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Human Capital, R&D and Labor Outsourcing

Human capital is the absolute foundation of modern economies. Every economist will attest to its significance and contribution to growth and stability. In fact economists understand the history of economic growth as essentially the history of human capital development. From this perspective, richness and poor is measured by “productivity” of labor and other factors of production. Compare for example, how the productivity of the American worker was recently put at about 40 times the corresponding productivity of the average worker in the Niger. So literally, the American worker could have worked for 10 days only and call it a year’s work by the standards of Niger worker’s productivity.

But how do economies build up human capital and enhance productivity? There are four basic venues. The first is to invest in education and training of the young and the labor force. The second is to invest in research and development R&D. The third is to transfer technology through trade and investment alliances. The fourth is through selective immigration policies that could effectively double the “brain-power” of a country virtually overnight. Often, countries apply these policies in tandem.

The U.S. has developed centers of education excellence gauged by the “ivory league universities” that spend generously on attracting the best faculty, lab and research equipments and the best of global students. In terms of R&D investments, the Federal U.S. laboratory system comprises 700 laboratories with a combined federal research and development budget of over \$100 billion¹. In addition, substantial R&D investments are performed by the U.S. corporate business sector, US\$ 164 billion, and by universities, US\$ 40 billion².

But one glitch has been in terms of declining population growth especially in the West but also in Asian economies notably, Japan. This demographic fact, together with the desire to secure low-waged workers motivated corporations to follow an “outsourcing” policy. It is estimated that spending by UK and US

companies on offshore contracts worldwide will rise from 8 billion Euros in 2004 to 48bn Euros in 2008. Forty percent of these sums is likely to come from companies engaged in the banking and insurance industries. Over the same period, as much as 20% of all jobs in the U.S., Australia and Canada and 15% of jobs in EU-15 member states could be affected by sourcing of labor by service industries³.

By and large, Arab economies have invested rather extensively in basic education, the efforts of which translated into eradicated illiteracy levels, improved gender education ratios, and the graduation of successive waves of students from the system of schooling and universities in various fields. Expenditure on R&D is minute and the immigration policy does not seek the most skilled or innovative talent.

However, many of the Arab students who graduated from the formal education system were not employable because of mismatch between the requirements of the economy and the skills taught at schools and universities. Still others that were employable received low wages by international standards and many ended up becoming brain drain and out-migrated. Available estimates indicate that up to 1976, 50% of Arab doctors emigrated and between 1980 and 2000 more than 15,000 Arab doctors emigrated to the West⁴.

Several countries have applied a combination of financial and economic incentives to achieve the dual goal of return migration and R&D development. Nearly one-third of expatriate Chinese scientists in the information technology have returned, temporarily or permanently, in order to nurture the development of the nascent Chinese electronics and computing industrial base.

Neighboring countries have developed their own version of the Silicon Valley. It is probably time for Arab economies to develop SV of their own by nurturing the return of Arab scientists, by investing in school, university and private R&D and by welcoming the brain power of scientists.

Global Developments⁵

The news that the US unemployment rate recorded its biggest increase (to 5.5%) since 1986, combined with the ECB hinting that it may raise interest rates soon caused the dollar to depreciate strongly against the Euro this week.

¹ Office of Technology Policy, US Department of Commerce (2003) “Partners On A Mission: Federal Laboratory Practices Contributing to Economic Development”. Washington D.C.

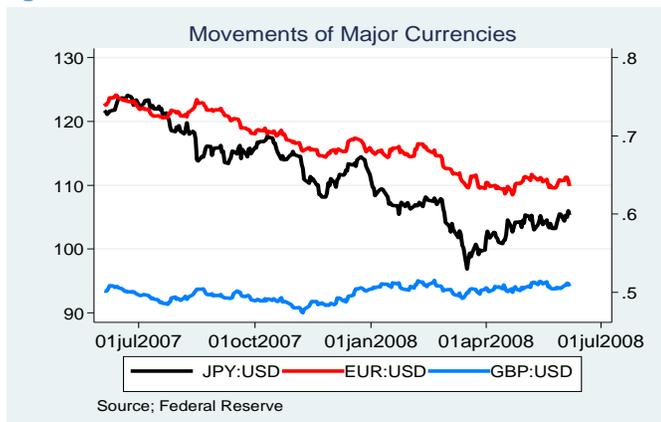
² U.S. Department of Commerce (2002) “US Corporate R&D Investment, 1994-2000 Final Estimates” Washington. D.C.

³ PricewaterhouseCoopers (2006): “Key trends in human capital” Saratoga

⁴ United Nations Development Program (2003), *The Arab Human Development Report*, UNDP.

⁵ Bloomberg

Figure 1



After last week's decline, oil prices surged on the US unemployment report, in addition to the Morgan Stanley outlook of prices reaching \$150 in a month. As for food commodities, corn and coffee rose over crop outlook fears due to extreme weather conditions.

Table 1: Selected Commodities

	Week ending 6/1/2008	Week ending 6/8/2008	Change
Oil WTI (\$/bbl)	127.36	138.55	8.79%
Gold (\$/oz)	885.75	890.50	0.54%
Natural Gas	11.48	N.A.	

Source: WSJ

With oil prices soaring, capital markets in the US and Europe tumbled especially as fears over a US recession resurfaced. In contrast, the rise in oil prices boosted commodity-related companies which in turn lifted markets in Japan by 1.05%.

The strong performance of the ASE continues with the general index rising by almost 6% led by industrial shares. In other news, the Moroccan Bourse is planning further growth through taking measures such as dual listings in other exchanges and attracting European and foreign investors⁶.

⁶ Al-Rai and The Guardian

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Table 2 Selected Market Indices

Index	Week ending 6/1/2008	Week ending 6/8/2008	Change
Jordan	9301	9851	5.91%
KSA	9,491.31	9,661.48	1.79%
Morocco	14,516.97	14,546.34	0.20%
S&P500	1,400.38	1,360.68	(2.83%)
NIKKEI	14,338.54	14,489.44	1.05%
FTSE100	6,053.50	5,906.80	(2.42%)

Sources: Bloomberg and Official Markets

DID YOU KNOW?

- ❖ Based on the IFS data, between March 2007 to March 2008, the value of Jordan's industrial production increased from 148% to 158.2% (base=2000). The figure below shows the long-term monthly evolution for Jordan over the period Jan-1980 to March 2008.



- ❖ China consumes 15% of global wheat, 29% of globe's rice, 17% of world's consumption of maize, 31% of its cotton 32% of steel production, 25% of lead and 33% of the world consumption of coal and 8% of oil? (World Bank: Dancing with Giants, 2007)
- ❖ A recent empirically-based AB study revealed that the pass-through from the greenback to domestic inflation hovers around 10 to 15%. The study proposed a tentative transitional strategy to deal with the peg-induced inflation [AB Review, forthcoming].
- ❖ Driven by the needs to use clean energy to fuel power stations as well as to free up precious oil for exports, Kuwait's demand for natural gas is outstripping supply by 8% per year [OBG, 2008].

INFORMATION

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