April 2011

Political Risk moving to the forefront

Impact Analysis

Research Highlights:
To explore likely impact and responses of recent Middle East political unrest and analyze the economic issues underlying the issue

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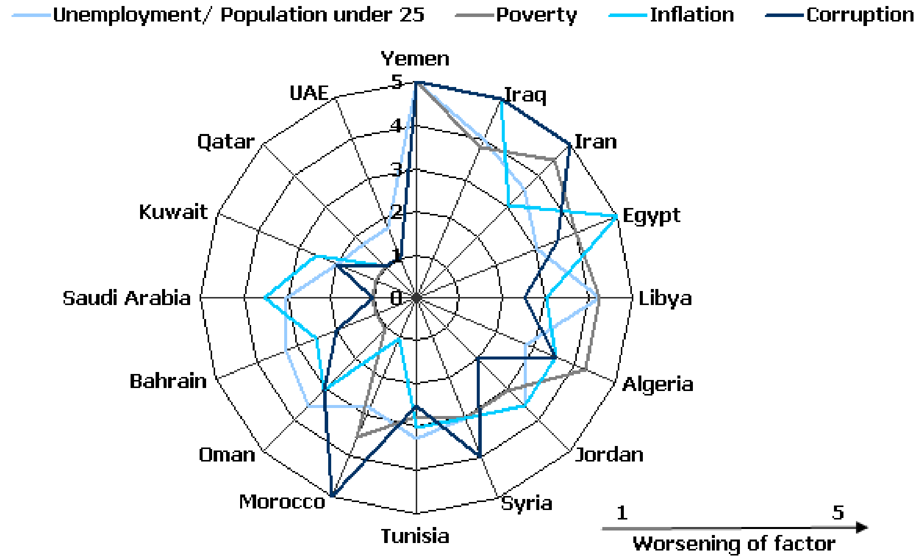
Analysts have linked current regional unrest with the 1989 fall of communism. However, Arab States differ from the Eastern European communist bloc in many ways. The former is a heterogeneous group while the only thing shared by Arabs is their ethnicity; no single economic, social or political policy unites the region. Arabs range from ultra-religious states to ultra-secular, thus in order to effectively compare what is happening now with historical events we would have to go much further back to the "Spring of Nations". In 1848, high food prices coupled with demands for more civil liberties sparked revolutions across Europe using "new media", i.e. printing press to spread the word. In present time, social networking sites like Facebook and Twitter have taken on that role.

Political turmoil rarely comes out of the blue and, in this case, has its roots in macroeconomic factors. In Tunisia, the "Jasmine Revolution" was sparked by the self-immolation of a young Tunisian whose livelihood was taken from him; this was the catalyst, but not the cause of the revolution.

The same underlying macroeconomic/social issues unite the protests across the region; factors like unemployment, poverty, inflation etc. We have analyzed these indicators for each country and ranked them accordingly (Figure 1). As per our study, the further away from the center a country's indicators move, the more vulnerable it becomes.

Figure 1: Plotting MENA economic/social Indicators



Source: Markaz Research

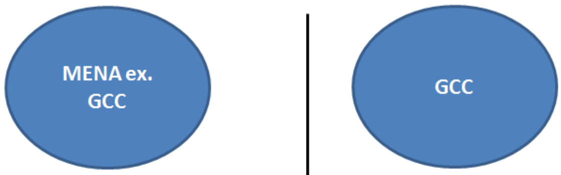
In light of political risk assuming the role of "mother of all risks", Arab countries vulnerability to changes appears to be on the rise, primarily on economic factors.
In this context, we look at the following:

1. Emerging "Big Picture"
2. Impact on GCC governments and oil price
3. Likely response to the crisis
4. Vulnerable Spots

1. Emerging "Big Picture"

Media and analysts alike are quick to lump the region into one homogenous block when discussing the recent political unrest sweeping the region. While it's true that there are some commonalities in the region, both political and economic, the differences are far more divergent.

Figure 2: Regional Differences



The MENA ex. GCC region is a populous, poor and less developmentally oriented area than the GCC

MENA ex. GCC	GCC
1. Populous (320 mn)	1. Not as Populous (40 mn)
2. Poor (ave. GDP/capita $4,400)	2. Rich (ave. GDP/capita $38,000)
3. No Development	3. Development oriented
4. Not a Welfare Model	4. Welfare Model (Cradle-to Grave)
5. Absence of natural resources	5. Natural Resource abundant

The MENA ex. GCC region is a populous (about 320 mn), poor (ave. GDP/Capita $4,400) and less developmentally oriented area than the GCC owing to a dearth of natural resources and more constrained budgets. The Gulf has a far lesser population (40 mn, over half of which is in Saudi Arabia), is richer due to an abundance of oil (ave. GDP/Capita $38,000) and is development-oriented with a Cradle-to-Grave welfare model offering guaranteed employment, subsidies, grants etc.

Similarities:

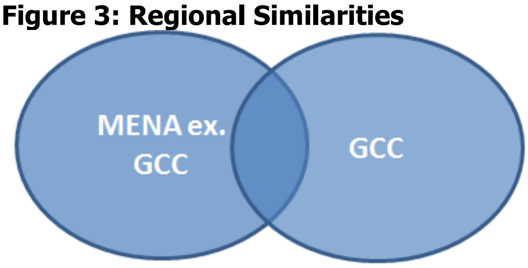
Despite the differences mentioned above, there are a few shared macroeconomic imbalances. A main unifying factor in the two regions is the nature of rule which is autocratic (whether as a Republic or Monarchy) with very little in the way of democracy or political participation. This distinction is key to understanding how things are likely to unfold as we move along.

Like the rest of the Arab world, the GCC is characterized by an exceedingly young and growing population, labor market imbalances, inflationary issues and slow developmental reforms.

The MENA (inc. GCC) population is characterized as very young with about half of the population under 25 years of age in addition to high unemployment, averaging about 12% across the region. Furthermore, inflationary issues, specifically pertaining to food prices, have flared up in recent years leading to demonstrations and rioting.

