169 countries with 5 billion people living in those countries with per-capita income below 7500. Between 7,500 and 15,000, the middle, there were only 11 countries with 130 million people.

In the world, there is nobody in the middle when it comes to countries. You are rich or you are poor and there is no middle class. And if you look at those eleven countries, there are either countries rapidly shooting up, or, like Argentina, rapidly shooting down. Nobody stays in the middle very long. And the question then obviously is in my puzzle to you, that you can think of answering at the end: Why is there nobody in the middle – given that we think that human talents are normally distributed?

Of course, part of the answer is: it didn't used to be that problem. Go back 300 years to 1700. In 1700, economic historians believe that there was no significant difference in per capita income between the wealthiest countries in the world and the poorest countries in the world. We were all equal. Because in 1700, 98% of the people in every country around the world worked in farming and every farm in the world used exactly the same technology: people power, animal power, human and animal manure, seeds collected from the last crop. There were places in the world where they had better rainfall or soil, but they just had more people. In 1700, economic historians believe that half the GDP of the world came from India and China because half the people of the world lived in India and China.

And then in the early 1700's, the French invent, and in the late 1700's the British perfect, the steam engine. The first industrial revolution and all of that... And with the invention of the steam engine, the economic historians say that 8000 years of agriculture-dominated human activity have come to an end. If you want to be rich as an individual, a company, or a country, you have to play the industrial game. And in the country where this industrial revolution began, Great Britain, is usually dated to about 1780. By 1810, just thirty years later, the wealthiest industrialists in Great Britain were wealthier than the landed dukes, the royal dukes, who had been the wealthiest people in Great Britain for the previous one thousand five hundred years.

And of course the problem was some people leapt into this revolution and some did not. It wasn't that the poor became poor, it was the fact that the poor didn't become richer while other people were becoming richer, because if you go back and compare the poorest countries with a per-capita incomes of late feudalism, it looks remarkably similar because they used exactly the same technologies that were basically used in late feudalism.

If you take a course in economic history, about 100 years later, the economic historian will talk about the second industrial revolution. And that was the second industrial revolution that revolved around electrification. And we tend to forget how pervasive electricity is until it goes out. If you were in NY last summer when the electricity went out and you had a hotel room, you could not get into it because electronic keys don't work when electricity is out.

Fast forward to year 2000, some people have leapt into the steam revolution, some didn't. Some further leapt into the electrical revolution, some didn't. There are about 6 billion people in the world and tonight 1.6 billion of them will go to sleep in a house that does not have electricity. A hundred and thirty years after the revolution begins, a third of humanity is not participating in it, and by the time you get to the year 2000, the gap in per capita income between the richest countries in the world and the poorest countries in the world is now on the order of 140 to 1.

Complete equality has been replaced by great inequality. And the question to ask is: "Why did some people leap, the minority, and the majority of people do not leap?" I think that fifty or five hundred years from now, an economist historian is going to call our period of time the third industrial revolution. This a revolution based on microelectronics, computers,

telecommunication, man-made materials, robotics and biotechnology. Now, in each of those areas we can talk about a revolution that is going to change the world. Of course the one that may affect the Middle-East is the one called man-made materials and the fuel cell. If perfected, 90% of the demand for oil will disappear.

And the answer is the engine problem has been solved – if you go and talk to the automobile companies. What have not been solved are the infrastructure problem and the storage problem. But if you want to examine in detail, each of these six technologies are going to cause a major revolution in the world as to what technologies you want to leap in to be successful. Now, oftentimes, when you have a revolution like this, you don't know what the equivalent of steam and electrification are until you look backward.

This time I think we do, because I think I know exactly what the historians, 500 years from now, are going to say about our time.

In the year 2000, plus or minus, because of biotechnology and human genome project, for the first time in human history, people could change their own genetic make-up. And that is in fact the most important invention of all human history. More important than the wheel, because we can change ourselves. We are not talking about something that we might do, we are talking about something that we are doing. Anybody in this room who wishes to adapt small children can make them 4 to 5 inches taller. Human growth hormone: cheap, plentiful, available, no known side effects. Technically illegal in the United States for vague ethical reasons, but you can get it from the Bahamas, We have Americans going to the Bahamas getting growth hormone building taller children. And they are not people with short children. You got a son with 6 foot 4 who'd like to play NBA basketball, and at 6foot 4, no matter how coordinated he is, he is very unlikely to make a team. If you make him 6-foot 9, he is almost guaranteed to make a team. 5 inches means 3 millions dollars a year and as we speak we have Americans building basketball players.

