A collection of military medals and a pair of glasses on a wooden surface. The medals include a red ribbon with a circular emblem, a blue ribbon with a circular emblem, and two silver Maltese crosses with central emblems. A pair of gold-rimmed glasses with thin temples is positioned diagonally across the lower half of the image. A circular compass is visible in the bottom left corner. The background is a light-colored wooden surface.

Economic Consequences of the War on Iraq

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Science & Technology

April 15 2003



War on Iraq: Costs & Consequences

- ◆ Costs and Consequences of War: analytical issues
- ◆ Challenges facing the Arab countries
- ◆ Central role of Oil Market
- ◆ Wars, Violent Conflicts & their Consequences
- ◆ Geo-strategic issues & economic consequences of war for the world economy, ME & Lebanon
- ◆ An Agenda for Action
- ◆ A Plan for Reconstruction & Development of the ME



Economic Consequences of the War on Iraq [1]

Distinguish between consequences and repercussions for:

- ◆ Global
- ◆ Regional
- ◆ National



Economic Consequences of the War on Iraq [2]

- ◆ Economic & Financial Costs of War
- ◆ Human Costs of War
- ◆ Environmental Consequences of War
- ◆ Geo-Strategic Consequences of War



Economic Consequences of the War on Iraq [3]

- ◆ Economic & Financial consequences cannot be separated from the strategic & political
- ◆ Risk Factors: extension of war to other countries, including Syria, Iran, Israel-Jordan
- ◆ Consequences of Iraq war deepen recession-inducing effects of September 11 and resulting ‘Economy of Fear’

Economic Costs of the War on Iraq

- ◆ Distinguish between the cost to government budgets, versus the overall economic cost to the world economy: i.e. guns vs. butter
- ◆ Look at incremental or additional costs: substantial part of military spending is previously budgeted
- ◆ Costs Depend on:
 - Duration & intensity of war and destruction
 - Utilization of non-conventional weapons: DU (?)
 - Extension to other countries (?)
- ◆ Economic Risk factors: Oil prices, Budgetary costs, Uncertainty & Confidence



Arab Countries Challenges [1]

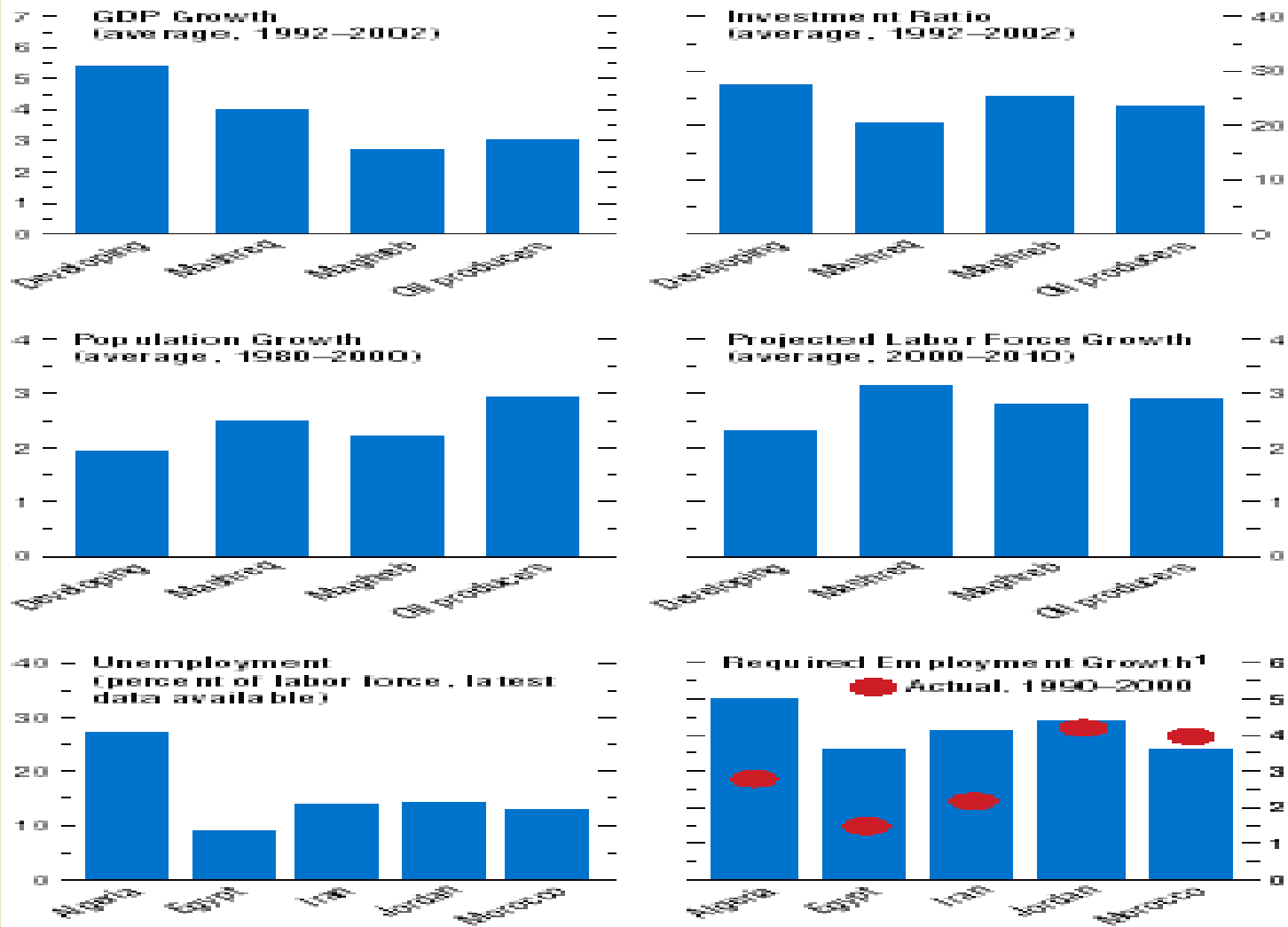
Effects of war must be analyzed and understood in the context of the multiple challenges facing the countries of the region:

