

THE ECONOMIC IMPACT OF POLITICAL TURMOIL IN THE MIDDLE EAST AND NORTH AFRICA

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ABSTRACT

The turbulent political situation in Middle East and North Africa (MENA) had certain influence on its internal and external economy due to unique economic development characteristics of countries in such region. In regional economic layer, it causes regional economic order damage, investment environment deterioration, capital inflow to plunge into stagnation, high unemployment situation may be further deteriorated, and obstructed regional economic recovery state. In economic and trade cooperation layer between China and the Middle East, it shall generate certain adverse effect on bilateral trade and investment cooperation as well as China's petroleum import.

Keywords: Middle East; Political Situation; Regional Economy, Global Economy; Affect to China

INTRODUCTION

Since December 2010, the MENA has undergone tremendous changes. This situation began in Tunisia, the formation of domino effect, a short time quickly spread to Egypt, Bahrain, Yemen, Libya, Syria and other countries. Some countries in the MENA political changes, social instability, become the focus of world attention. Then, to France, Britain, the United States led the multinational force launched a military strike against Libya, the situation in the MENA once again become an international perspective. In view of the unique role and importance of the region in the world economic system, the changing situation in the region is becoming an important factor in global market and world economic uncertainty and instability, In the economic level also has a far-reaching impact. Therefore, this article from the economic perspective of the impact of the MENA turmoil.

MAIN CHARACTERISTICS OF ECONOMIC DEVELOPMENT IN MENA

(1) Petroleum Economy is the Biggest Characteristic, Irreplaceable Position in International Energy Market

The importance of MENA in world economy is ultimately originated to petroleum factor. Relying upon petroleum strategic resources far exceeding the reserves of other regions, MENA holds decisive role in global energy system. Petroleum is the economic businesscard of such region, which not only reflects the main economic characteristics, but also highlights the emphasis and focus vied to pay attention to by countries across the world. Above one half countries in such region belong to petroleum exporting countries. In terms of economic aggregate, although the total GDP of five countries (Tunisia, Egypt, Bahrain, Yemen and Libya with severest political situation) accounts for less than 1% in global economic aggregate and less than 4% in global aggregate, the petroleum reserves of such region is extraordinarily abundant. In 2009, MENA had 61.6% of global found petroleum reserves and 40% of global petroleum export volume. Rich petroleum resources decide its important

position in world energy and economy domains.

(2) High Foreign Dependency in Economic Development, Liable to be Affected by External Economy

The economy of MENA seriously relies upon foreign economy, prominently representing in that these countries belong to export-oriented economic structure, seriously depending on external markets, especially for oil producing countries. Seen from regional layer, the oil output in MENA was 29.14 million barrels/day in 2009, export volume 21.19 million barrels/day, and export proportion was as high as 72.7%. In addition, the contribution rate of oil output of oil exporting countries in such region accounted for 40.3% of GDP, and the contribution rate to government fiscal revenue (excluding aid revenue) was as high as 70.5%. Seen from country layer, for instance, the foreign trade dependency extent of Tunisia was high. The total commodity import and export volume of Tunisia accounted for 95.3% of GDP in 2010; Libya is the important oil producing country and OPEC member in North Africa, and oil revenue is the important pillar of its economy, accounting for about 1/3 of its GDP, 90% of government fiscal revenue and 95% of export income. Such situation is closely related to industrial structure of MENA countries.