Now, that revolution in technology has lead to the second revolution. Now if you think of that technology revolution, what you should think of it is a shift from an industrial society to a knowledge-based society. And the symbol of this but not the cause is Bill Gates. Because for all of human history, the wealthiest person in the world has always commanded natural resources. I used the word 'commanded' deliberately because usually they were a general or an emperor. Julius Cesar was the wealthiest man in ancient Rome. Because of his generals that conquered

Spain, he legally owned all the gold mines of Spain. Sometimes it was the emperor of China, sometimes it was the Sultan of the Ottoman Empire, sometimes it was the King of Saudi Arabia, and in 1996 it was the Sultan of Brunei. But in 1997, it's Bill Gates. Of course, the interesting question is what does Bill Gates own? No land, no gold, no oil, no buildings, no machines, he does not even own patents. What he does is control the knowledge process. And that makes him the wealthiest person in the world and depending on the day, and this is one of those days, his company is the wealthiest company in the world.

This is a symbol of profound human change. For the first time in human history, you can get fabulously rich by controlling knowledge. That's never before been possible. That technology revolution has led globalization. It's very important to understand that the world today is a lot less globalized than it was a hundred years ago, because a hundred years ago was the peak of the colonial empires. In 1900, 25 % of the landmass of the world was ruled from London: Australia, Burma, India, Nigeria, Canada, etc. Fifteen percent of the world was ruled from Paris. The United States was running Cuba and the Philippines. Japan was running Korea and Taiwan. China had been divided. There were only 40 independent countries in the world as opposed to today's more than 200. And of those forty, half of them were not fully independent because they were in Latin America under the thumb of the American Monroe doctrine.

But this is a very different globalization. This is a globalization led by business firms, not government and armies. And the problem governments have is that it's basically under-cutting their authority and power. Governments in the twentieth century got used to thinking of themselves as air traffic controllers. I can control the flows of my economy. And maybe even more important, in the twentieth century, they had to think of themselves as runway builders, airport builders. Can I build a runway so desirable that the rest of the world would like to land on my economy and participate and so good that my people and firms can take off and successfully compete in the global economy. I build that runway out of educated citizens, infrastructure, legal and social systems, and if I play it at the highest level, research and development.

Now, there is a third revolution that goes with these two, it also has some magic dates. It's called 1978, 1989, 1991- the years communism collapsed. In 1978, Deng Xiaoping stands up and says it does not make any difference whether the cat is black or white, the question is 'does he catch

mice?'. He announces that he will abolish the communes, and within eighteen months, every hectare of land in China is given to some peasant family under the family responsibility system, and the largest country in the world that has been outside the capitalist economy joins the capitalist economy. And, as it joins, it leads. Napoleon can be said to be correct. In 1808, Napoleon supposedly said to Lord Robbins, one of the royal dukes of England: "China is a sleeping dragon, when it awakes, the world will shake." And the answer is China has awoken and the world is shaken.

Three times in the last half of 2003, I went around the world, each time stopping in four to five countries, and there is only one topic of conversation everywhere around the world: things moving to China. If you go to Mexico, the television set manufacturing industry for the United States that used to be in northern Mexico in the Maquiladoras: moving to China. If you go to Malaysia, the computer manufacturing that used to be in Malaysia: moving to China. If you go to Turkey, the European operations that used to be in Turkey: moving to China.

Now, at this point, you should ask a question: "What does this all have to do with Gaza and this part of the world?" And the answer is: quite a bit. The first thing it has to do is, because of globalization in the good old days, you had to be a big country to be rich because you really needed economies of scale. But today, as of this moment, if you take the ten wealthiest countries in the world per capita, only one of them, the United States, is a large country, and the other nine all have a population less than ten million.

So in some sense today, because of globalization, there is an advantage of being small because if you can get organized, and that's easier in a small country, you could be a Singapore. I don't know if it's really true, but Lee Kwan Yue supposedly has a computer where every tree in Singapore that is more than twenty centimeters in diameter is listed and he can track the growth of every tree in Singapore. You can not do that in big economy but you can do it in a small economy. More to the point, and this I know is true, he has a list of a hundred high-flying human beings in Singapore that he thinks are going to be the hot shots of the future, and he tracks their career, and he tries to make sure that they have the right experiences, so that they will be in fact be the leaders of the future. You can do that in a small country, you can't do that in a big country.