- ◆ Demographic Time Bomb or ‘Blessing’?: High population and labor force growth rates
- ◆ Stagnating or falling per capita real incomes
- ◆ Volatile economic growth rates
- ◆ Aging, inadequate infrastructure
- ◆ Deteriorating environment



Figure 1.15. Middle East and North Africa: Managing the Demographic Transition

In coming years, a key challenge will be to raise GDP growth and employment across the region to absorb the rapidly growing labor force and reduce high unemployment.



Sources: World Bank, *World Development Indicators, 2002*; and IMF staff estimates.

Arab Countries Challenges [2]

- ◆ Limited production and export diversification
- ◆ Limited regional & international integration in trade and investment
- ◆ Limited Capital Markets integration
- ◆ Large & Growing ‘Digital Divide’: 5% world population, 0.7% of internet users
- ◆ Brain drain & Capital flight



Arab Countries Challenges [3]

- ◆ Vulnerabilities:
 - Conflicts and instability
 - Energy markets & prices: terms of trade shocks
 - Climatic conditions and shocks
 - Pro-cyclical fiscal policies
 - Fixed exchange rate policies
- ◆ Conflicts & instability leading to lower domestic investment & FDI, slow growth of international trade & job creation, brain drain



Arab Countries Challenges [4]

- ◆ Failure of ‘Good Governance’ and institutional development
- ◆ Dominant role of the State in Production
- ◆ Ineffective Macroeconomic & Financial Policies
- ◆ Dealing with political-security aftermath of September 11 and new barriers to trade, financial, investment and human flows