A main unifying factor in the two regions is the autocratic nature of rule

Figure 3: Regional Similarities



1. Young Population (Ave. 50% below 25 yr)
2. High Unemployment (Ave. 12%)
3. Inflationary Pressure (Ave. 5%)

2. Impact on GCC governments and Oil Price

Despite the differences, there are a few shared macroeconomic imbalances

The political turmoil is likely to force GCC states into hastening the social and economic reforms which have been in the woodwork for years in addition to likely making some political concessions. Given that regime change has not really been part of the rhetoric, but rather increased political participation, we would expect some parliamentary reforms to come about. Moreover, the GCC has unveiled a new $20 bn plan to help Oman and Bahrain reduce tensions; the new plan will attempt to revamp respective economies through, housing projects, employment and improving quality of life[1].

Given that it is generally easier for GCC states to enact reforms; due to high government balances and lighter population strains, we expect the regimes to hold up, but some dramatic social and economic reforms may be in the offing.

The short term impact of the turmoil has already presented itself through oil price shocks (26% YTD), CDS spikes (Figure 4), stock market declines (S&P Pan Arab -8% YTD) and credit rating cuts; while the short-term impact is palpable, it is the long-term effects that political analysts should be worried about (Table 1).

Table 1: Middle East Unrest

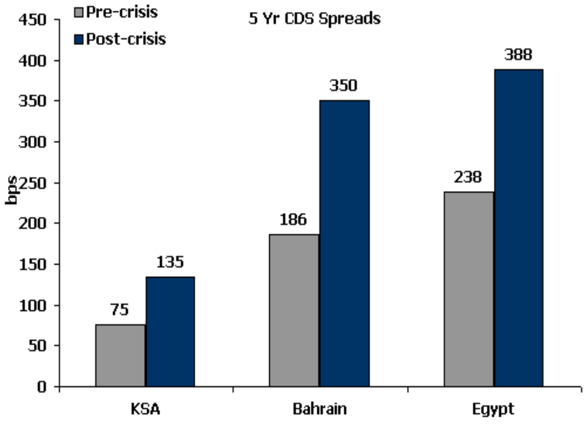
	Short term Impact		Long term Impact
1	Spike in CDS Spreads	1	Increase in Current Expenditure
2	Spike in Oil Price	2	Increased role for Public Sector
3	Stock Market Crash	3	Bloated Bureaucracy
4	Spike in Volatility	4	Reduced Fiscal Comfort
5	Lower Credit Rating	5	Increase in Risk Premium and cost of borrowing
6	Pull back of Foreign Money		

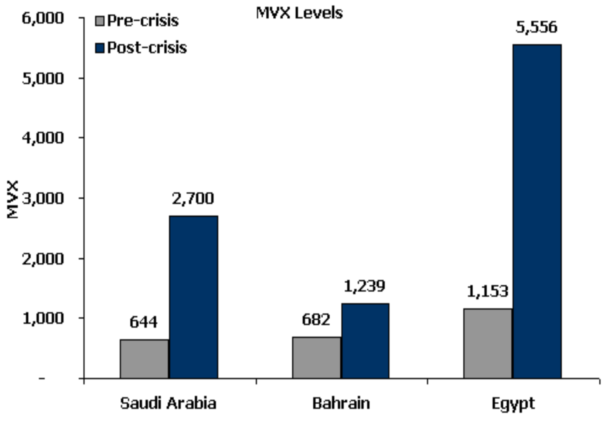
The jump in oil prices is directly attributed to the unrest, specifically the conflict in Libya

Over the next few years, we would expect to see increased government expenditure (especially Current) leading to increasingly bloated bureaucracies and reduced fiscal comfort as governments try to appease their citizens with welfare programs, monetary grants and subsidies.

An almost instantaneous reaction was seen in the CDS market where rates surged in a matter of days. Saudi 5 Yr CDS rates jumped 80% while Bahrain almost doubled. MVX levels (a Volatility indicator designed by Markaz Research) saw extraordinary surges in January/February; MVX Egypt shot up 5x while MVX Saudi surged 4x its pre-crisis level.

Figure 4: Volatility Spikes – Pre and Post Crisis





Source: Reuters, Markaz Research

[1] Al Qabas Newspaper 02/03/11

What about oil?

A sharp reduction in oil production would have severe consequences on world markets and economies

The jump in oil prices (Brent is hovering around $120/bbl) is directly attributed to the regional unrest, specifically the conflict in Libya. Libya produces about 1.8 mn bbl/day and is the prime exporter of light sweet crude oil to Europe. The IEA estimates that between 53%-62% of Libyan oil production has been cut off, while other estimates bring the figure closer to 75%, with Saudi Arabia picking up the slack. Should oil production be threatened in Algeria and Iran as well, we would be looking at new peak levels for oil prices. In a recent report, Nomura predicts that oil prices could reach $220 if the situation worsens or proves protracted. According to Deutsche Bank, an oil price of $120 could deter the global economic recovery while a price of $150 could drag global output down by 1%-2%.

The current increase in oil prices could hamper global recovery and increase inflationary pressures on emerging markets; however the biggest concern is not the immediate shock to oil prices, as they tend to come down once the situation stabilizes, but the probability of declining output is a daunting concern.

If we take Iran as an example, based on Dr. Leo Drollas, Chief Economist of the Center for Global Energy Studies; before the revolution (Pre-1979) Iran produced 6mn bbl/ day, but after the revolution, anti-Western sentiments were high, experts were expelled from the country and from then on oil production levels deteriorated to 3.7mn bbl/d with current production standing at 4.18 mn bbl/d. A sharp reduction in oil production would have severe consequences on world markets and economies, and is likely the primary reason for global involvement in the Libyan crisis.

