CHAPTER 5

outlook for the middle east: unfulfilled promises and devastation

erinc yeldan

The Middle East, North Africa, and Central Asia, a region of almost 600 million people, is a land of devastation, war, and unfulfilled promises. This region, known as the birthplace of civilization, is host to the three major religions of the world and encompasses a diverse cultural and historical heritage, which has been a source of mutual respect and peaceful coexistence for centuries. Yet, the strategic interests of the neoliberal 'Petro Core' have ignored these riches, focusing only on one aspect: oil.

It is oil that finally triggered the war in Iraq, which holds some 11 per cent of the world's oil reserves. This, in my view, was the strategic climax of the converging interests of the so-called 'Petro Core'—currently consisting of British Petroleum, Royal Dutch/Shell, Exxon-Mobil, and Texaco-Chevron, the world's four biggest private oil companies, which want the open flow of oil resources at 'administered' (read oligopolistic) prices to the detriment of the supplying Arab nations, and the arms industry, whose interests have been under pressure as the aggregate military budgets of the world have fallen by over 30 per cent and trade in weapons has dwindled. This alliance is one of the most fearsome facets of the new collective imperialism which will profit from a permanent state of war in the world and which sees our planet merely as merchandise for sale. There is little doubt that the conflict in Iraq—and its repercussions in the region—will have long-lasting effects and will serve to exacerbate the already deep economic problems of the Middle East and Central Asian nations.

two decades of stagnation

It is no exaggeration to say that the economic performance of the region has been a complete failure. After the bonanza of economic expansion of the 1970s due to surging oil prices, the 1980s and 1990s have seen virtual stagnation for the economies of the Middle East and North Africa (MENA). In the 1980s, the

annual per capita average income fell by 1 per cent; in the 1990s, it grew by a mere 1 per cent, better only than Sub-Saharan Africa. Growth rates have been erratic, often following the zigzags of oil prices in the international markets. The real rate of growth of per capita GNP has been very low in comparison to the rest of the developing world (see Figure 5.1). As of 2000, average per capita GNP was $2060, less than half of the world average (see Table 5.1). There are large differences in income levels from country to country with per capita GNP as high as $23,500 in Qatar and $19,710 in Israel but as low as $370, $970, and $976 in Yemen, Syria, and Iraq respectively.

In Central Asia, economies have suffered from 'transition', with established institutions being dismantled and regions being left open to the assault of neoliberal globalization. Between 1990 and 1999, growth has been falling, in some cases dramatically—by 9 per cent in Azerbaijan, 5.9 per cent in Kazakhstan, and 3.5 per cent in Turkmenistan (see Table 5.1).

Table 5.1 Structure of the economy in selected Middle East and Central Asian countries

	GNP per capita (Dollars)	GNP per capita (PPP Dollars)	GDP Average Growth 90–99	Structure of GDP, 1999(%)						
				Private Consumption	Public Consumption	Total Investment	Domestic Savings	Current Account Balance	Exports	Imports
Qatar	23,500		5.7	21.4	26.6	21.4	–	18.0	–	–
Saudi Arabia	6,874		3.2	38.9	29.8	20.3	31.5	–1.2	36.0	31.0
Syria	970	2.761	2.1	69.5	11.4	18.8	18.2	1.3	29.0	40.0
Turkey	2,900	6,126	4.1	68.0	11.0	24.0	19.6	–0.7	26.0	31.0
Yemen	370	1,755	–2.8	72.4	14.8	20.9	11.8	1.5	37.0	45.0
Azerbaijan	550	2.322	–9.0	84.0	11.0	34.0	5.0	–29.5	29.0	58.0
Kazakhstan	1.230	4,408	–5.9	68.0	17.0	15.0	15.0	–3.1	43.0	43.0
Krgyz Rep.	300	2,223	–7.4	93.0	17.0	10.0	–11.0	–18.7	37.0	58.0
Tajikstan	290	981	–9.8	–	–	20.0	–	–5.5	81.0	85.0
Turkmenistan	660	3,099	–3.5	–	–	40.0			63.0	53.0
Uzbekistan	720	2,092	–2.0	–	–	11.0	–	–	25.0	22.0
Middle East and North Africa	2,060	4,600	3.0	60.0	21.0	22.0	19.0	–2.0	25.0	28.0
World	4,890	6.490	2.5	62.0	15.0	22.0	23.0	–0.2	22.0	22.0

Sources: ERF, *Economic Trends in the MENA Region*, (Cairo: American University in Cairo Press, 2003); World Bank, *World Development Indicators*, (Washington DC: World Bank, 2001); AFESD, *United Arab Economic Report*, (Kuwait: AFESD, 2000).