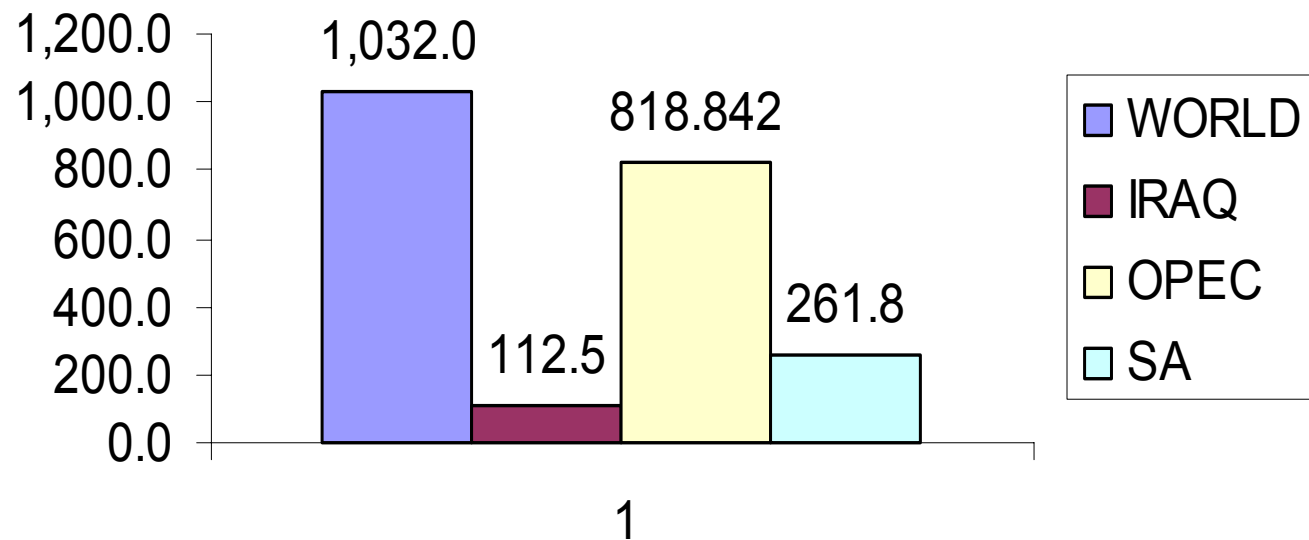


Central Role of Oil Market

- ◆ Uncertainty of war(s) and their outcome & importance of Gulf oil –30% of world exports-generates large volatility in oil prices
- ◆ Increased dependence of the US on imported oil
- ◆ Iraq's strategic importance:
 - proven oil reserves of 112 bbl (2nd to Saudi Arabia)
 - Low extraction costs
 - and a conservative estimate of more than *100 bbl in potential new oil reserves*
 - *110 trillion cubic feet of natural gas*

World Oil Reserves

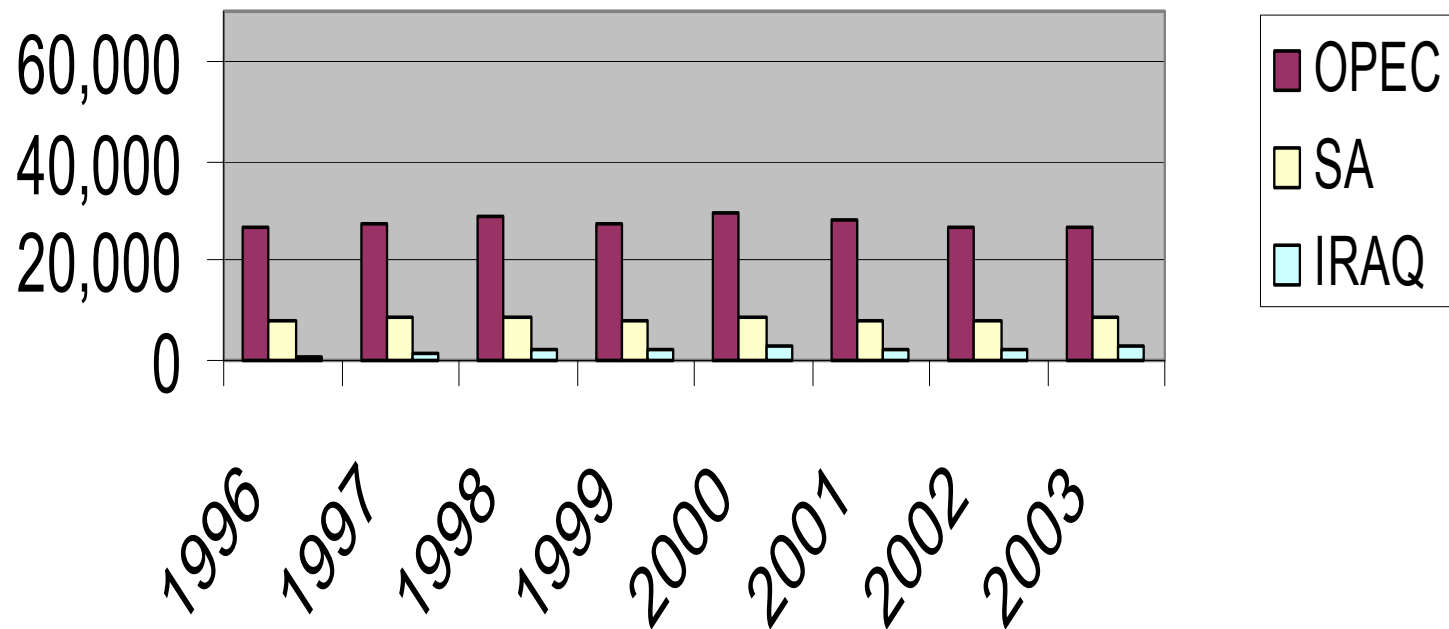
CRUDE OIL RESERVES IN BILLION BARRELS AS OF JAN. 1, 2002



