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The Economies of the Middle East

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Article Body:
On February 24, 2003, in the Islamic Financial Forum in Dubai, Brad Bourland, chief economist for the Saudi American Bank (SAMBA), breached the embarrassed silence that invariably enshrouds speakers in Middle Eastern get-togethers. He reminded the assembled that despite the decades-long fortuity of opulent oil revenues, the nations of the region - excluding Turkey and Israel - failed to reform their economies, let alone prosper.

Structural weaknesses, imperceptible growth, crippling unemployment and deteriorating government financing confined Arab states to the role of oil-addicted minions. At $540 billion, said Bourland, quoted by Middle East Online, the combined gross domestic product of all the Arab countries is smaller than Mexico's (or Spain's, adds The Economist).

According to the Arab League, the gross national product of all its members amounted to $712 billion or 2 percent of the world's GNP in 2001 - merely double sub-Saharan Africa's.

Even the recent tripling of the price of oil - their main export commodity - did not generate sustained growth equal to the burgeoning population and labor force. Algeria's official unemployment rate is 26.4 percent, Oman's 17.2 percent, Tunisia's 15.6 percent, Jordan's 14.4 percent, Saudi Arabia's 13 percent and Kuwait sports an unhealthy 7.1 percent. Even with 8 percent out of work, Egypt needs to grow by 6 percent annually just to stay put, estimates the World Bank.

But the real figures are way higher. At least one fifth of the Saudi and

Egyptian labor forces go unemployed. Only one tenth of Saudi women have ever worked. The region's population has almost doubled in the last quarter century, to 300 million people. Close to two fifths of the denizens of the Arab world are minors.

According to the Iranian news agency, IRNA, the European Commission on the Mediterranean Region estimates that the purchasing power parity income per head in the area is a mere 39 percent of the EU's 2001 average, comparable to many post-communist countries in transition. In nominal terms the figure is 28 percent. These statistics include Israel whose income per capita equals 84 percent of the EU's and the Palestinian Authority where GDP fell by 10 percent in 2000 and by another 15 percent the year after.

Faced with ominously surging social unrest, the Arab regimes - all of them lacking in democratic legitimacy - resort to ever more desperate measures. "Saudisation", for instance, amounts to the expulsion of 3 million foreign laborers to make room for indigenous idlers reluctant to take on these vacated - mostly menial - jobs. About one million, typically Western, expat experts remain untouched.

The national accounts of Arab polities are in tatters. Until the recent surge in oil prices, Saudi Arabia managed to produce a budget surplus only once since 1982. Per capita income in the kingdom plunged from $26,000 in 1981 to $7000 in 2003. Higher oil prices may well continue throughout 2006, further masking the calamitous state of the region's economies. But this would amount to merely postponing the inevitable.

Arab countries are not integrated into the world economy. It is possibly the only part of the globe, bar Africa, to have entirely missed the trains of globalization and technological progress. Charlene Barshefsky was United States Trade Representative from 1997 to 2001. In February 2003, in a column published by the New York Times, she noted that:

"Muslim countries in the region trade less with one another than do African countries, and much less than do Asian, Latin American or European countries. This reflects both high trade barriers ... and the deep isolation Iran, Iraq and Libya have brought on themselves through violence and support for terrorist groups ... The Middle East still depends on oil. Today, the United States imports slightly more than $5 billion worth of manufactured goods and farm products from the 22 members of the Arab League, Afghanistan and Iran combined - or about half our value-added imports from Hong Kong alone."

Indeed, Jewish Israel and secular Turkey aside, 8 of the 11 largest economies of the Middle East have yet to join the World Trade Organization. Only two decades ago, one of every seven dollars in global export revenues and one twentieth of the world's foreign direct investment flowed to Arab pockets.

Today, the Middle East's share of international trade and FDI is less than 1.5 percent - half of it with the European Union. Medium size economies such as Sweden's attract more capital than the entire Middle Eastern Moslem world put together.

Some Arab countries periodically go through spastic reforms only to submerge once more in backwardness and venality. Oil-producers attempted some structural economic adjustments in the 1990s. Jordan and Syria privatized a few marginal state-owned enterprises. Iran and Iraq cut subsidies. Almost everyone - especially Lebanon, Egypt, Iran and Jordan - increased their unhealthy reliance on multilateral loans and foreign aid.

Young King Abdullah II of Jordan, for instance, dabbles in deregulation, liberalization, tax reform, cutting red tape and tariff reductions. Aided by a free trade agreement with America passed by Congress in 2001, Jordan's exports to the United States last year soared from $16 million in 1998 to $400 million in 2002.

A similar nostrum is being administered to Morocco, partly to spite the European Union and its glacial "Barcelona Process" Euro-Mediterranean Partnership. But, as everyone realizes, the region's problems run deeper than any tweaking of the customs code.

The "Arab Human Development Report 2002", published in June 2002 by the United Nations Development Program (UNDP), was composed entirely by Arab scholars. It charts the predictably dismal landscape: one in five inhabitants survives on less than $2 a day; annual growth in income per capita over the last 20 years, at 0.5 percent, exceeded only sub-Saharan Africa's; one in six is unemployed.

The region's three "deficits", laments the report, are freedom, knowledge and manpower. Arab polities and societies are autocratic and intolerant. Illiteracy is still rampant and education poor. Women - half the workforce - are ill-treated and excluded. Pervasive Islamization replaced earlier militant ideologies in stifling creativity and growth.

