

THE IMPACT IN ARAB COUNTRIES OF THE GLOBAL ECONOMIC CRISIS ITS SCOPE AND POLITICAL DIMENSIONS

Casa Árabe, in collaboration with the Club of Madrid, organised a roundtable last October that gathered international experts and former policymakers at its headquarters in Madrid. The aim was to analyse the impact of the global economic crisis on Arab countries and discuss its different implications for public policy in the region.

Initially, Arab financial systems were sheltered from the financial crisis. The region escaped the more severe repercussions of the sub-prime crisis in 2007 and the stock market collapse of September 2008. But in the last two years the drop in global demand and credit has severely affected Arab countries.

The first blow was the sharp dip in oil prices at the end of 2008. This heralded the end of the oil boom that had propped up economic growth in the region since 2002. The fall in world trade also affected Arab economies through reduced exports, foreign investment, tourism and remittances. In this way, temporary drops in Arab stock markets converged to produce a more long-term crisis.

The impact of this crisis differs markedly between Arab countries. Countries with high incomes, such as Qatar, Bahrain, Kuwait, Saudi

Arabia and the United Arab Emirates, are unlikely to experience any form of social tension. But countries with low incomes, like Sudan, Yemen, and Mauritania, and those countries already beset by conflict like Palestine or Iraq, are more susceptible to social uprisings and political instability.

STAGNATION OF FOREIGN INVESTMENTS

The fall in investment flows affected real estate markets in many countries in the Gulf and North Africa. Real estate speculation has risen sharply in recent years in countries like Dubai, where the construction industry made up 25% of GDP. The consequence was one of the worst falls in house prices in the region's history, followed last December by the debt crisis. In North African countries like Morocco and Algeria the recession has decimated the building sector and caused big falls in investments from Gulf funds and companies.

FALLING REMITTANCES

Thousands of immigrant jobs losses in Europe and the Gulf have caused a radical drop in remittances to Morocco, Tunis, Algeria, Egypt and Jordan. According to the World Bank, Arab countries will suffer most from these falls, and certainly more than regions like Latin America,

Asia or Sub-Saharan Africa. Although Egypt receives the fifth highest amount of remittances in the world, remittances to countries like Senegal, Morocco, Jordan, Lebanon and Yemen, represent a higher percentage of their GDP. In Morocco, remittances fell by 11% during the first quarter of 2009. Last June, the Egyptian Economic Observatory estimated that remittances from Egyptian workers had fallen by 15%, while the Central Bank of Jordan announced that remittances were falling by 3% every month. In both Jordan and Egypt remittances are a fundamental source of income and exceed all the foreign aid they receive.

EDUCATION IS NEEDED TO COUNTERBALANCE ARAB DEPENDENCE ON OIL AND INTERNATIONAL MARKETS

For North African countries, the EU accounts for almost 80% of their total exports – 80% for Tunisia, 78% and 76% for Libya and Morocco respectively. As a result, the drop in demand across European markets, as well as in the U.S. and Asian markets (the U.S. and Asia import large volumes of manufactured products and oil from Arab countries) badly affected current

account balance sheets. These were slightly steeper in the Gulf, though still positive. Some oil exporting countries went from positive balance sheets of \$348bn in 2008 to \$62.1bn in 2009. Morocco's Royal Institute for Strategic Studies says the country's exports fell by 5% during the first quarter of 2009.

Arab countries possess 65% of the world's oil reserves and 45% of its gas reserves. Exporting oil and gas generates 50% of GDP in Arab countries and 80% of revenue (IMF, 2009). One of the main points raised at the roundtable was the dependence of these countries on hydrocarbon exports and, by extension, on fluctuating international markets. These countries face fundamental challenges. They need to become knowledge-based societies by deepening economic diversification, creating a competitive productive system and reforming their education systems. If these goals are achieved Arab countries will create employment for their large youth populations.

According to the Arab Human Development Report, Arab countries have disproportionately



high levels of youth unemployment. Average rates are around 30%, and sometimes reach 45% for example in Algeria. Unemployment in Egypt is now at 25% but could soar in 2010. The Union of Egyptian Workers Abroad estimates that the Egyptian labour crisis will only be felt properly this year. In countries like Egypt, Morocco, Algeria and Sudan, problems in education and employment have been aggravated by high illiteracy levels. Tackling this problem will be one of the main challenges in coming years.