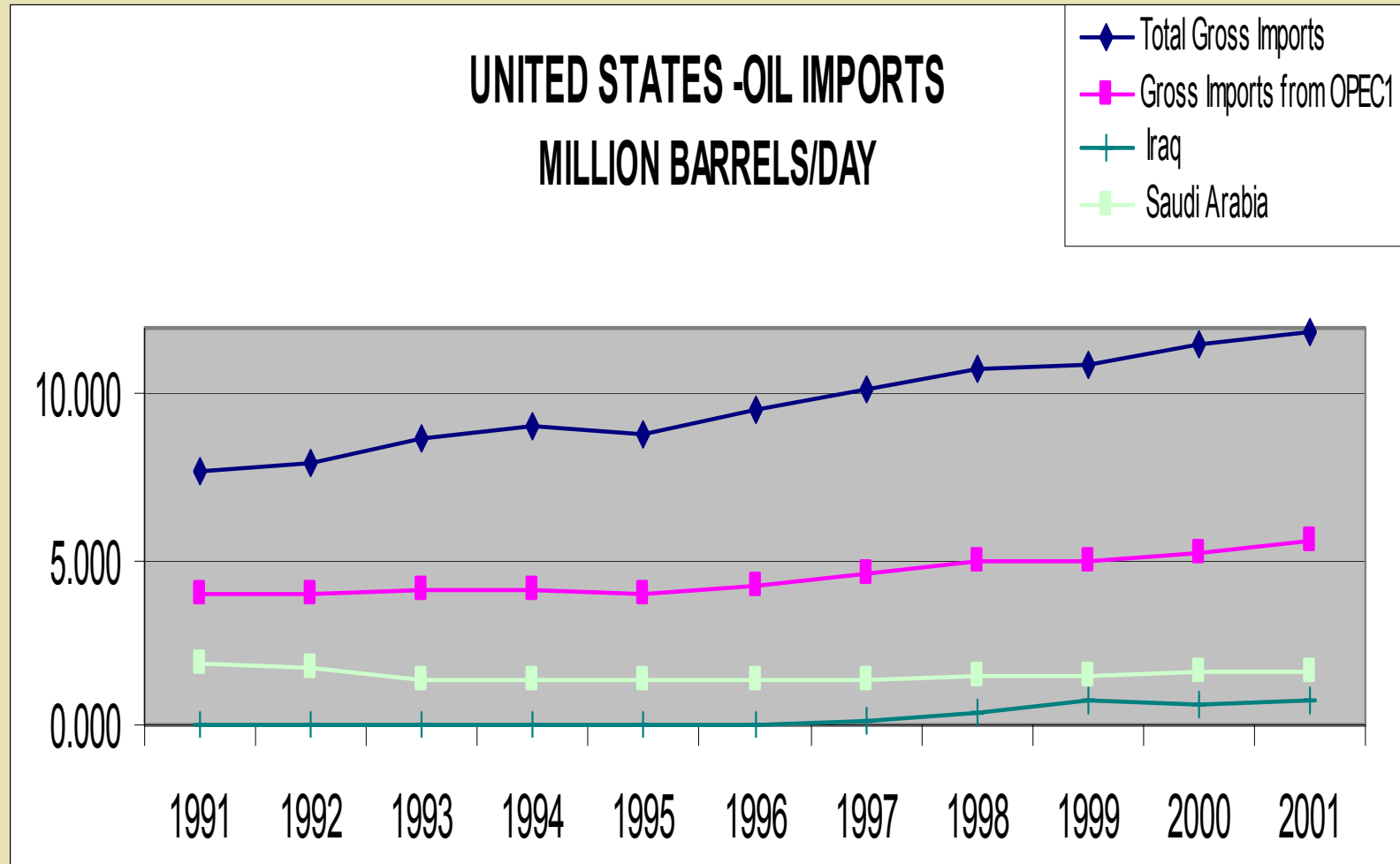
World Oil Production

WORLD CRUDE OIL PRODUCTION

IN THOUSAND BARRELS



Oil Market USA Imports



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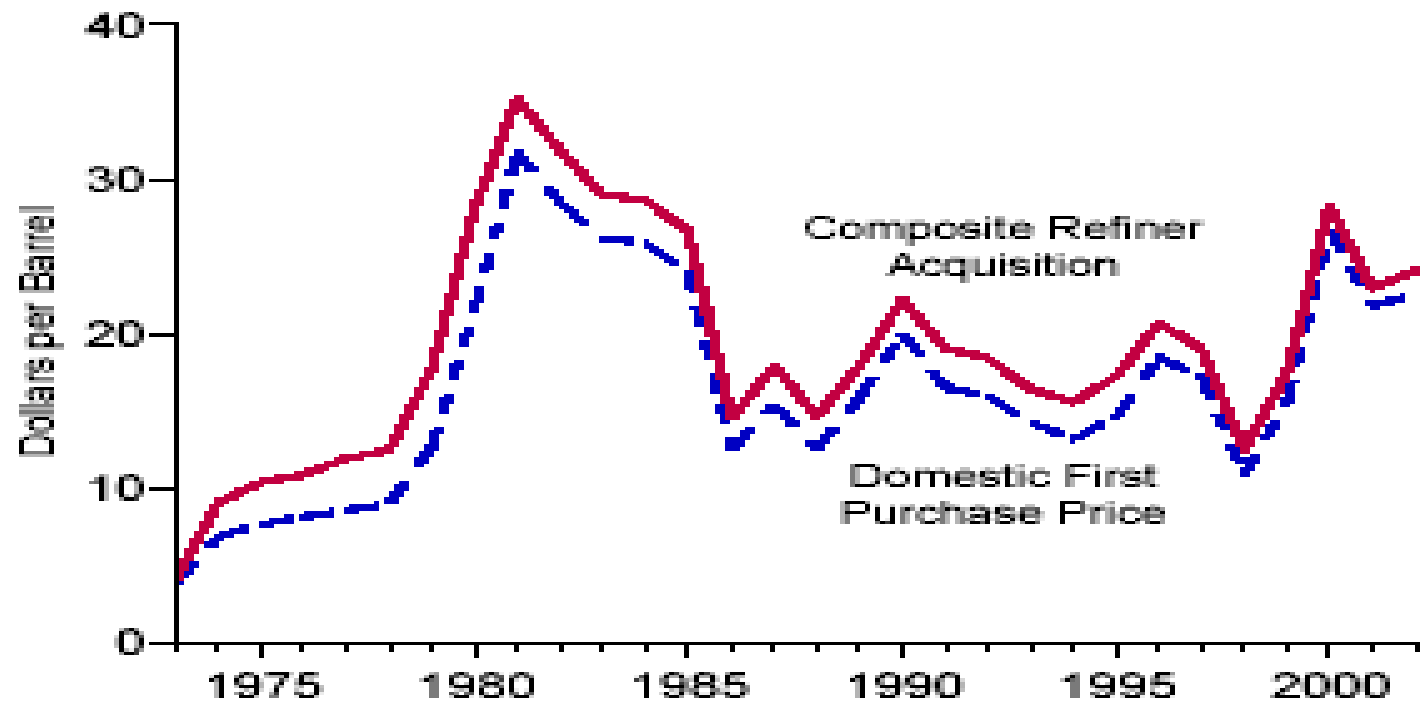
US Oil Consumption Production & Imports 1970-2002