Table 2: Top World Oil Producing countries

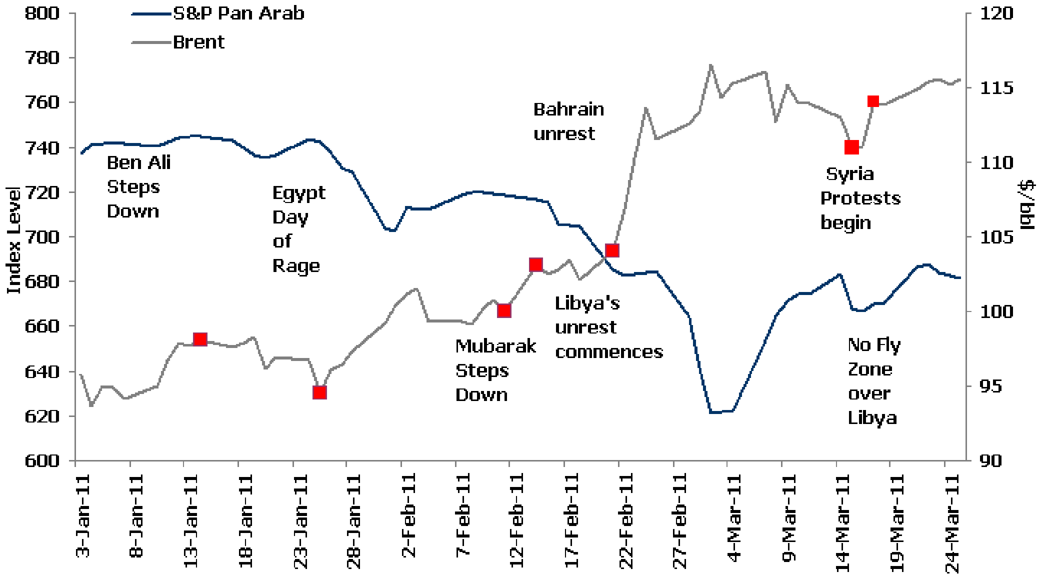
Since the beginning of the year oil prices have jumped roughly 23%

Country	bbl/day	Spare Capacity mn/bbl
Russia	10,120,000	N/A
Saudi Arabia	9,764,000	3.5
United States	9,056,000	N/A
Iran	4,172,000	0.04
China	3,991,000	N/A
Canada	3,289,000	N/A
Mexico	3,001,000	N/A
United Arab Emirates	2,798,000	0.33
Brazil	2,572,000	N/A
Kuwait	2,494,000	0.23
Venezuela	2,472,000	0.14
Iraq	2,399,000	0.05
European Union	2,383,000	N/A
Norway	2,350,000	N/A
Nigeria	2,211,000	0.26
Algeria	2,125,000	0.03
Angola	1,948,000	N/A
Libya	1,790,000	N/A

Source: CIA world Fact book

Since the beginning of the year oil prices have jumped roughly 26%. If we look at countries with unrest Libya (1.8mn bbl/d), Algeria (2.13mn bbl/d) [and Iran (4.18mn bbl/d)], who together supply about a tenth of the world's oil, prices are likely to stay high until the situation is mitigated.

Figure 5: S&P Pan Arab Vs Oil Price



Source: Thompsons Datastream

The causes of the unrest revolve around the same macro-issues

3. Likely Response to the Crisis

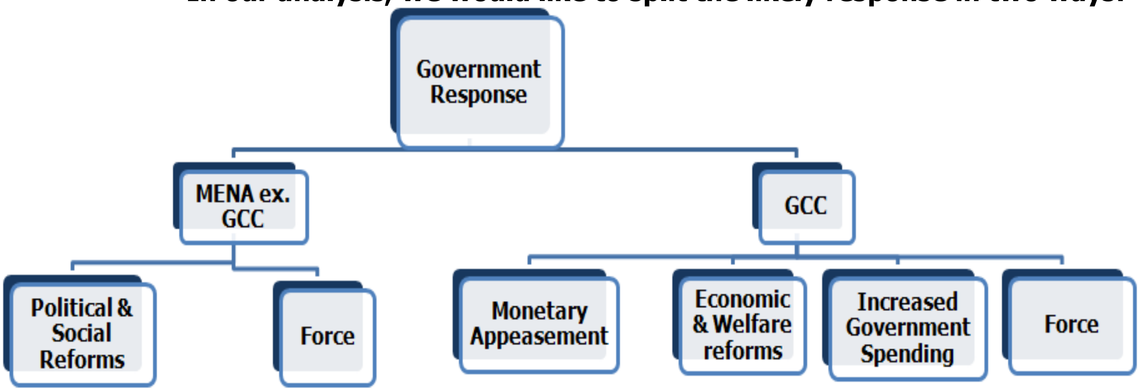
The media is in hyper-mode these days; with each new day bringing with it analysis and predictions surrounding the outcome of the current political turmoil. Given that the situation is changing rapidly on an *hourly*, not to say daily, rate, analysts can pretty much make any prediction they like of how the unrest will play out.

A common theme runs through the protests. From Algeria to Iran, Syria to Yemen, the causes of the unrest revolve around the same macro-issues; high unemployment, poverty, high corruption, inadequate public services and a lack of political participation (read: democracy).

Though the causes of the protests fall along similar lines, the responses have varied widely according to each country's abilities. In the richer GCC nations, monetary appeasement has been the order of the day; with Saudi Arabia and Bahrain offering monetary grants and increased welfare spending to dampen unrest. The less affluent Arab nations (Jordan, Yemen, Algeria etc) have scrambled to make concessions and/or fast acting political reforms to quell civil protests, while the unique situation in Libya has resulted in open conflict.