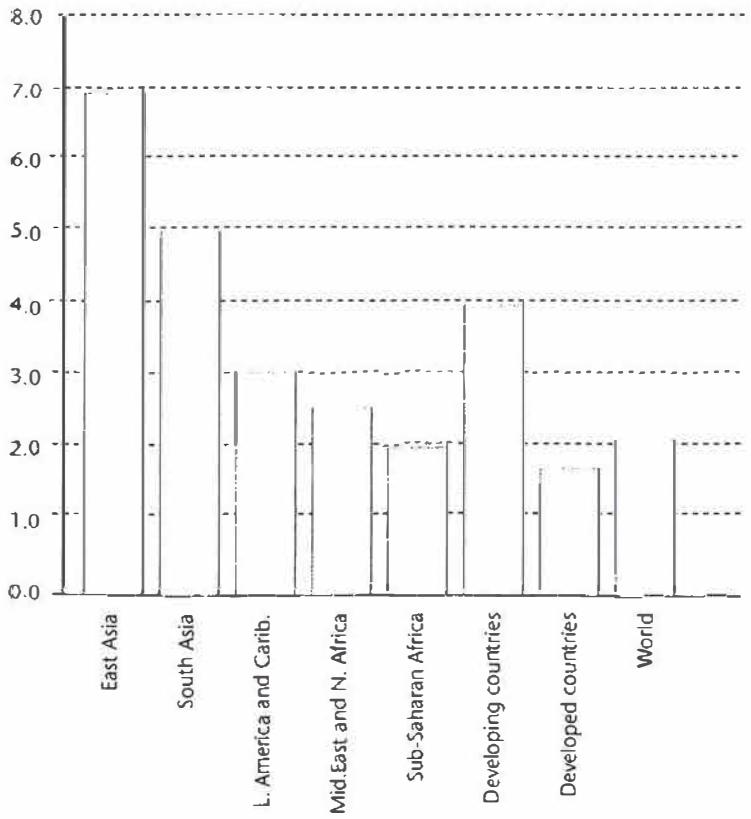

Figure 5.1 Average annual rate of growth of GDP, 1990–99 across the world

Sources: UNCTAD, *Trade and Development Report*, (Geneva: UNCTAD, 2003); World Bank, *World Development Indicators*, (Washington DC: World Bank, 2001).

The World Bank estimates that the transition economies will grow by 3.3 per cent and 3.4 per cent respectively over 2003 and 2004 and that the non-oil exporting MENA region will be growing at rates of 2.7 per cent and 3.6 per cent respectively. These growth rates are significantly lower than those of developing countries, which are expected to see average growth of 3.9 per cent in 2003 and 4.7 per cent in 2004.

a crisis in savings and investment

The MENA region suffers, in particular, from low savings generation and consequently a dismal investment performance. Savings-to-GNP ratios average 19 per cent compared with the world average of 23 per cent. Saudi Arabia has the

highest savings rate and Bahrain has an exceptionally high investment rate. Yet overall, spending on fixed investments in the Arab countries grew by only 1.1 per cent between 1999 and 2000. This is largely because of cuts in public investment as part of government austerity measures.[1]

This meagre savings performance has a number of causes, one of which is the region's high proportion of young and dependant people who find it hard to save out of scarce incomes. Another reason is the fragile and mostly shallow state of the region's financial systems, which fail to provide the necessary intermediary role between savers and investors. Publicly controlled banks, with an excessive exposure to government debt, outdated or poor regulations, and weak management predominate.

Within this context, premature liberalization of weak financial systems has been disastrous, in most cases diverting savings into short-term speculative ventures rather than to productive activities in the real economy. Turkey, with the fresh memories of the severe financial crises of 2000/2001 is a prime example. After the complete liberalization of its foreign capital regime, Turkey suffered a fall in the credit available to investors. As credit-to-GDP ratios fell, banks took on the role of financial *rentiers* and became prime movers in diverting priorities towards speculative finance.

Adding to the region's problems, it has failed to attract more than a fraction of the foreign direct investment going to the developing world, despite severe competition between countries that have offered an array of incentives including tax holidays, long-term leases, greater foreign ownership rights, and generous entry rules.

International trade has been weak too, despite the signing of trade agreements between the EU and Israel, Tunisia, Morocco, Jordan, Egypt, and Lebanon over the past few years and Turkey's formation of a full customs union with the EU in 1995. Export performance has varied across countries but, in general, volumes have fallen catastrophically. Overall, MENA-countries' share of the world exports market has fallen by more than half over the last two decades. Consequently, many countries in the region had to rely on workers' remittances as a source of foreign exchange earnings. Yet, coupled with the increased debt-servicing costs, the region has built up sizeable current account deficits averaging 2 per cent of GNP in comparison with the world average of −0.2 per cent in 1999 (see Table 5.1).