1. Oil and gas resources development industry is one of important engines of state economic growth, and the main source of government fiscal revenue.
2. The development of agriculture and manufacturing industry of countries in such region is prevalently weak, and lots of manufactured goods for daily use rely upon import. Calculated as per constant price in 2005, the proportion of added value of manufacturing industry accounted just for 10.9% of GDP in 2009. For domestic production and life demand, governments needed to import equivalent quantity of manufactured goods each year. In 2009, the total import volume of goods and services in such region was USD 860.4 billion dollars, and the ratio with GDP was as high as 43.6%.
3. Tourism industry is the important backbone of economic development for multiple countries in such region. Egypt, Tunisia and Morocco in North Africa, and Saudi Arabia, Jordan and UAE in West Asia are important international tourism destination countries. In addition, oil exporting countries (UAE, Saudi Arabia and Bahrain, etc) attempted to construct themselves into important international financial centers. Tourism, finance and other service industries in such region belong to export-oriented industries, highly dependent on external economic situation. Thus it can be seen that under the historical conditions of excellent international trade index and external economic environment, such export-oriented economic growth mode can bring the expansion of economic quantity and economic scale. Meanwhile, it often conceals the fact of unreasonable state economic structure and low overall quality, but the vulnerability of economic development exists constantly.

(3) Prevalent High Unemployment Phenomenon

At the outset of 1990s, high childbearing in MENA resulted in young demographic structure and sharp increase of working-age populations in such region. However, it faced unbalanced urbanization development, backward industrialization process, weak manufacturing industry development, and economic development unable to create sufficient employment opportunities. Population sharp increase not only failed to obtain demographic bonus, on the contrary, it resulted in high unemployment for a long time under the background of international financial crisis. The scale of unemployment population was huger for some countries, especially Egypt, Jordan and Tunisia with abundant labor resources. In table No.1, since 2006, the unemployment of Algeria and Jordan exceeded 10% for a long time, Tunisia

exceeded 13% in 2011 exceeded 18.9% and that of Egypt a was between 9% and 13.5%, Morocco around 9%; only countries (Kuwait and Bahrain etc) with low population and labor force had low unemployment. Other countries including Libya, Yemen, Iraq and Syria also had appreciable quantity of hidden unemployment. However, it cannot be reflected from data due to the lack of statistics. It is worth noticing that the above indicator is just unemployment publicized by the government, the actual situation may be more austere.

Table No.1 Unemployment rate in some countries in MENA since 2006

Country	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Algeria	12.5	13.8	11.3	10.2	10.0	10.0	11.0	9.8	10.6	11.2	9.9*
Bahrain	-	5.6	3.7	4.0	3.6	4.0	3.9	4.4	4.2	-	-
Egypt	10.9	9.2	8.7	9.4	9.2	10.4	12.4	13.0	13.4	12.9	12.7*
Iraq	-	-	-	-	-	-	-	-	-	-	-
Jordan	14.1	13.1	12.7	12.9	12.5	12.9	12.2	12.6	11.9	13.1	-
Kuwait	1.4	1.7	1.7	1.6	2.1	2.1	2.1	2.1	2.1	2.1	2.1*
Libya	-	-	-	-	-	-	-	-	-	-	-
Morocco	9.7	9.8	9.6	9.1	9.1	8.9	9.0	9.2	9.9	9.7	10.2*
Sudan	17.5	16.8	16.0	14.9	13.7	12.0	14.8*	15.2*	19.8*	21.6*	20.6*
Syria	8.2	8.4	10.9	8.1	8.6	-	-	-	-	-	-
Tunisia	12.5	12.4	12.4	13.3	13.0	18.9	16.7	15.3*	15.3*	15.0*	14.0*
Yemen	-	-	-	-	-	-	-	-	-	-	-
"*" IMF staff estimates											
IMF, World Economic Outlook Database, October 2016											

(3) Income Gap among Different Countries in the Region is Big, and Economy of Low-Income Countries is Weaker

The rate of economic development in MENA was rapid in recent years. North Africa gathered major middle-income countries in Africa, while the income level of oil producing countries in West Africa has stepped into the list of developing countries. However, the income gap among countries is big and economic development situation different due to remarkable difference in factors including population, resources endowment and development environment. As per statistical estimation of IMF, there were 8 countries with per capita GDP exceeding RMB 10,000 dollars in such region in 2010, and 8 countries with per capita GDP lower than USD 3,000 dollars. The enormous income gap among countries became the important characteristics of regional economy. The countries in the region with per capita income ranking ahead in the world include UAE (calculated as per prevailing price USD, its per capita GDP in 2010 was USD 47,407 dollars), Qatar (USD 74,423 dollars), Kuwait (32,530 dollars); low-income most undeveloped countries include Yemen (USD 1,231 dollars) and Sudan (USD 1,643 dollars).