	1970	1980	1990	2000	2001	2002
USCons	14.7	17.1	17.0	19.7	19.4	19.4
%Wrld	31.4	27.1	25.8	26.0	25.4	25.4
USProd	11.7	10.8	9.7	9.1	9.0	9.2
%Wrld	23.9	16.8	14.5	11.8	11.7	12.2
USImp	3.2	6.4	7.2	10.1	9.9	9.7
%UScon	21.5	37.2	42.1	51.0	49.0	49.8

Oil Refiner Prices

Figure 9.1 Petroleum Prices

Crude Oil Prices, 1973-2002

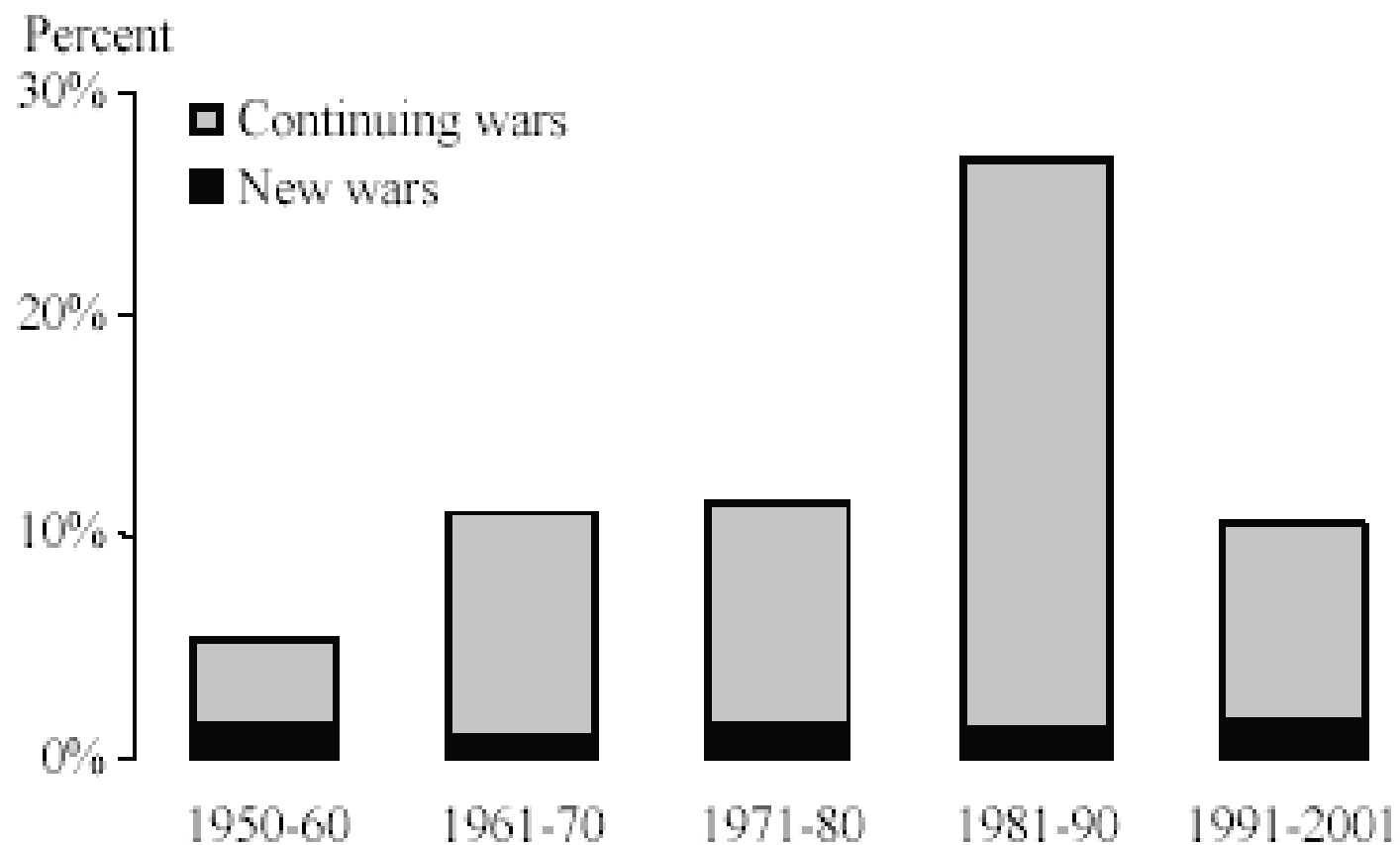




World: Conflicts & Terrorism

- ◆ More than 4 million people perished in violent conflicts between 1989-2000
- ◆ 37 million people displaced
- ◆ Year 2000: 25 major armed conflicts, 23 intrastate
- ◆ International terrorist attacks: average of 342 between 1995-99 to 387 between 2000-2001
- ◆ 70% of all major conflicts, 20% of international terrorist attacks & 70% of casualties in Asia & Africa

The Global Incidence of Civil Wars



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Economic Consequences of Conflicts & Terrorism I

- ◆ Lead to destruction of infrastructure & environmental deterioration
- ◆ Deterioration of all socio-economic indicators and social cohesion
- ◆ Lead to lower tax revenues, erosion of tax base , and administration & enforcement
- ◆ Increased defense spending, lower social & investment spending, higher budget deficits
- ◆ Macroeconomic instability: high inflation, low growth rates



Economic Consequences of Conflicts & Terrorism II

- ◆ ‘Development in Reverse’
- ◆ Reduces financial development: less financial deepening and increases disintermediation
- ◆ Increases business transactions costs
- ◆ Increased security spending generates welfare losses: estimate of \$75 billion loss following 11.09.01

American Casualties from Major American Wars

Conflict	Population [millions]	Military Personnel		Fatalities	
		[thousands]	[% of population]	[numbers]	[% of population]