And of course the answer is that it then means that a small place like Gaza, or Gaza plus the West Bank has a legitimate chance to get rich. The other thing of course is that what this knowledge-based revolution is doing is meaning that natural resources are less important. That's a good thing for Gaza and a bad thing if you are in the Persian Gulf. Because one of the things you have to worry about if you are in Saudi Arabia is what are we going to do, not when oil runs out, but what are we going to do when oil no longer play the role in the world economy that it does today? We have an example of that: in 1880, Chile was the 8th wealthiest country in the world per capita. The US was number seven. Britain and Australia were one and two. Chile was wealthy in 1880 by the exports of natural deposits of guano nitrate necessary for making gunpowder. Electricity and copper had not been developed. And then the Germans discover how to make synthetic nitrates. Essentially overnight, Chili goes from wealthy to poor because the resources upon which it depended ceased to be valuable resources. Those guano nitrate deposits still sit there in Chile, unmined, because today there are no reasons to mine them. And the fuel cell is the equivalent of synthetic oil. Overnight, if it happens, it would make a Kuwait into a poor country as opposed to a rich country, just like Chile, overnight, which went from a rich country to a poor country.

And so the good news is: you don't have to be big to be rich, that fits our test case here. You don't have to have natural resources to be rich, and this part of the Arab world does not have natural resources. But of course there is bad news. In the world, the biggest economic disaster is central Africa; per capita income is falling below where they were in 1965. But the second largest economic disaster is the Arab world. In the Arab world, nine out of ten countries have a falling per capita income. Some have a high income, some have a low income, but everybody is falling including places like Saudi Arabia.

And about the only two exceptions are at either end of the Arab world: Morocco at one end, and UAE and Oman at the other end. Everybody in between has falling per capita incomes. And that includes Israel. Israel's per capita income, given the current events, is down twelve percent and is falling at the rate of one or two percent a year. The official unemployment rate in Israel is above ten percent but the real unemployment rate is closer to 20 percent, because you should ask yourself the question: those people in the isolated Jewish settlements in Gaza or the West Bank, how do they earn their living? People right on the green line can commute to jobs in Israel proper. But if you are one in the isolated settlements, how do you earn a living? The answer is

that they all have make-work government jobs, this is all disguised unemployment. They are not real jobs. They are make-work government jobs. Paid for by the taxpayer. They may guard the settlements, they may teach kids, but they are jobs that wouldn't exist if Israel did not have those settlements.

And so one of the things you need to think about is: Why is this part of the world a failure? And if you are thinking about Gaza and macroeconomic engineering, how do you make Gaza a success? What I am going to suggest to you is that infrastructure is very important but it won't do it by itself. The place you have to start, and this is something that you need to know, every country in the global economy has to have a selling proposition. For a number of years, I ran the Jeddah economic forum in Jeddah, Saudi Arabia, and the last time I did it, we had a gentleman who, at that time was the head of the London Business School, give a talk on "How does a country sell itself?". What's the selling proposition? China knows what its selling proposition is. Come to China, this is the cheapest place to make everything. Which means that if you want somebody to come to your country, you have to have a better selling proposition because they have the option to go to China and, so why should they come to your country as opposed to go to China?

And of course another example at the other end was Ireland. Think of Ireland, the miserable Irish. For all of human history they were poorer than the English. They joined the common market 25-30 years ago. They, Portugal and Greece were the poorest countries in Western Europe. Fast forward 25 years, 2 or 3 years ago, the Irish for the first in human history passed the English in terms of per capita income. And today they are the third wealthiest country in Western Europe. The only two wealthier are Norway and Luxemburg. What did the Irish do after 2000 years of miserable failure? The answer is, when they joined the common market, somebody was either lucky or intelligent, and they said: we have a bunch of miserable companies that make no money. We have a corporate income tax at 45 percent. What is 45 percent multiplied by zero. Well it is zero. Why don't we have zero times zero, that's also zero!

And so the Irish abolished the corporate income tax, and then they had the basics, education, legal system, etc, and then a company from outside the common market, looking at the common market for where to put a factory, Ireland pops to the top of the list. Why wouldn't I go to Ireland, pay no taxes and get an engineer I pay 7,000 dollars to as opposed to go to Germany and

pay 45 percent taxes and get an engineer I pay 25,000 dollars to. Fast-forward 25 years, 70 % of the Irish GDP is produced by foreign-owned firms. And the Irish for the first time in human history are wealthier than the English and above the European average, near the top of the European average.