labour markets under pressure

The region's economic weaknesses are being exacerbated by the fact that its rate of population growth is one of the fastest in the world. MENA's population was

nearly 300 million in 1999. Between 1980 and 1998, it grew by an average of 2.8 per cent. During the 1990s, the number of people of working age rose by 3.1 per cent, far exceeding the world average of 1.7 per cent (see Table 5.2). Estimates suggest that employment in the MENA region has to grow by more

Table 5.2 Population and the structure of labor force

	Total Population (1999, Millions)	Labor Force Growth rate (90-99, %)	Participation Rate(%)		Illiteracy Rate(%)		Public Exp on Education (1997, % of GNP)
			Male	Female	Male	Female	
Bahrain	0.7	3.6[a]	62.8	21.9	9.8	18.8	
Egypt	62.4	2.9	52.3	23.5	34.5	58.2	4.8
Iran	63.0	2.4	44.3	17.0	18.3	32.6	4.0
Iraq	12.5	3.0[a]	43.9	11.1	36.1	56.6	
Jordan	4.7	5.2	43.9	15.0	5.8	17.4	6.8
Kuwait	1.9	-1.6	52.9	26.7	16.8	21.5	5.0
Lebanon	4.3	3.1	42.4	20.3	8.5	20.9	2.5
Oman	2.3	2.0[a]	41.6	9.6	22.0	42.5	
Qatar	0.7	1.4[a]	71.0	23.3	20.2	18.3	
Saudi Arabia	21.4	3.1	49.9	11.9	17.2	35.6	7.5
Syria	15.7	4.0	46.1	17.4	12.8	41.9	3.1
Turkey	64.4	2.8	59.2	36.4	7.1	25.0	2.2
Yemen	17.0	4.7	45.0	17.9	34.3	77.3	7.0
Azerbaijan	8.0	1.7					3.0
Kazakhstan	15.4	-0.2					4.4
Kyrgyz Rep.	4.7	1.4					5.3
Tajikistan	6.2	2.7				1.0	2.2
Turkmenistan	4.8	3.5					
Uzbekistan	24.5	3.0				1.0	7.7
Middle East and N. Africa	291.0	3.1					5.2
World	5947.7	1.7					4.8

a. Av. Population growth rate for 1980-98

Sources: ERF, *Economic Trends in the MENA Region 2002*, (Cairo: American University in Cairo Press, 2003); World Bank, *World Development Indicators*, (Washington DC: World Bank, 2001).

than 4 per cent per year just to absorb the new additional workforce, leaving aside provision of new jobs for the existing army of unemployed.[2] Given the lack of investment, this seems an impossible task.

With high unemployment giving employers the whip hand, workers' wages and conditions are under constant threat. In Egypt, workers are faced with a new law that allows employers to terminate contracts without compensation. In Turkey, new labour legislation aimed at raising standards to EU levels has been postponed for a third time under pressure from powerful business associations that are arguing that the change would 'inhibit flexibility in the Turkish labour market'.

Across the region, there is a process of working conditions being marginalized. Widespread privatization and de-unionization are undermining basic workers' rights (see Table 5.2 for a survey of MENA labour markets, which share low participation rates, deep gender inequalities, and high illiteracy rates, leading to low productivity, together with low shares of public investment in education). On average, the number of adult females who can read and write reaches only two-thirds of that of men in MENA countries. The equivalent numbers are 98 per cent in Latin America, 76 per cent in Sub-Saharan Africa, and 86 per cent in East Asia. The underlying cause of illiteracy is low public investment in education. Only Saudi Arabia (7.5 per cent), Jordan (6.8 per cent), Yemen (7 per cent), and Kuwait (5 per cent) have spending-to-GNP ratios higher than the world average of 4.8 per cent. Formerly part of socialist economies with generous social welfare programs, the economies of Central Asia tend to have higher investment in education but this will not last as these countries face up to the scourge of servicing large debts, a phenomenon to which I now turn.

debt and the assault on welfare

External debt and the need to service this debt are a huge drain on the region's resources and are contributing to a painful assault on welfare and social spending. Although there has been a gradual decline in the total external debt position (to $202.1 billion in 2001 from $216 billion in 1995), many countries in the region are still classified as 'severely indebted'. And, despite improvements in the ratio of total external debt to GNP (from 37.3 per cent in 1995 to 31.2 per cent in 2000) and that to total exports of goods and services (from 112.5 per cent in 1995 to 94 per cent in 2000), the pressure to service debt continues to exert a dangerous deflationary force onto the region.

The size of the region's short-term debt—$47.4 billion in 2001 or about

a fifth of total debt—is a significant concern (see Table 5.3 for individual countries).