Table 3: MENA Unrest			
		Measures	
Country	**Areas of Discontent**	**Monetary**	**Social/Political**
Algeria	**Economic:** Unemployment; Inflation; Housing, Welfare **Political:** Corruption, Restricted freedoms	$156 bn on new infrastructure projects; tax cuts on consumer staples; Increased food supplies	Lifting of State of Emergency; Allowance of more inclusive media
Egypt	**Economic**: Unemployment; Poverty; Inflation **Political:** Regime change, Political Participation, Constitutional reform	Food purchases to curb price inflation	President stepped down, power transferred to Military
Jordan	**Economic:** Wages; Price inflation **Political:** Constitutional reform	Salary increases; tax cuts on fuel and food; more money to National Aid Fund for the poor	Cabinet reshuffle: New Prime Minister
Libya	**Economic:** Unemployment **Political:** Regime change	$450 per family; 150% wage increases; abolition of taxes and customs duties on food	-
Morocco	**Economic:** Unemployment; Poverty **Political:** Corruption	Compensation for Wheat importers Subsidies (food, oil)	Announcement of Constitutional reform
Syria	**Political:** Pervasive Security; Lack of Freedom of expression; Political Prisoners	Consumption tax; reduced customs duties on food; Increase Social System Fund	Release of political prisoners; Vow to lift State of Emergency
Tunisia	**Economic:** Unemployment, Inflation **Political:** Regime change	Welfare spending; Food price subsidies	President stepped down
Yemen	**Economic:** Unemployment, Poverty **Political:** Regime ouster	Welfare Spending	President to step down
Iran	**Economic**: Living Standards **Political**: Reform, Corruption	-	-
Iraq	**Economic:** Public Services; Unemployment **Political:** Security; Corruption	Subsidized utilities	Prime Minister demands results from ministries
Kuwait	NA	NA	NA
Saudi Arabia	**Economic:** Unemployment; Infrastructure	15% wage increase; jobless benefits; housing subsidies; $36 bn welfare package	-
UAE	NA	NA	NA
Bahrain	**Economic:** Jobs, Welfare, Housing **Political:** Constitutional reform; Political Participation	$2500 monetary grant;	Dismissal of several Cabinet Ministers
Qatar	NA	NA	NA
Oman	**Economic:** Wages; Unemployment **Political:** Political participation;	Min wage increase from $364 to $520; Jobless benefits of $390/month	50k new jobs (35k public, 15k private); Gov't re-shuffle; Key posts to elected members; increased legislative/regulatory power to Council of Oman

In our analysis, we would like to split the likely response in two ways:



Likely GCC Response

As stated previously, the fairly stable regimes in the GCC and the nature of the protests lend them a modicum of stability, but that in no way gives the government leeway in addressing the concerns of its citizenry.

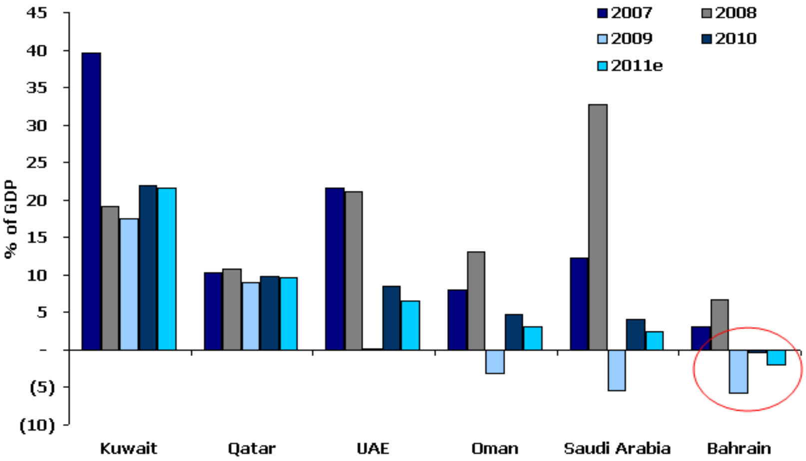
The fairly stable regimes in the GCC and the nature of the protests lend them a modicum of stability

The monetary appeasement we have seen is not sustainable in the least, given that the countries all deal with the same macro-issues that plague the rest of the region, i.e. young populations, labor market imbalances, rising prices etc. These issues require decisive and dedicated reforms to alleviate concern and ease the way going forward. This has indeed already begun; Saudi Arabia has unveiled a $36 bn welfare reform package which includes housing, inflation fighting measures and, for the first time, unemployment benefits. Oman has responded to escalating unrest by increasing salaries, introducing unemployment benefits in addition to two Cabinet shuffles in one week.

Bahrain's protests, which escalated rapidly, have been met with an invitation for dialogue from the ruling family, but not many immediate concessions have been offered to appease protesters. After an initial bout of violence, the situation calmed somewhat before flaring up again in mid-March, resulting in the government instituting a 3 month State of Emergency and the intervention of foreign troops (mainly Saudi under the GCC banner "Peninsula Shield") which caused resolution of the disagreements to stall. The situation is currently at a stalemate pending mediation of talks between the parties. Despite being a smaller, less prosperous GCC nation; Bahrain remains very important on a strategic level, both to the region and internationally.

GCC fiscal balances average about 10% of GDP leaving ample room to increase government spending

Figure 6: Fiscal Balances as a % of GDP



Source: Institute of International Finance

It is interesting to note that the Kuwait Development Plan, put into effect early last year, makes employment and the expansion of the private sector (source of an increasing number of jobs) a high priority; in addition to the expansion of basic needs like hospitals, schools, and housing, all of which will go a long way towards heading off discontent before it has a chance to grow.

GCC fiscal balances average about 10% of GDP leaving them ample room to increase government spending. Given the health and upward outlook for oil prices in the coming period, GCC economies will be at a benefit and will have ample reserves with which to spend towards appeasing civil unrest, creating jobs, and increasing welfare. However, this is only a stop-gap and will not heal the underlying political and social tensions.

Overall, we would expect to see increased social and economic reforms in addition to monetary grants and high government spending from the GCC as a response to the current crisis.