Now the problem with having an economic development is that everybody knows exactly what you have to do. There is no mystery in that. The problem is execution. Execution is infinitely difficult. Suppose you have to do ten things to be developed and you have to do all ten. And if you do half of them, five, that doesn't get you halfway to development. It does not do you any good at all! Do you remember your statistics? One-tenth times one-tenth times one tenth – the probability of being successful is very small with a lot of zeroes- even though the probability of succeeding in each of these activities is one out of ten. And we know what these activities are.

The first one, which the West Bank and Gaza violate, you have to have a low population growth rate! That's why China is going to be successful and India is not. If you have 5 to 7 children per woman, you've got something like a four percent growth rate in population! Which means that your economy can grow at four percent and you make no progress whatsoever! No economy in human history has ever averaged over four percent for a hundred-year period of time. If you are growing at the maximum human rate, you cannot succeed economically. And if you look at all the countries that are rich: Japan, Germany, the United States, they all had at least a century with their population growth rate is less than one percent. And it's worse as the denominator gets bigger.

If you have a high population growth rate, what do you have to do with all those new citizens? First thing you have to do is bring them up to national average, which means that you have to do investment in housing, education, infrastructure, all of those things, not to mention what economists call deepen capital investment, but just to widen it. And with a 4 percent population growth rate, the society basically has to put 40 percent of its resources into equipping new people as opposed to raising the standard of living for old people, existing people, and any society that does that has no income left over to raise the per capita income of what remains. So first thing you have to think about is low population growth rate. And if you are not willing to do that, you are not going to develop. That's not economics, that's just simple mathematics.

The second thing you have to do is mobilize resources. Labor, capital, education, infrastructure. Let me come back to the infrastructure. If you are in Asia, where you have a lot of people, you mobilize capital. What is the domestic savings rate in China? 30 % . What is the domestic savings rate in Singapore? 50 % . And those did not happen by accident. They happened because these governments knew that these societies were short of capital and they had to force people to save more. That's easy to do technically, that's not so easy to do politically. What did we do in the United State in the nineteenth century? We had lots of capital, we had shortage of people. So, we mobilized people. We went around the world in places like China and said: come to the United States of America to build the western half of the transcontinental railway.

We lied to people. We went to Europe and handed out pamphlet with dishonest advertising, because they basically told poor Europeans that this was a land of gold and that they would have instant success, and that was not true! But we made great efforts to increase the labor supply in the United States in the nineteenth century because that's what we were short of. If you are mobilizing your resources, you have to focus on the resources you are short of, and of course that means in Gaza and the West Bank, you have to be like in Asia – and organize a society that is a high-saving society. Easy to do!

Suppose I abolish credit cards in the United State tomorrow morning. That would triple or quadruple the savings rate. Because the problem with credits cards is that when you borrow money to buy, let's say, your car, you borrow money that somebody else has saved and you consume it! And you don't do any saving yourself at all! If I make you pay cash for a car, first of all, you don't borrow the other guy's money and secondly you have got to save you own money until you get the, whatever, 25,000 dollars to buy a car. It has an enormous impact on saving rates. No tricks in raising saving rates, the trick is politically doing it, but you've got to do it.

Now, infrastructure is right on target: if you remember, that is one of the things that you need to do. Infrastructure investment allows you to take existing resources and work them more efficiently together. What the railroads did for the United States is mean that you can grow wheat in Kansas, which is something you can always do, but know you can get to New York City and sell it. So that Kansas was a very different place for growing wheat after there was the infrastructure, because now there was a market that you can sell it to because before that the transportation costs were so high, by the time you get the wheat from Kansas to NY, it wasn't

going to be sold in NY because it wasn't competitive. So, infrastructure is front and center. So in that sense I think that we are right on target when we talk about the kind of infrastructure things that Ernst is talking about.

But who is famous in the world to built infrastructure like crazy, and having a lousy economy? That was the old USSR, who put enormous amounts of money into infrastructure and got nothing out of it because in addition to infrastructure you need a motivation system. Something's got to motivate the individuals to work hard. I remember the old joke in the old Soviet Union used to be: they pretend to pay us and we pretend to work.

But think about China. The real success story in China is not in the cities where you and I go to but in the countryside. In 1978 Deng Xiaoping abolished the communes as I mentioned. And By 1990, 12 years later agricultural production had quadrupled. Doubled and doubled again. With no investments in pesticide, no investments in fertilizer, no investments in machinery, no investments in transportation, just better incentives. Because for the first time, the peasants in China had an incentive to do their farming right rather than to do their farming wrong.