Revolutionary War	3.5	200	5.7%	4,435	0.127%
War of 1812	7.6	286	3.8%	2,260	0.030%
Mexican War	21.1	79	0.4%	1,733	0.008%
Civil War					
Union	26.2	2,803	10.7%	110,070	0.420%
Confederate	8.1	1,064	13.1%	74,524	0.920%
Combined	34.3	3,868	11.1%	184,594	0.538%
Spanish- American War	74.6	307	0.4%	385	0.001%
World War I	102.8	4,744	4.6%	53,513	0.052%
World War II	133.5	16,354	12.2%	292,131	0.219%
Korean War	151.7	5,764	3.8%	33,651	0.022%
Vietnam War	204.9	8,744	4.3%	47,369	0.023%
First Persian Gulf War	260.0	2750	1.1%	148	0.000%

American Costs of Major Wars

Conflict	Total Direct Cost of Wars [billions]		Per Capita Cost	Cost
	[current \$]	[2002 \$]	[2002 \$]	[% of annual GDP]
Revolutionary War (1775 – 1783)	0.1	2.2	447	63%
War of 1812 (1812 – 1815)	0.09	1.1	120	13%
Mexican War (1846 – 1848)	0.07	1.6	68	3%
Civil War (1861 – 1865)				
Union	3.2	38.1	1,357	84%
Confederate	2.0	23.8	2,749	169%
Combined	5.2	62.0	1,686	104%
Spanish American War (1898)	0.4	9.6	110	3%
World War I (1917 – 1918)	16.8	190.6	2,489	24%
World War II (1941 – 1945)	285.4	2,896.3	20,388	130%
Korea (1950 – 1953)	54.0	335.9	2,266	15%
Vietnam (1964 – 1972)	111.0	494.3	2,204	12%
First Persian Gulf War (1990 – 1991)	61.0	76.1	306	1%

Conclusions

- ◆ Technological advances in warfare have led to
 - American casualties have been falling in proportional and absolute numbers
 - Reduction in cost of wars per capita and as fraction of US GDP
- ◆ However, rewards (geo-strategic, power, economic) have risen: reward/risk, benefit/cost ratio have risen



Iraq: Costs of War

- ◆ Economic Effects of Sanctions multiplies costs & consequences of war and reconstruction
- ◆ Destruction of Infrastructure
- ◆ Environmental Effects
- ◆ Human costs
- ◆ Economic activity & income