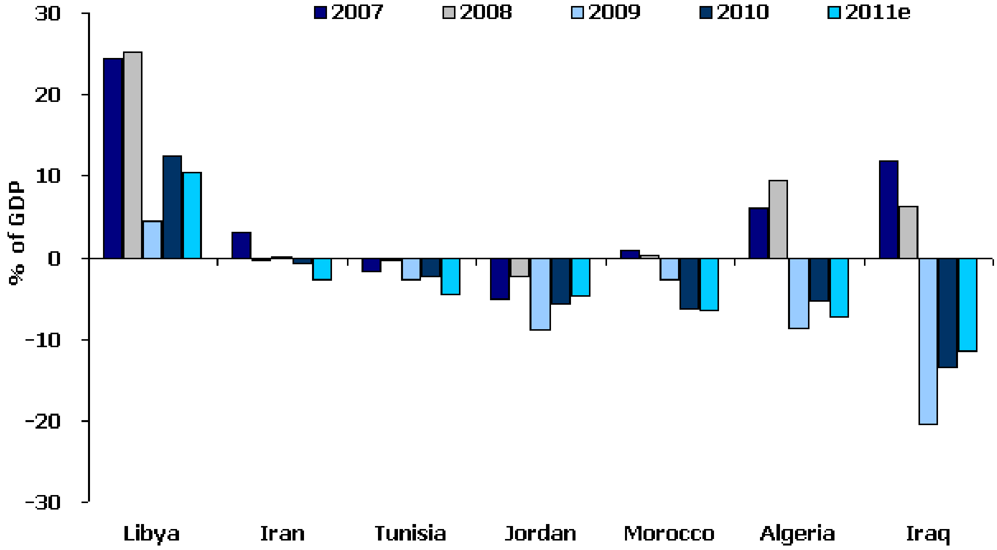
Likely MENA ex. GCC Response

The MENA ex. GCC region shows negative fiscal balances

As for the remaining countries in the region, monetary appeasement has not been much of an option due to shallower government coffers and more strained budgets. The MENA ex. GCC region shows negative fiscal balances (averaging about -4% to -6% over the last few years); Libya, an oil producer, is the only exception clocking a fiscal balance of 12% of GDP in 2010 (Figure 7).

Consequently, political and social concessions have been the primary response in many of these countries.

Figure 7: Fiscal Balance as a % of GDP



Source: Institute of International Finance

Jordan attempted to head off protest by shuffling the cabinet and naming a new Prime Minister, but this has done little to quell the now routine Friday demonstrations demanding better wages, control of price increases in addition to complete constitutional reform. The king has responded by changing cabinet members and urging them to make quick, firm reforms.

Algeria responded to protests by lifting its 19 year old State of Emergency, though this does not solve the country's underlying issues of high food prices, unemployment and housing issues.

Political and social concessions have been the primary response in the MENA ex GCC region

These countries really have no choice but to enact fast-acting, firm social, political and economic reforms in order to appease civil unrest. The domino effect of these protests and the impressive success they met with in Egypt and Tunisia make it unlikely that protesters will give up their cause as easily as they might have had they been isolated events. As it stands, each protest is bolstering the next and emboldening citizens to voicing their frustrations. Brutal military crackdowns certainly remain an option, as clearly illustrated by events in Libya; but given the current spotlight on the region, we would expect, and certainly hope, that governments opt for a more peaceful, compromising solution.

4. Vulnerable Spots

The current uprising is more economic than political as triggers for discontent stem from strong economic underperformance especially issues like poverty, unemployment, inflation, etc.

Aggregate unemployment levels remain high

Table 4: Vulnerable Factors

	Factor	
1	Unemployment	A combination of unemployment rate and ratio of population below 25
2	Poverty	A combination of GDP/capita and % of population below poverty line
3	Inflation	CPI
4	Corruption	Corruption Perception Index by Transparency International

We've looked at these figures for each country and assigned them a scoring from 1-5 where 5 indicates a worsening of the factors. Deterioration on any of these factors will increase the chance of destabilization and revolutionary tendencies, though it is in no way meant to be taken as a forecast of coming revolutions.

As per our study, the further away a country's economic/social indicator is from the center, the more vulnerable it is to political protest (Figure 1). These economic/social indicators are discussed in detail through the following section.

A. Unemployment

The Middle East has a large, young population which is usually a blessing as it is considered a sign of future growth potential. However, in this case, due to lack of development and economic growth, job creation has been stunted. Governments try to amend this problem by enlarging bureaucracies; in many countries, including the GCC, the bulk of the national workforce is employed in the public sector (over 90% in some cases). While the overall unemployment rate has not increased over time (Table 5), the aggregate levels are still high. Also, the credibility of the measurement is still being questioned in many countries, where masked unemployment abounds in addition to static updating of data (Libya is a good example where available data points to a static 30% unemployment rate since 2006). The already bloated public sector is finding it difficult to absorb new entrants to labor markets, leaving this burden on the private sector.

From 2000 the average percentage of unemployed in the Arab World has been above 10%

Table 5: Unemployment rate

Unemployment (%)	2006	2007	2008	2009	2010
Yemen*	N/A	N/A	N/A	N/A	N/A
Libya*	30.0	30.0	30.0	30.0	30.0
Iraq	N/A	N/A	N/A	15.3	15.3
Bahrain	N/A	N/A	N/A	N/A	15.0
Oman	N/A	N/A	N/A	N/A	15.0
Iran	12.1	10.6	10.6	10.6	14.6
Sudan	17.5	16.8	16.0	14.9	13.7
Tunisia	12.5	12.4	12.6	13.3	13.2
Jordan	14.1	13.1	12.7	13.0	13.0
Syria	8.2	8.4	10.9	10.9	10.9
Saudi Arabia	12.0	11.0	9.8	10.5	10.5
Algeria	12.3	11.8	11.3	10.2	10.0
Morocco	9.7	9.8	9.6	9.1	9.6
Egypt	10.9	9.2	8.1	9.0	9.2
Kuwait	1.4	1.7	1.7	1.6	4.4
UAE	N/A	N/A	N/A	N/A	2.4
Qatar	N/A	N/A	N/A	N/A	0.5