Therefore, under adverse economic development conditions, MENA countries with good economic development extent and high per capita income often possess stronger anti-impact ability when coping with the impacts of internal and external factors, while that of countries with poor economic development and low per capita income was obviously weaker, which are difficult to bear enormous economic pressure brought by adverse impacts.

DIRECT INFLUENCE OF MENA

Turbulent Political Situation on Regional Economy

(1) Economic Order Suffers Damage, Serious Direct Economic Loss

In turbulent MENA countries, the original economic development is difficult to be maintained, resulting in that state economy suffered enormous direct loss. Egyptian

government publicized one statistical result on Feb 17, 2011, turbulent political situation caused about USD 1.7 billion dollars of loss, thus its economic backbone-tourism industry inflicted heavy losses. If the influence is estimated to continue to the first half year, tourism income loss should be above USD 4-5 billion dollars. As to Tunisia with tourism income ranking top in state foreign currency income, the impact of sharp decrease of tourist arrivals on its economy shall be more disastrous. According to estimation, the direct economic loss brought by turbulent political situation to Tunisia was as high as USD 2.14 billion dollars, and 40% enterprises suspended operation or slashed production. Libya (still at the vortex center of turbulent political situation) should be the country with severest direct economic loss, although the trend of its war situation is still difficult to assess.

(2) Deterioration of Investment Environment, Capital Inflow Plunges into Stagnation

MENA turbulent countries triggered austere social security issue in political crisis. Lawbreakers of Egypt and Tunisia staged armed rebellions taking advantage of the occasion; the situation of Yemen was turbulent, conflict of the public became frequent; the public's protest activities in Syria was difficult to be appeased, causing bloody conflicts; Libya's riot caused casualties, probably evolving into long-term civil war. The investment environment deteriorated sharply under turbulent political situation, foreign-funded production and operation activities suffered serious affect, and future capital inflow shall be subject to great influence due to planned inflow capital standstill. Moreover, the influence to investment confidence is often more profound and lasting. Confronting with chaotic political situation, three major international rating companies successively lowered credit rating on turbulent countries in such region. Therefore, investment environment deterioration triggered by turbulent political situation in MENA is undisputable fact.

(3) High Unemployment Situation May be Further Deteriorated

High unemployment is one of the main problems faced by economic development in West Asia and North Africa. In current regional turmoil, the public of some countries put forward requirements on improving people's livelihood and increasing employment opportunities. Continuous high unemployment rate is one of inducements causing turbulent political situation, and also the consequence of turbulent political situation. That's because to a certain extent, turbulent political situation can deteriorate domestic economic development status, aggravate problematic employment problems, increase unemployment rate and form vicious cycle. For instance, Egypt's pillar industry-tourism industry inflicted serious impact, large amounts of tourism industry practitioners were unemployed; large amounts of oil workers were unemployed due to serious affect on oil production in Libya, and after the outburst of war, more people shall join unemployment group; Yemen's continuous turmoil also resulted in substantial increase of unemployed persons.