In an article titled "Middle East Economies: A Survey of Current Problems and Issues", published in the September 1999 issue of the Middle East Review of International Affairs, Ali Abootalebi, assistant professor of political science at the University of Wisconsin, Eau Claire, concluded:

"The Middle East is second only to Africa as the least developed region in the world. It has already lost much of its strategic importance since the Soviet Union's demise ... Most Middle Eastern states ... probably do, possess the necessary technocratic and professional personnel to run state affairs in an efficient and modern manner .... (but not) the willingness or ability of the elites in charge to disengage the old coalitional interests that dominate governments in these countries."

The war with Iraq changed all that. This was the fervent hope of intellectuals throughout the region, even those viscerally opposed to America's high-handed hegemony. But this may well be only another false dawn in many. The inevitable massive postwar damage to the area's fragile economies will spawn added oppression rather than enhance democracy.

According to The Economist, the military buildup has already injected $2 billion into Kuwait's economy, equal to 6 percent of its GDP. Prices of everything - from real estate to cars - are rising fast. The stock exchange index has soared by one third. American largesse extends to Turkey - the recipient of $5 billion in grants, $1 billion in oil and $10 billion in loan guarantees. Egypt and Jordan will reap $1 billion apiece and, possibly, subsidized Saudi oil as well. Israel will abscond with $8 billion in collateral and billions in cash.

But the party may be short-lived, especially since the war did not prove to be as decisive and nippy as the Americans foresaw.

Stratfor, the strategic forecasting consultancy, correctly observes that the United States is likely to encourage American oil companies to boost Iraq's postbellum production. With Venezuela back on line and global tensions eased, deteriorating crude prices may adversely affect oil-dependent countries from Iran to Algeria.

The resulting social and political unrest - coupled with violent, though typically impotent, protests against the war, America and the political leadership - is unlikely to convince panicky tottering regimes to offer greater political openness and participatory democracy. The mock presidential elections in Egypt in 2005 are a case in point.

War also traumatized tourism, another major regional foreign exchange earner. Egypt alone collects $4 billion a year from eager pyramid-gazers - about one ninth of its GDP. Add to that the effects of armed conflict on traffic in the Suez Canal, on investments and on expat remittances - and the country could well become the war's greatest victim.

In a recent economic conference of the Arab League, then Egyptian Minister of State for Foreign Affairs, Faiza Abu el-Naga, pegged the immediate losses to her country at $6-8 billion. More than 200,000 jobs were lost in tourism alone. Egypt's Information and Decision Support Centre (IDSC) distributed a study predicting $900 million in damages to the Jordanian economy and billions more to be incurred by oil-rich Saudi Arabia.

The Arab Bank Federation foresees banking losses of up to $60 billion due to contraction in economic activity both during the war and in its aftermath. This may be too pessimistic. But even the optimists talk about $30 billion in foregone revenues. The reconstruction of Iraq could revitalize the sector - but American and European banks will probably monopolize the lucrative opportunity.

The war, and more so its protracted aftermath, are likely to have a stultifying effect on the investment climate.

Saudi Arabia and Egypt each attract around $1 billion a year in foreign direct investment - double Iran's rising rate. But global FDI was halved between 2000-2002. In 2003, flows reverted merely to 1998 levels. This implosion is likely to affect even increasingly attractive or resurgent destinations such as Israel, Turkey, Iraq and Iran.

Foreign investors will be deterred not only by the fighting but also by a mounting wave of virulent - and increasingly violent - xenophobia. Consumer boycotts are a traditional weapon in the Arab political arsenal. Coca-Cola's sales in these parched lands have plummeted by 10 percent in 2002 alone. Pepsi's overseas sales flattened due to Arabs shunning its elixirs. American-franchised fast food outlets saw their business halved. McDonald's had to close some of its restaurants in Jordan.

Foreign business premises have been vandalized even in the Gulf countries. According to The Economist "in the past year (2002) overall business at western fast-food and drinks firms has dropped by 40% in Arab countries. Trade in American branded goods has shrunk by a quarter."

These are bad news. Multinationals are sizable employers. Coca-Cola alone is responsible for 220,000 jobs in the Middle East. Procter & Gamble invested $100 million in Egypt. Foreign enterprises pay well and transfer technology and management skills to their local joint venture partners.

Nor is foreign involvement confined to retail. The $35 billion Middle Eastern petrochemicals sector is reliant on the kindness of strangers: Indian, Canadian, South Korean and, lately, Chinese. Singapore and Malaysia are eyeing the tourism industry, especially in the Gulf. Their withdrawal from the indigenous economies might prove disastrous.

Nor will these battered nations be saved by geopolitical benefactors.

The economies of the Middle East are off the radar screen of the Bush administration, accuses Edward Gresser of the Progressive Policy Institute in a recently published report titled "Blank Spot on the Map: How Trade Policy is Working Against the War on Terror".

Egypt and most other Moslem countries are heavily dependent on their textile and agricultural exports to the West. But, by 2015, they will face tough competition from nations with contractual trade advantages granted them by the United States, goes the author.

Still, the fault is shared by entrenched economic interest groups in the Middle East . Petrified by the daunting prospect of reforms and the ensuing competitive environment, they block free trade, liberalization and deregulation.

Consider the Persian Gulf, a corner of the world which subsists on trading with partners overseas.

Not surprisingly, most of the members of the Arab Gulf Cooperation Council have joined the World Trade Organization a while back. But their citizens are unlikely to enjoy the benefits at least until 2010 due to obstruction by the club's all-powerful and tentacular business families, international bankers and economists told the Times of Oman.

The rigidity and malignant self-centeredness of the political and economic elite and the confluence of oppression and profiteering are the crux of the region's problems. No external shock - not even war in Iraq - comes close to having the same pernicious and prolonged effects.