The next thing you've got to have is either what economists call social capital or social economies. Can you work together? Think of ancient Egypt. Why was ancient Egypt rich while the rest of us were basically living in caves? For two reasons. First of all they had learned how to read and write, which meant that they could send messages, they could keep records. And they could keep records of the height of the Nile so that they could regulate for their irrigation. And they had the social capabilities of working together to build an irrigation system and, more importantly, allocate the water in the irrigation system. And with those two things, for about 3000 years Egypt was rich while the rest of the world was poor. So the issue is: do you have technology that the rest of the world doesn't have? And do you have the ability to work together?

Now let's take technology. Because I would argue that on this island we are going to need something besides having the infrastructure: we are going to need the technology. How do you get the technology demanded in the world?

There are basically two ways of doing it. One way you can follow is the Japanese- Korean model: you're basically trying to copy the technology of the world, bringing their technology home,

trying to it change a little bit, make it ten percent better and then compete with the rest of the world. That's what the Japanese did in the fifties and in the sixties, and that's what the Korean had done since essentially the sixties, seventies and eighties. The problem is: the world won't let you do that anymore. Remember in the nineteen sixties we used to have all these late-night jokes with Johnny Carson about Japanese running around with cameras taking pictures of American factories. How many American factories today do you think would let you in with a camera? How many do you think would even give a tour?

We now understand that technology is the key to success and everybody locks it up. Now if you want to learn something, what's the best way to learn it? Hire a teacher who knows how! Now in this world, how do you hire a teacher? It's called foreign direct investment. You hire the company that's good at that. You don't hire them, you bribe the company that's good at that, to come to your country. And then, of course, there is the Taiwan model. Taiwan did not know how to make scanners, but they persuaded Hewlett Packard that they were the best place in the world to make scanners, so Hewlett Packard came to Taiwan and taught them how to do it, and at one point Taiwan made a hundred percent of the scanners in the world. They did not learn how to make scanners; they were taught how to make scanners. Same thing on laptop computers where they topped out at about 90 percent of the world market. They never learned how to make laptop computers; they were taught how to make laptop computers. And of course, that's why China is so successful today.

If you look at foreign direct investment, excluding the United States, there is about a hundred million dollars in foreign direct investment that goes to everybody else except the United States. China gets 60 out of the hundred. India gets 2. Japan gets 1. Foreign direct investment is not money, 60 Million dollars is trivial in China because with 30 percent internal saving rates, they have 300 billion dollars worth of internal savings and 550 billion worth of foreign exchange reserves, and they could easily borrow another trillion dollars from the World Bank.

Foreign direct investment is technology, markets, scarce management skills, scarce engineering skills: things you can't buy with money. So, one of the things you need to think a bit in this all operation is how you get foreign direct investment to Gaza. You won't just do it with infrastructure. China has infrastructure. What is the selling proposition you are going to use for this offshore island, so to speak?

Now there is something that ought to happen: Egypt has wages lower than China. Egypt is full of educated people who are underutilized. If you think of a European company doing offshore manufacturing in the Far East, let's say China, it's kind of crazy. Why would they go all the way to China? Maybe they don't understand Egypt, but they understand China a lot less than they understand Egypt. Egypt, which is just on the other side of the Mediterranean, there is a two-hour flight versus of a ten-hour flight; there is no change in time-zones. It would make sense to do all your manufacturing in North Africa. And of course, the European have kind of semi-realized this because there are the famous Barcelona Accords which basically say in a very vague sense that North Africa eventually will be given some kind of NAFTA-type deal where they will have some special arrangement with Europe.

Now, the interesting thing is that the eastern end of the Mediterranean is left vague as to whether they are in the deal or out of the deal. It is not obvious if you implemented the Barcelona accords, whether Gazas, the Israels or the Lebanons are included. I think it is quite obvious that Saudi Arabias and the Dubais are not included in the Barcelona accords, because they basically implied that at the very least you have to touch the Mediterranean.

Now the question is, you then have to analyze: Why don't the European don't go to Egypt? If they don't go to Egypt proper, they are not going to go to this Egyptian free trade zone either, or even if it becomes a Gaza free trade zone. To answer that, you've got to go back and think about what do these companies want and why don't they go to these places that would seem to make more sense than going the all the way to China. I don't propose the answer to that question, but what I propose is that you should figure out the answer if you are seriously interested in this project. I can tell you a little bit of it.