(4) Regional Economic Recovery Situation Was Obstructed, Economic Growth Prospect is Worrisome

The domino effect presented by the outburst of Libya war and social turmoil in West Asia and North Africa let international community believe that the turbulent situation shall last a long time, and social turmoil causes worrisome economic development prospect to countries in such region. World Economic Outlook issued by IMF in Oct 2010 predicted that the economic growth rate of MENA in 2011 shall reach 5.1%. The new issuance of World Economic Outlook published on Jan 2011 updated key data, and lowered economic growth rate of such region into 4.6%. It is worth noticing that it is just the prediction in January, and current situation is apparently severer than that of January. The chief analyst of regional

sovereignty credit rating department of Moody's Investors Service predicted that turbulent political situation may cause MENA economic growth to be lowered by 2%. Contrasting distinctively with rapid economic recovery momentum before turbulent political situation, multiple international financial institutions lowered economic growth rate of Egypt, Tunisia, Yemen, Libya, and Syria.

INFLUENCE OF MENA TURBULENT POLITICAL

Situation on Economic Cooperation between China and MENA

MENA is the important partner of China's foreign economic and trade cooperation. In recent years, with the growth of China's economy and the expansion of external demand on energy resources, the importance of economic and trade cooperation with MENA countries is continuously improved. Therefore, the unstable political situation of MENA exerted certain adverse effect on trade and investment cooperation between China and MENA.

(1) China's Investment in MENA had Retrogression Trend

The economic and trade cooperation between China and MENA countries becomes increasingly frequent in recent years. Currently, dozens of Chinese large-scale enterprises developed economic cooperation (investment, etc) with MENA countries. Large-scale Chinese state-owned enterprises (China State Construction Engineering Corporation, and China National Petroleum Corporation, etc) and privately-owned enterprises (ZTE Corporation, Huawei Technologies Co., Ltd) have investment projects in Libya, involving over 50 engineering contracting projects with contract amount at about USD 18.8 billion dollars. The projects are extensively distributed in railway, petroleum and communications, etc. Most China-invested enterprises' staffs withdrew due to the turbulence of Libya political situation. However, plants and equipments were suspended in situ, and contracted projects were completely stagnated, the loss was great. China's investment in Libya actually inflicted direct loss, and investment activities had retrogression trend. In Jan-Feb this year, China's newly signed contract amounts in Libya decreased by 45.3% on year-on-year basis, and the finished turnover decreased by 13.9%. More seriously, Libya war is developing towards long-term direction, when can China's withdrawn enterprises return to Libya? Which direction shall Libyan political situation go after the stabilization of future situation? What investment losses shall China bear? These problems are still unknown. With the deepening of Libya war, apparently such effect has not reached end. China also has corresponding investment losses in other turbulent countries, and it is just different in extent.

(2) Negative Effect on Bilateral Trade

In North Africa, turbulent Egypt was the fifth biggest trade partner of China in Africa, while it was respectively the sixth, seventh and eighth for Libya, Algeria and Morocco. In 2009, the total goods trade volumes of above four countries with China were respectively USD 5.85 dollars, USD 5.18 dollars, USD 5.13 dollars, and USD 2.5 billion dollars. In West Asia, unstable Yemen, Syria and Bahrain also had certain trade volume with China. In 2009, the total goods trade volumes of above three countries with China were respectively USD 2.41 dollars, USD 2.22 dollars, and USD 0.69 billion dollars. Seen from a short term, the turbulent situation in such region shall reduce bilateral trade scale. Seen from a long term, the deterioration of security situation in such region shall form heavy blow to existing trade cooperation relations and cooperation channels. The later effect may need a long time for restoration and establishment, and its effect is more profound.

(3) If Turbulent Situation Continues in Such Region, Oil Supply to China May be Reduced