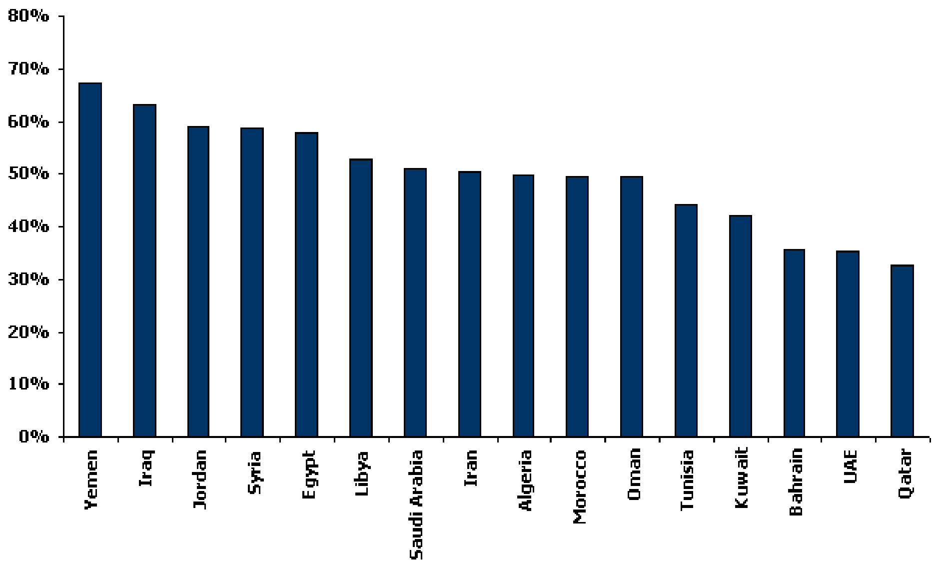
Source: International Monetary Fund, Markaz Research
Note: Data is static and may not represent actual unemployment
* Yemen and Libya's unemployment data not updated since 2003 and 2004 respectively.

The population in the region is young, with an average of 50% below the age of 25

From 2000 the average percentage of unemployed in the Arab World has been above 10%, double of what is considered the natural unemployment rate of 5%-6% in developed markets and higher than the 7.5% average for Emerging Markets[2]. Some countries in the Middle East are trying to reduce the unemployment level such as Algeria, Tunisia and Egypt to some extent (Table 5); however the improvement over 10 years is just a scratch on the surface of the problem and has been largely been outpaced by population growth and demographics.

Moreover, the population in the region is exceedingly young, with an average of 50% below the age of 25 (Figure 7). This causes a massive influx of labor market entrants year on year which job creation cannot keep up with.

Figure 7: Percentage of Total Population under 25 years



Source: United Nations Statistics Division (UNstats**)**

Egypt has a large population (80.4m) with a median age of 24 years

Egypt has a large population (80.4m) with a median age of 24 years[3] and 33% of the population is under age 14 (26.7mn). Furthermore, based on the Central Authority for Public Mobilization and Statistics (CAPMAS), a survey estimates that 92% of the unemployed are under the age of 30, a situation that probably provided the spark.

The situation in Algeria is no different; unemployment is high (10%) however we notice that the government's initiative began to bear fruit. In 2000, the unemployment rate was 29% and in 2010 the level fell to 10%.

In Libya, all high school and college graduates are accepted by large government bureaucracies, however with a growing population and a median age of 24 years; Libya's government cannot continue to absorb the large amount of graduates thus unemployment levels have grown out of control. In 2005, government officials put unemployment at 13% while CIA statistics place the rate at a far more troubling 30%.

GCC data shows that Kuwait, UAE and Qatar have the lowest unemployment rate in the Arab world while Oman, Bahrain and Saudi Arabia are more vulnerable to this factor; the reasoning behind this is a combination of population and affluence, i.e. the ability of the state to extend its welfare through its population. Oman and

[2] Institute of International Finance
[3] CIA World Fact Book (July 2010 estimates)

Bahrain are lesser prosperous nations and therefore may not be able to spend as much on welfare programs, while Saudi, despite its affluence, has a very large population.

As an aside, the aggregate high level of unemployment is further compounded by the fact that the same are reasonably well educated. In Tunisia, for example, 51% of the unemployed has at least a secondary education and this percentage is similar across the board[4]. Algeria suffers from the same problem; in 2001, people with secondary education or more were 30% of the unemployed, however, in 2002 the percentage of "educated" unemployed" rose to 34.4%.

The highest poverty level in the region is in Yemen with 45.2% of the population living under $2 per day

B. Poverty

In the Middle East, poverty is a chronic issue which has been growing for decades, however, recent price increases, especially in food, has made the situation intolerable. There are several definitions for poverty ranging from lack of income to the status of health care and education. While the definition of poverty differs from country to country and is based on the respective country's standard of living we have used two main criteria to measure poverty; GDP/capita and percentage of people living below a pre-defined poverty line.

The highest poverty level in the region is in Yemen with 45.2% of the population living under $2 per day and a GDP/capita of $1,230. This is followed, distantly, by Iraq with a 25% poverty rate and a GDP/capita of $2,625. In Egypt, almost 18 million people (or 20%) live under the poverty line (Appendix 1), a figure which exceeds the population of Jordan, Libya, Kuwait, Bahrain and Qatar combined.

In 1995, the poverty level in Algeria was just over 12%, but by 2006, the same had jumped to 23%, one of the highest rates in MENA region. With vast amounts of hydrocarbon reserves and high subsidies; officially, Libya has a near 0% poverty rate, however the CIA fact book suggests that a third of the Libyan population lives at or below the national poverty line.

In Syria, where protests have kicked up in recent days, nearly 12% of the population lives in poverty, based on a 2004 study by the United Nations[5]. Jordan, Morocco and Iran also have high poverty rates.

C. Inflation

Being the world's largest wheat importer, Egypt is particularly sensitive to global food price fluctuations

Based on the Food and Agriculture Organization of the United Nations (FAO), global food prices rose for the seventh consecutive month in January, increasing 3.4% from December's peak levels where the index reached an all time high of 231.

Food price inflation could be attributed to the drought scare in China. The grave issue of food prices will be multiplied further if China's drought continues. Severe climate changes from droughts in Russia to floods in Canada, Australia and Pakistan in addition to growing demand in China and India pose a grave threat to global food supply.