There was a gentleman, I am not sure if he is still a minister of industry, he was for a long time. He was a MIT graduate and he once called me up and said: Lester, I want you to help me find some big companies to come to Egypt. I said: I am willing to try. And the problem is, if you come and talk to the big companies, they will tell you, "I am not going to go Egypt, because those guys invented bureaucracy eight thousand years ago and every year they have added more! And there is another word that they used, that nobody used this morning, called corruption- which is also endemic in Gaza and the West Bank. And if you are business firm and you are in oil, you'll go anywhere, almost anywhere, because those guys are tough; they hire armies, they kill people,

they literally kill people, they know how to bribe people. But even it can get to tough for them. Indonesia at the moment cannot pump its OPEC quotas. The oil companies are withdrawing from Indonesia. So, corruption can get so bad that even the oil companies can't survive. But normal business firms hit that wall a long time before the oil companies hit that wall. And, so I went back to my Egyptian friend and I said the problem is that the big companies of the world, the Intels, etc, just think there is too much bureaucracy and too much corruption, and they have got places where they can go where they do not face that problem.

What's the interesting thing in most countries? The interesting thing in most countries is that the demand for bribes hits foreign firms more than local firms. And foreign firms can't play this game because they don't know who to believe. And if a country has basically a campaign against corruption, who would be the first person arrested? A foreign businessman – every time. China is the exception. The Chinese have set the system up so that foreigners have less pressure on them than the inside people. And it is one of the reasons why the foreign direct investment is not as big as it looks like. Because if you are a Chinese businessman, what you want to do is to move your money outside of China, make it look like its foreign money and then move it back in and you get a better deal than the locals get. And we know that because about 10 billion out the 60 billion of foreign direct investment into China comes from the Grand Cayman Islands. And no legitimate person has to move money from the Grand Cayman Islands to China, they'd move directly from the United States to China or Europe or wherever. So, most of this is presumably Chinese money leaving China to the Grand Cayman Islands coming back into China.

But the question is: what are you going to do about that? What my friend in Egypt said, (and this is not an answer): tell your friend back at firm X that I'll give him the personal number of Mubarak, and if there is any corruption or if there is any excess of bureaucracy, he should pick the phone and call Mubarak and Mubarak will straighten it up. I think he would probably have done that. I know of one case where he did do that. The problem is that this is not a system; you can't do that for very many companies. So the question is: what are you going to do in this kind of an operation to guarantee to these business firms that they are going to have a system without excessive bureaucracy, without demands for corruption. Free trade zones are a step in that direction, but there's got to be guarantees that they are honest.

Now there is another problem, go back to the Arab World and here the Palestinians are better than the Arab World. Recently there was a book written by the United Nations that some of you may have read. It has the biggest circulation of any book written ever by the United Nations: "Economic and Social Conditions of the Arab World", written entirely by Arab scholars. In that book they identify two problems and these are going to need to be solved.

One of the problems they identify in their book, and they use a statistic that is so dramatic that it's hard to believe: they claim that from 950 to the year 2000, more than a thousand years, fewer books have been translated into Arabic than are translated into Spanish every single year. Which means that if you read Arabic, you don't know anything about the modern world because very little has been translated into your language, which says something about intellectual curiosity. When those numbers came out, I felt kind of good because I have two books translated in Arabic, which means I am a significant fraction of the total. But they pointed to something else. What happens if you throw away half of your brains in a knowledge economy? You don't succeed. Of course, half the brains are female brains. And the Arab world has a higher rate of illiteracy among women than Central Africa. Somewhere between sixty and seventy percent of the women in the Arab world don't read and write.

Now, that does not work, because if God was running the world and if he could only educate men or women, he would educate women because there are more spillover effects. There is a group of Muslims called the Azwalli Muslims. I worked for years at development camps in Pakistan, lots of them were Pakistanis. They had a sign that they put above the door at a school that educated both boys and girls that said: Educate a man: educate a man; Educate a women: educate a family. How can you have educated sons if you have illiterate mothers? It basically cannot be done!

You know, in the end, as many people basically said today, when I think about these problems, I am an intellectual pessimist: it does not have prayer of working! On the other hand, I am an emotional optimist and it just might! Thank you very much.

Notes and References:

1. Transcribed from a presentation given at the 1st Annual Conference of the Center for Macro Projects and Diplomacy at Roger Williams University on April 15, 2004