Economic Costs of the War on Iraq

- ◆ Two scenarios:

- an ‘optimistic outcome’ of a short conflict with occupation & reconstruction
- a ‘pessimistic outcome’ of a long-term protracted war with attendant higher costs of reconstruction and occupation

See discussions in B. Nordhaus (2002), McKibbin (2003) and Koziak (2003), IMF WEO 2003, WB Global Development Finance, 2003



The
Human
Costs
of War
in Iraq

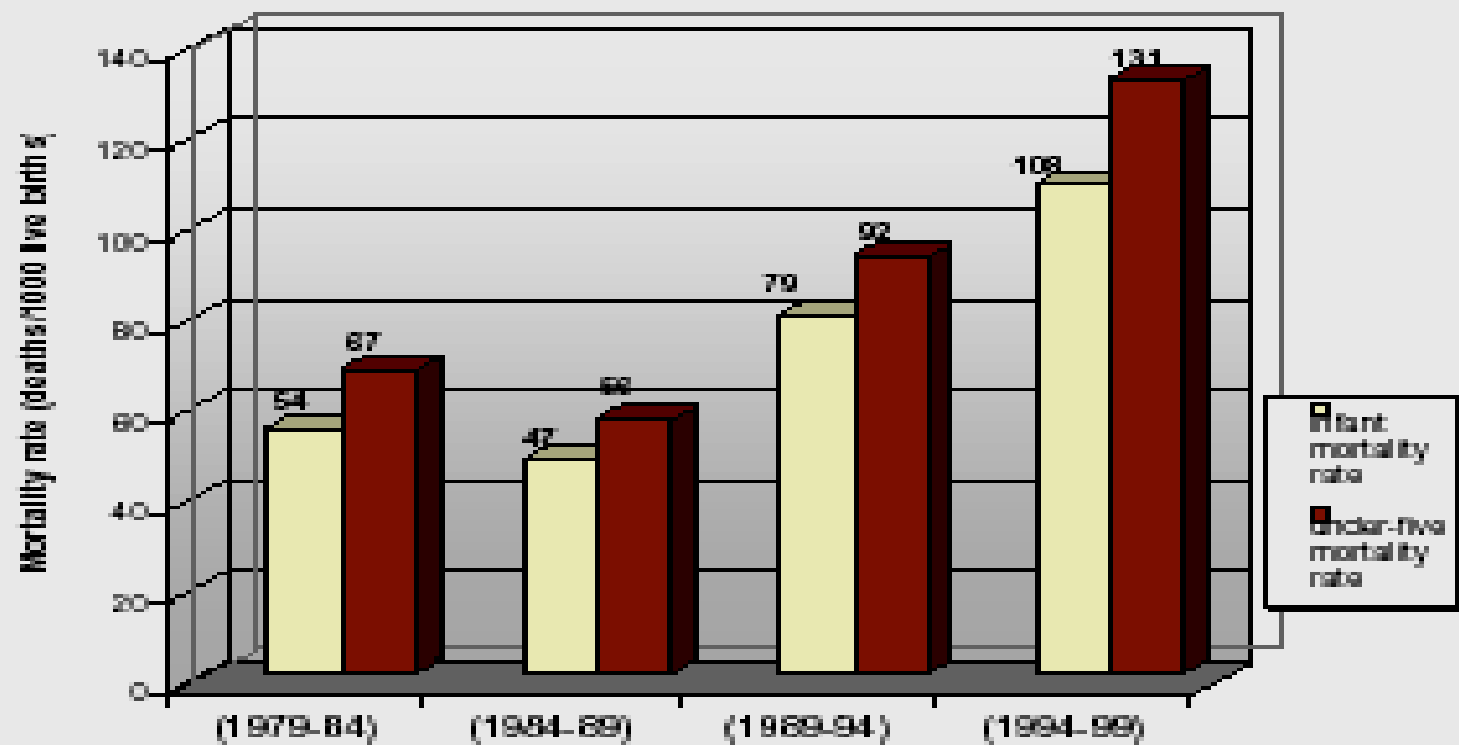
Human Costs of War

- ◆ **The Iraqi population is far more vulnerable to the shocks of war than it was in 1991, having been reduced after 12 years of sanctions to a state of dependency on government and international aid:**
 - Since 1991, Iraq's rank on the United Nations Human Development Index has fallen from 96 to 127. No other country has fallen so far, so fast.
 - Over 60% of the population – 16 million people – depend for survival on a comprehensive government food rationing system (Oil-for-Food Program)
 - Mental, physical, and educational development of an entire generation has been adversely affected by the trauma of war and sanctions.
 - See the report of the Center for Economic and Social Rights, 2003.