It is deeply damaging that indebted countries are often being forced to meet their short-term repayment obligations by incurring even further debt. For example, Turkey and Qatar had to borrow more in 2001, while Morocco was forced to liquidate its privatization revenues. In 2001 and 2002, Turkey, to comply with IMF targets, was forced to reduce its short-term external debt to less than $15 billion in 2002 from $26 billion in mid-2000. Yet total foreign debt rose to $125.9 billion in the second quarter of 2002 from $102.9 billion in 1999 and debt-servicing costs increased to 16.8 per cent of the GNP in 2000–2001 from 11 per cent previously and to 70.1 per cent of its export earnings from 69.3 per cent. Interest costs as a ratio to GDP has reached 19 per cent—higher

Table 5.3 External indebtedness in the Middle East and Central Asia, averages for 1999-2001

	Total External Debt (Billions US$)	Short Term Debt (Billions US$)	Total External Debt/ GDP (%)	Total Debt Service/Exports (%)
Egypt	29.0	4.1	23.2	9.0
Iran	7.4	3.7	7.3	29.0
Jordan	7.6	0.7	89.0	11.0
Lebanon	12.5	2.5	71.0	27.0
Oman	5.9	1.3	–	7.0
Syria	21.3	5.7	136.0	5.0
Turkey	115.0	20.1	78.6	70.0
Yemen	4.2	0.7	61.0	5.0
Azerbaijan	0.9	0.2	18.8	8.0
Kazakhstan	6.7	0.5	36.6	17.0
Kyrgyz Rep.	1.4	0.1	102.9	29.0
Tajikistan	0.9	0.6	94.9	11.0
Turkmenistan	–	0.5[a]	–	32.0[a]
Uzbekistan	4.2	0.3	30.4	26.0
Middle East and N. Africa	202.1	47.4	31.2	94.0
World	2,375.1[a]			

a. Data for 1998

Sources: ERF, *Economic Trends in the MENA Region 2002*, (Cairo: American University in Cairo Press, 2003); World Bank, *World Development Indicators*, (Washington DC: World Bank, 2001).

Table 5.4 Fiscal balances and indicators

	Fiscal Balance as % of GDP (1999)	Tax Revenues as % of GDP (1998)	Ratio of Net New Financing to Debt Stock (%, 1998)	Interest Costs to GDP (%, 1999)	Social Expenditures[a] as % of Total Fiscal Expenditures
Egypt	–4.2	16.6		6.0	23.6
Iran	–5.7	11.2		0.1	41.8
Israel	–1.2	35.8	3.7	3.8	57.6
Jordan	–4.2	19.8	2.7	3.7	44.6
Kuwait	–13.8	1.5		1.7	
Lebanon	–14.4	12.7	11.9	12.9	19.4
Oman	–7.8		23.9		
Syria	–4.2	16.4			16.4
Turkey[b]	–14.4	22.0	70.2[c]	19.1	25.7
Yemen	–0.1	13.7		3.6	22.4
Azerbaijan[c]	–1.0	18.2		0.1	37.6
Kazakhstan[d]	–0.1	12.0	2.2	1.4	26.4
Kyrgyz Rep.	–3.3	14.9	1.9	1.5	40.7
Tajikistan	–1.0				
World	–1.5				

a. Social expenditures refer to education, health, social security, welfare, housing and community amenities. (1998)
b. Data refers to 2002; c. Data refers to 2001; d. Data refers to 2000
Sources: IMF, *Government Finance Statistics Yearbook*, (Washington DC: IMF, 2002); World Bank, *World Development Indicators*, (Washington DC: World Bank, 2001).

than the aggregate value added of agriculture, which employs nearly 40 per cent of the labour force.

So, for the sake, as the IMF would put it, of 'gaining credibility and trust in the foreign financial markets', Turkey has been forced to repay short-term debts to foreign creditors at the considerable and damaging price of increasing its debt to the IMF and crippling its economy even more with debt service (see Table 5.4 for other country examples where new borrowing has led to higher ratios of net new finance to existing debt stock).

As a result of low growth, high unemployment, and crippling debt service, public finances, particularly in the MENA region—Central Asian countries also have widening deficits but not to the same extent—are in crisis and social

welfare provision is facing draconian cuts. In 1999, the combined budget deficit of the Arab countries was over $30 billion—that is 5.7 per cent of their combined GNP (see Table 5.4 for individual countries). To meet debt-service obligations, social investment in education, health, social security, and other amenities is being slashed.

the years ahead

The economic fate of the Middle East is, in the near future, very much dependent on how the post-war social and political dynamics will evolve. Even without these political uncertainties, however, the region faces a darkening economic future, not least because of the formidable pressure of debt service. In heavily indebted countries such as Turkey and Lebanon, interest costs of debt servicing will necessitate further cuts in social welfare programs, worsening poverty. In the years ahead, the new transition economies of Central Asia also look destined to be forced into their own debt trap. The outlook is grim.

further reading

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references

1 European Research Forum (ERF) (2003).

2 ERF (2003), p.6.