SAFEGUARDING PUBLIC INVESTMENT AND DEVELOPMENT PLANS

After six years of unprecedented economic growth, the region has amassed a relatively large stock of accumulated assets and resources. Public investment in infrastructure, services and energy have compensated for the drop in private and foreign investment in all countries. New highways, ports, railways and power networks are being created and old ones have been expanded in countries like Morocco, Algeria and Saudi Arabia. These investments have put pressure on public deficits, but reserves accumulated during the boom years and the resurgence of oil prices in the last few months mean that the pressure is manageable. It looks like oil prices will rise again which will give Arab countries a grace

period before making the reforms needed to address future fluctuations.

KEY CONCERNS IN THE POLITICAL SPHERE

The Club of Madrid experts and members that gathered at Casa Árabe brought up a number of political issues that will demand attention at national, regional and international level. They focused on models for sustainable development and the question of how to encourage steadier economic growth in the region.

They concluded firstly that economic and educational reforms are needed to promote diversification and develop the industrial, services and knowledge-based sectors. This should generate a productive and competitive economy, capable of creating at least 100m new jobs over the next decade. The institutional and bureaucratic structures that have hampered growth in previous decades must be reformed. It is "essential" to improve education for future generations, and to encourage research, innovation and the use of new technologies. Abdulkareem El-Eryani, former Prime Minister of Yemen, emphasised the importance of promoting a knowledge-based society. He said it is the best way to develop the tremendous human capital that exists in the region.



Abdulkareem El-Eryani, former Prime Minister of Yemen



Prof. Tariq Yousef, Dean of the Dubai School of Government



Felipe González, former Spanish Prime Minister

Secondly, although the crisis has hampered liberalisation processes in the region, this is not an excuse to return to interventionism or to paralyse economic policies aimed at diversifying the economy and opening markets. The role of the state is still crucial for guaranteeing greater social coverage for the least favoured sectors of the population and should be encouraged. Its role in creating a clear and transparent legal and regulation framework should also be encouraged.

As far as democracy is concerned, experts agreed that the current situation needs better monitoring and more transparency especially when it comes to the management of sovereign funds. However, no further tension, social contestation or alteration of the status quo is expected. As Prof. Tarik Yousef, Dean of the Dubai School of Government, has pointed out small changes in governance may be the way to improve democratic processes in the region. These small governance projects could promote transparency, good governing practices and the rule of law. They could also fight corruption and improve institutional management. Europe can be a helpful partner, offering support, assistance and co-operation in the development of these projects.

During the meeting, participants also highlighted the need to encourage further co-operation between European and the Arab countries. Technical and educational co-operation and trade and investment all need to be addressed. Felipe González, former Prime Minister of Spain, emphasised that when economic policies are predictable, transparent and well-planned, investment and economic growth opportunities are likely to ensue. Economic policies need to be designed and implemented throughout the region in an open, predictable and transparent manner. This will convince investors that the region's economic situation is stable, and that in

turn should attract long-term international investments.

A final point, and one which came up frequently, was the need for greater political and economic co-operation among Arab countries. Abdeslam Baraka, former Moroccan ambassador to Spain and ex-Minister of Parliamentary Relations, stressed that Arab countries needed to develop a neighbourhood policy that reflects a common desire to resolve border conflicts inherited from the colonial period. Felipe González also emphasised the importance of regional cooperation, and stated that the Sovereign Wealth Funds of Gulf Cooperation Council (GCC) member states should invest in North African countries. On this point, Yousef did not seem terribly optimistic and stated that even though the countries in the CCG are promoting various pan-Arab business projects, the countries of the Maghreb are to a large extent being left out, mainly because economic interest has been turning towards China and India.

In sum, greater political and economic co-operation among Arab countries is needed to manage the region's natural resources more effectively and co-ordinate economic policies. In light of the difficulties encountered in previous integration processes, participants agreed that pragmatic and open regionalism is the best way forward. European integration was noted as an example of how to encourage regional cooperation in a more pragmatic manner.

*This section has been written by Casa Árabe, the partner of Europe's World for the Arab World section.
For more information: www.casaarabe-ieam.es*