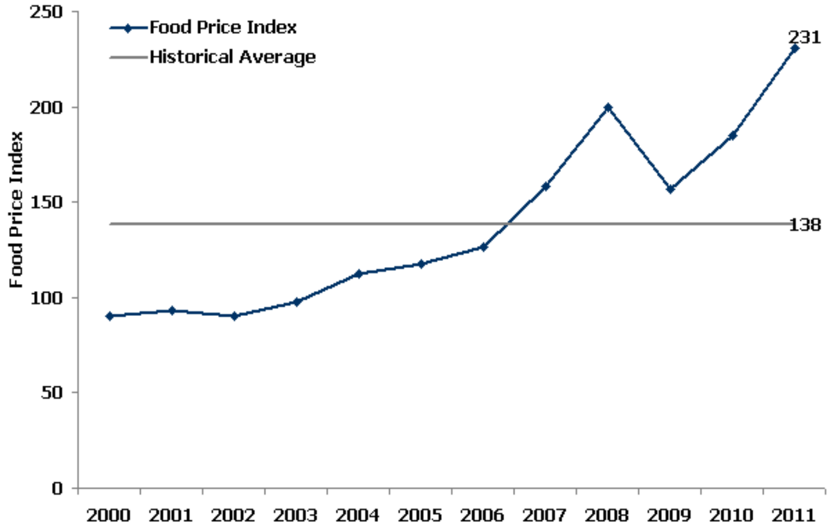
Due to being the largest wheat importer in the world, Egypt is particularly sensitive to global food price fluctuations. In 2008, food prices reached a historical high, causing riots and demonstrations to break out. In December 2010, food prices surpassed 2008 levels as the Index hit 231 (Figure 8) and unrest emerged across the Arab world. Governments were quick to recognize the connection; Egypt bought

[4] World Bank
[5] Human Development Study of Poverty (1996-2004), United Nations

Current conflict will undoubtedly throw a wrench into Libya's plans to control food price inflation

170,000 tonnes of wheat in February 2011 after purchasing 175,000 tonnes in January, in order to reduce food price volatility and protestors' anxiety. Algeria bought 800,000 metric tonnes of wheat in late January to reduce the effects of food price volatility on its political arena.

Figure 8: Global Food Price index



Source: Food and Agriculture Organization of the United Nations

Current conflict will undoubtedly throw a wrench into Libya's plans to control food price inflation by increasing wheat production to 300,000 in 2011 and 600,000 by 2015[6]. Libya had also been planning to plant wheat in Ukraine, Brazil, Turkey and Argentina[7].

It's interesting to note Tunisia's low inflation rate (See Appendix 1) did not help in stabilizing the regime, which renders the notion of a pure "hunger revolution" moot.

GCC countries also have relatively low inflation levels due to high food subsidies which keep prices in check, although Saudi Arabia and Oman are experiencing high inflation.

B. Corruption

Corruption in the Middle East tends to be high, due to large inefficient bureaucracies and a lack of enforcement

Corruption in the Middle East tends to be high, due to large inefficient bureaucracies and a lack of enforcement. The measurement of corruption is subjective and hard to gauge, measure and compare. However, Transparency International issues an annual Corruption Perception Index (CPI)[8], which is used for our analysis.

CPI ranks countries according to the perception of corruption in the public sector. The index is on a scale of 1-10; 10 being the "Cleanest" and 1 "Most Corrupt".

The full MENA average is at 4 and has remained stable through the period, GCC tends to score higher (read: Cleaner), averaging 5.6 in 2010 after dropping to 5 in 2007. The least corrupt countries are Qatar and UAE while the highest corruption is seen in Iraq, Yemen, Libya and Iran. The majority of countries have seen deterioration in their rankings throughout the period.

[6] Reuters news
[7] Reuters news
[8] *The CPI is an aggregate indicator that combines different sources of information about corruption, making it possible to compare countries,* Transparency International

Table 6: Corruption Perception Index

Country	2003	2004	2005	2006	2007	2008	2009	2010	2003-2010
Algeria	2.6	2.7	4.8	3.1	3.0	3.2	2.8	2.9	Flat
Bahrain	6.1	5.8	5.8	5.7	5.7	5.4	5.1	4.9	Deterioration
Egypt	3.3	3.2	3.4	3.3	2.9	2.8	2.8	3.1	Deterioration
Iran	3.0	2.9	2.9	2.7	2.5	2.3	1.8	2.2	Deterioration
Iraq	2.2	2.1	2.2	1.9	1.5	1.3	1.5	1.5	Deterioration
Jordan	4.6	5.3	5.7	5.3	4.7	5.1	5.0	4.7	Flat
Saudi Arabia	4.5	3.4	3.4	3.3	3.4	3.5	4.3	4.7	Flat
Kuwait	5.3	4.6	4.7	4.8	4.3	4.3	4.1	4.5	Deterioration
Libya	2.1	2.5	2.5	2.7	2.5	2.6	2.5	2.2	Deterioration
Morocco	3.3	3.2	3.2	3.2	3.5	3.5	3.3	3.4	Flat
Oman	6.3	6.1	6.3	5.4	4.7	5.5	5.5	5.3	Deterioration
Qatar	5.6	5.2	5.9	6.0	6.0	6.5	7.0	7.7	Improved
Syria	3.4	3.4	3.4	2.9	2.4	2.1	2.6	2.5	Deterioration
Tunisia	4.9	5.0	4.9	4.6	4.2	4.3	4.2	4.3	Deterioration
United Arab Emirates	5.2	6.1	6.2	6.2	5.7	5.9	6.5	6.3	Improved
Yemen	2.6	2.4	2.7	2.6	2.5	2.3	2.1	2.2	Deterioration

Source: Transparency International Organization

These long running issues have been allowed to grow to a boiling point with very little done towards alleviating them

Conclusion

On a final note, it is important to point out, and it is an issue that has been largely ignored by the media and various analysts, that the root problems which underscore all of these unrests have been fomenting and building through decades of mismanagement, bureaucracy and corruption. Indeed, these long running issues have been allowed to grow to a boiling point with very little done towards alleviating them. Consequently, there is, unfortunately, no quick and easy remedy for solving these problems. The corrective measures will take years, if not decades, to work their way through the economy; especially those dealing with unemployment for the swelling ranks of new labor force entrants in addition to the income/poverty issues.

It will take solid sustained reforms and firm enforcement of laws and regulations to better the level of welfare in these countries. Looking at the Egyptian and Tunisian experience, it is clear that revolutions are not the end, but the beginning of a long and winding road to higher economic welfare.

If GCC region escapes with little episodes while Mena ex GCC suffers large scale destruction as a result of the revolution, then GCC liquidity may find interesting rebuilding investment opportunities in Mena ex GCC, a region that they are familiar with.