West Asia, Russia and Central Asia, and Africa are three major source regions of China's external oil supply. In 2010, China imported 239 million tons of crude oil, and its degree of external dependence on crude oil exceeded 50%. MENA is the most concentrated region for China's crude oil import, and China imports large amounts of petroleum from MENA each year. In 2009, the imported crude oil from MENA accounted for 44.3% of total import volume. Of which, turbulent Libya is one of China's important crude oil import countries in MENA. As per the statistics of General Administration of Customs of China, China imported 72.2 tons of crude oil from Libya in Nov 2010, ranking the 11th among entire crude oil importing countries. In addition, subject to the affect of turbulent situation, China's petroleum investment projects in oil producing countries in such region shall be affected. During Libya's turmoil period, China National Petroleum Corporation's partial construction projects in Libya were damaged by armed conflicts, and relevant loss shall expand with the continuation of chaos caused by war. Seen from a short term, the turbulent situation in West Asia and North Africa has certain influence on China's petroleum industry investment and petroleum import from such region. Seen from a long term, it may threaten China's energy supply security if the turbulent situation continues or further spreads. Moreover, it shall have great impact on the formed relatively mature bilateral petroleum investment and trade scale.

SUGGESTIONS FOR ECONOMIC COOPERATION AND DEVELOPMENT BETWEEN CHINA AND COUNTRIES WITH POLITICAL TURMOIL IN THE MENA

The bilateral trades between China and the countries with political turmoil in the MENA are expanding, but it is restricted by some problems. In order to have a higher-level economic cooperation between China and the countries with political turmoil in the MENA, joint efforts of both parties are required.

From the perspective of the countries with political turmoil in the MENA, the specific policy recommendations include:

1. To strengthen publicity and public order, to tighten enforcement measures to as to crack down on terrorism. In Libya, Syria and Yemen, there are many hidden dangers affecting the state stability such as proliferation of firearms, strong tribal forces, active base organizations, which have brought a lot of obstacles to foreign investment. In these areas, the government of these countries must take decisive measures to create a peaceful and safe investment environment.
2. To strengthen the fairness and justice of law enforcement, to effectively implement the spirit of the investment law, and to protect the legitimate rights and interests of investors. Libya, Syria and Yemen are all ruled by law. However, in the process of law enforcement, there are often some phenomenon such as dereliction of duty, free decision, illegal charges, favoring people of their own nation etc. In order to attract more foreign investors to help with their economic development, these countries must be transparent, fair and impartial in law enforcement.
3. To improve government services, work efficiency, to strengthen the construction of a clean and honest administration, and to reduce the burden of the cost of investors. Good government service is an important factor affecting the investment environment. In terms of investment services, countries of the MENA must change the traditional inefficient bureaucratic style, and do more practical things more for foreign investors.

From the perspective of China, the following issues should be paid much attention to in the future trade:

1. Domestic quality supervision departments should further strengthen supervision, and prevent that shoddy products are exported to other countries as far as possible;
2. The Chinese export enterprises should adjust the export strategy timely according to the market requirements of countries with political turmoil in the MENA, and continue to expand the production and export of the products with the demand of the medium and low income consumers;
3. Consumers should carefully choose way for paying so as to guard against the risk of payment;
4. Relevant enterprises should strengthen the investigation about the market and the quality of the importer of countries with political turmoil in the MENA, select the right partner so as to avoid unnecessary trade disputes in rabbits;

In terms of investment, countries with political turmoil in the MENA and China have to guard against investment risks. In countries with political turmoil in the MENA, sectarian divisions, tribal issues and terrorism have been affecting the state stability and brought great difficulties for the investment cooperation between the two sides. Since 2011, as the situation in Syria, Yemen and Libya continued to deteriorate and economy witnessed a sharp downturn, and the majority of Chinese funded institutions have been evacuated from these countries. China must pay close attention to the development of the situation in the MENA, actively formulate the corresponding countermeasures, so as to minimize the loss as far as possible. Before making investment in these countries, Chinese companies need to do a comprehensive study of the political, economic, social and other aspects of these countries, and to predict the economic and social trends of these countries in the future. In addition, they should abide by local laws, respect local customs and habits, do well with the government, tribal relations, and also maintain long-term cooperative relations. Moreover, it should be noted that the current situation of the MENA is still in the dynamic development, development direction of focus issues such as war was still far from clear. Therefore, it is necessary to further strengthen the further investigation to the situation of the MENA.

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