Chapter 5
Production, Trade, Knowledge Economy, and ICTs in Arab Countries

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ABSTRACT
This chapter introduces, respectively, the issues related to production, trade with a focus on the degrees of concentration and diversification besides the relationships to innovation, and knowledge with a focus of information and communication technologies (ICTs). The link between innovation and the value added in diverse sectors of the overall Arab economies is then addressed and discussed. Links between ICTs and other sectors are also discussed for the development of Arab economies.

INTRODUCTION
This chapter introduces respectively the issues related to production, trade concentration and trade diversification as they have been experienced by Arab economies during the past periods. The relationships between production and trade to innovation and knowledge are assessed to identify the major directions of the needed changes. The link between innovation and the value added in diverse sectors of the overall Arab economies is then addressed and discussed. The role of ICTs in most sectors is analyzed in relation to the promotion of growth and development. As in series of reports and publications, the economies of the Arab world appear to be dominated by a limited set of goods and services with a recent trend attributed to ICTs. Such a limited portfolio generates often vulnerabilities to shocks and translates to the trading patterns of these countries because of the reduced diversification of production and trade. Institutional and technological innovations do provide opportunities for diversification opportunities through new competitive niches where production and trade could adjust to the knowledge flows and to the needs of international markets. Such a trend has been observed to be taking place in different Arab countries and mainly among

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those economies that are oil and gas based. These economies are now progressively involved in the sectors of financial services, banking, real estate and tourism, but the resilience of traditional sectors will not allow easily the required changes. Further inclusion and acceleration of access to knowledge through education, research, innovation with emphasis on ICTs are likely to identify new opportunities and markets with the creation of new enterprises in both old and new production and trading systems.

The present chapter is composed of two major parts. The first one deals with a descriptive analysis of production and trade. It then focuses on the trends characterizing trade diversification and concentration with the estimation of the relationships with the most important knowledge components. The second part focuses on the special sector of ICTs as a driver of important changes in the Arab economies.

PRODUCTION, TRADE, AND KNOWLEDGE ECONOMY IN ARAB COUNTRIES

This first section focuses on the on-going production and trading processes that have prevailed in Arab economies during the last years. Different economic issues related to production and trade are discussed in the respective parts shown in the following subsections.

Production

The Arab region has known a remarkable economic growth, with a growth in the creation of employment and the unemployment rate had decreased as emphasized in a report by the World Bank. (2007) Between 2004 and 2007, the Arab region had seen an economic growth as stated by the report, indicating that high oil revenues coupled with the recovery in Europe, the growing vitality of the private sector and increased investment have provided the impetus for another year of economic performance chip.

The document notes that the region recorded in 2006 one of its strongest growth rate since the 70s. This expansion has been attributed to the continued strong expansion of resource-rich countries and importers of labor and improved results of resource-poor countries, noting that real GDP grew by 6.3 pc in 2006, against 4.6 pc in first four years of the decade.

According to the report, the GDP per capita increased on average by 4.2pc in the region in 2006, which is the highest level recorded in at least 20 years.

However, not all the countries can benefit from that incredible expansion since the latest data about poverty are not available. It has been shown from the report that the increasing investment from the private sector, national and foreign, makes that private sector the main source for new opportunities of employment in the region.

The private sector will pursue its activities in a growing integration in the global markets, which will promote the creation of new jobs, as stated in the report. It also indicates that the integration in the global markets will require an improvement in the educational system so that workers will be prepared to create a more competitive environment and establish mechanisms for social protection.

In general, the Arab region has the possibility to benefit from that economic boom to develop their reform programs. Authors of the report explain that the prospects for maintaining or increasing current growth rates in the coming years will depend on progress on the front of structural reforms “far irregular” and the growing private sector.

In contrast to the strong regional growth, industrial production, which had increased by 4.1% in 2005, was down 0.4% in 2006, mainly due to capacity constraints faced by the production of hydrocarbons. Despite the decline in oil production and declining world oil prices, which reached a record $ 70 dollars per barrel in August 2006, revenues of oil exporting countries continued to