Appendix 1: MENA Statistics

Country	Population		Median Age	Unemployment	Internet users	GDP		Inflation (%)	Poverty Rate	Current Account Balance		Public Debt	External Debt	Foreign Reserves (USD Bn)
	(mn)	% under 25 yrs		%	(mn)	(USD bn)	Per capita ($)			(USD Mn)	(%) GDP	% GDP	% GDP	
Algeria	34.5	50%	27	10	4.7	172	4,762	5.50	23%	7,010	0.9	-	3.7	161
Egypt	80.5	36%	24	15	20	239	2,998	12.00	20%	-4,318	-1.5	74.7	18	35
Jordan	6.4	58%	22	9.2	1.6	30	4,746	11.70	20%	-1,711	-5.9	68.3	61.2	14
Libya	6.4	63%	24	15.3	0.35	85	12,951	5.10	25%	15,908	15.9	1.8	6.1	124
Morocco	31.6	50%	27	14.6	13.2	96	2,987	9.50	18%	-4,259	-5.2	49.9	28.8	24
Syria	22.1	59%	22	13	4.4	66	3,110	5.50	14%	299	1	-	10.3	-
Tunisia	10.5	42%	30	1.6	3.5	46	4,274	4.10	N/A	-2,071	-6	42.1	47.2	9
Yemen	23.4	53%	18	30	2.2	33	1,319	4.50	30%	-2,565	-9.7	-	25.5	-
Iran	76.9	50%	26	9.6	8.21	342	4,467	1.50	15%	13,248	3.1	-	4.1	78
Iraq	26.67	49%	20	15	1.2	93	2,827	4.40	N/A	27,133	31.4	-	-	-
Kuwait	2.5	33%	29	0.5	1.1	128	34,743	1.00	N/A	44,957	38.1	9.9	26.5	21
Saudi Arabia	23.68	51%	25	10.5	9.77	476	17,840	9.80	N/A	49,259	10	10	22.7	507
United Arab Emirates	4.77	59%	30	10.9	3.45	255	48,990	5.50	12%	15,709	9.2	26.4	60	54
Bahrain	1.11	44%	31	13.2	0.42	24	21,605	5.00	4%	1,795	6.6	37.5	132	4
Qatar	1.45	35%	31	2.4	0.56	158	89,320	4.50	N/A	9,908	6.5	12.1	71.5	26
Oman	2.87	67%	24	35	1.47	59	19,135	2.00	45%	4,642	5.1	4.7	22.1	15

Source: IMF, IIF, World Bank, CIA World fact book and Markaz Research

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GCC Corporate Earnings
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- Emaar Economic City (Jun-10)
- Qassim Cement Company (Jun-10)
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- Alinma Bank (May-10)
- Jarir Marketing (May-10)
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- Bank Al Jazira (Apr-10)
- Makkah Construction (Apr-10)
- Saudi Cement Company(Apr-10)
- Southern Province Cement Co(Mar-10)
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- Yamama Saudi Cement (Feb-10)
- Etihad Etisalat (Feb-10)
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- SAFCO (Oct-09)
- Riyad Bank (Jul-09)
- Sabic (Mar-09)
- Saudi Investment Bank (Jan-09)
- Kingdom Holding Co (Dec-08)
- Saudi Kayan Petro Co. (Aug-08)
- Banque Saudi Fransi (Jun-08)

Kuwait
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- Wataniya (Jul-10)
- Boubyan Bank (June-10)
- Agility (June-10)
- Gulf Bank of Kuwait (May -10)
- National Bank of Kuwait (Mar-10)
- Al Deera Holding (Aug-09)
- Kuwait Finance House (Apr-09)
- Kuwait Financial Centre (Dec-08)
- Commercial Bank of Kuwait (Oct-08)
- National Industries Group (Sept-08)
- Zain (Sept-08)
- Global Investment House (Sept-08)
- Kipco (Sept-08)
- The Investment Dar (Sept-08)
- Burgan Bank (Sept-08)
- Automated Systems Co (Aug-08)
- Al Safat Investment Co (July-08)

UAE

- NBAD (Mar-11)
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- ADCB (Jun-09)
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- Gulf Cement Company (Jan-09)
- Abu Dhabi National Hotels (Dec-08)
- Dubai Investments (Dec-08)
- Arabtec Holding (Dec-08)
- Air Arabia (Nov-08)
- Union Properties (Nov-08)
- Dubai Islamic bank (Oct-08)
- Emaar Properties (July-08)
- Dana Gas (July-08)

Qatar

- Qatar National Bank (Oct-10)
- Qatar Gas Transport Co. (Sept-10)
- QISB (Sept-10)
- Masraf Al-Rayan (Jun-10)
- Commercial Bank of Qatar (Mar-10)
- Qatar Telecom (Jun-09)
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- Qatar Fuel Co. (Dec-08)
- Qatar Shipping Co (Dec-08)
- Barwa Real Estate Co. (Nov-08)
- Qatar Int'l Islamic bank (Nov-08)
- Qatar Insurance Co. (Nov-08)
- Doha Bank (Aug-08)
- QEWC (July-08)

Bahrain

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- Al Salam Bank (Aug-10)
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- Esterad Inv. Company (Aug-08)
- Bahrain Islamic Bank (Aug-08)
- Ithmaar Bank (July-08)
- Tameer (July-08)

Oman

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- Shell Oman Marketing (Apr-10)
- Galfar Engineering & Cont. (Nov-08)
- Oman Telecommunications (Sept-08)
- Oman cement (Sept-08)
- National Bank of Oman (Aug-08)
- OIB (July-08)

Jordan

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- Cairo Amman Bank (Oct-08)

Morocco

- Maroc Telecom (Mar-10)

Egypt

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- Egypt Kuwait Holding (Mar-10)
- Commercial Int'l Bank (Oct-08)
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- Mobinil (Sep-08)
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Oman	63%	100%	50%
Egypt	62%	100%	45%
Jordan	39%	0%	32%
Morocco	50%	70%	24%
MENA	**79%**	**93%**	**63%**