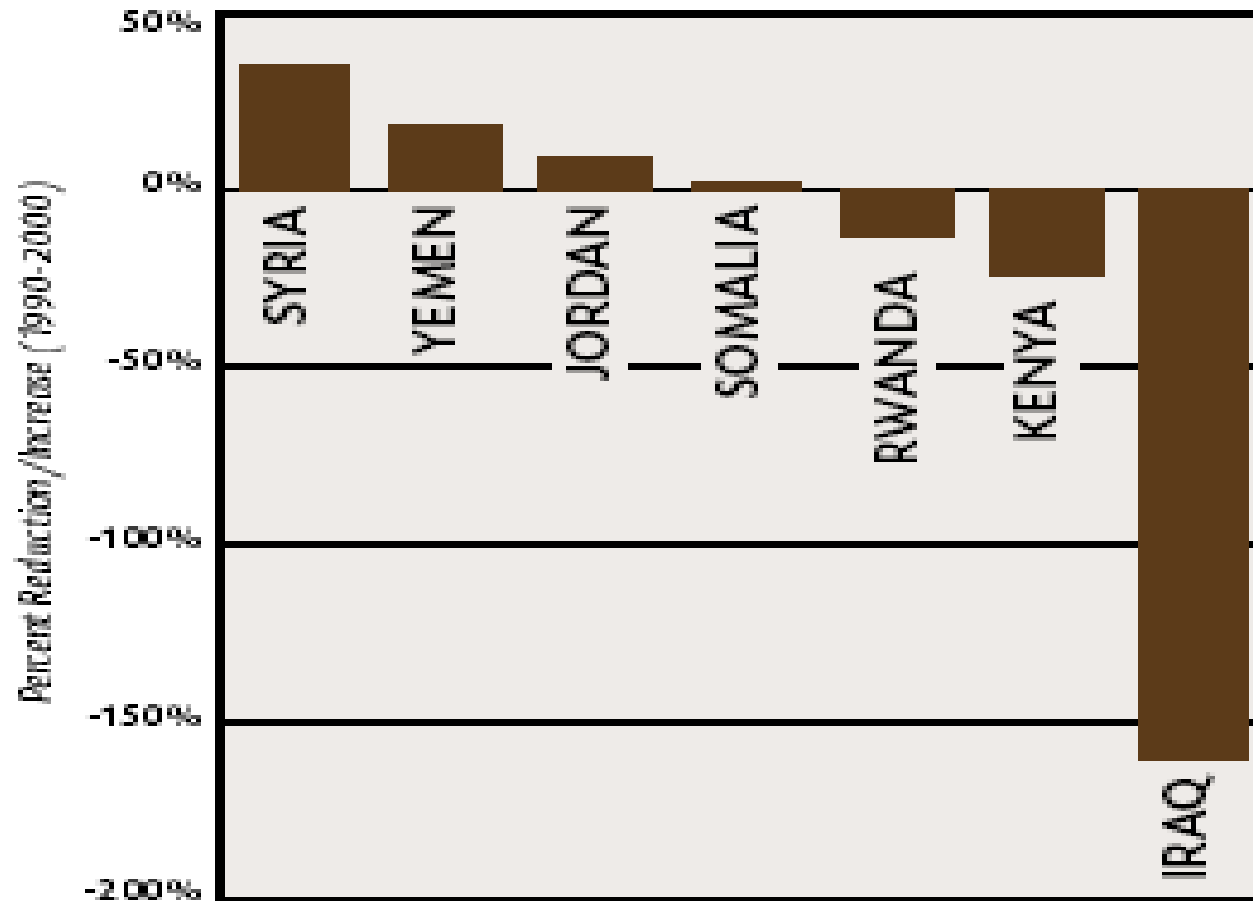
Infant and under-five mortality rates: 1979-1999

Infant and under-five mortality rates





Change in Under-Five Mortality Rate (1990-2000)



Source: Sectoral Briefing to UNSC 661 Committee (Nov. 20, 2001)



Iraq Child & Infant Mortality Rates 1960-1998

YEAR	UNDER 5 MORTALITY RATE	INFANT MORTALITY RATE
1960	171	117
1970	127	90
1980	83	63
1990	50	40
1995	117	98
1998	125	108

Human Costs of War


- ◆ International agencies are not adequately prepared to respond to the humanitarian consequences of war, especially if civilian infrastructure is attacked or disabled.
- ◆ Attempts to replace rather than supplement Iraqi public health, food distribution, and infrastructure will exacerbate the humanitarian crisis.
- ◆ *“In the event of a war, 30 percent of children under five (about 1 million) would be at risk of death from malnutrition.”, Center for Economic & Social Rights, 2002.*



Costs of War on Iraq

- ◆ **Human Life: 1991 Gulf War led to 200,000 Iraqi deaths; 2003 ?**
- ◆ **Damage to Iraq's infrastructure (?) : estimate of about \$200-\$250 billion to rebuild**
- ◆ **Health**
- ◆ **Environment**
- ◆ **Destabilization of the region**





IRAQ: Financial Obligations & Claims

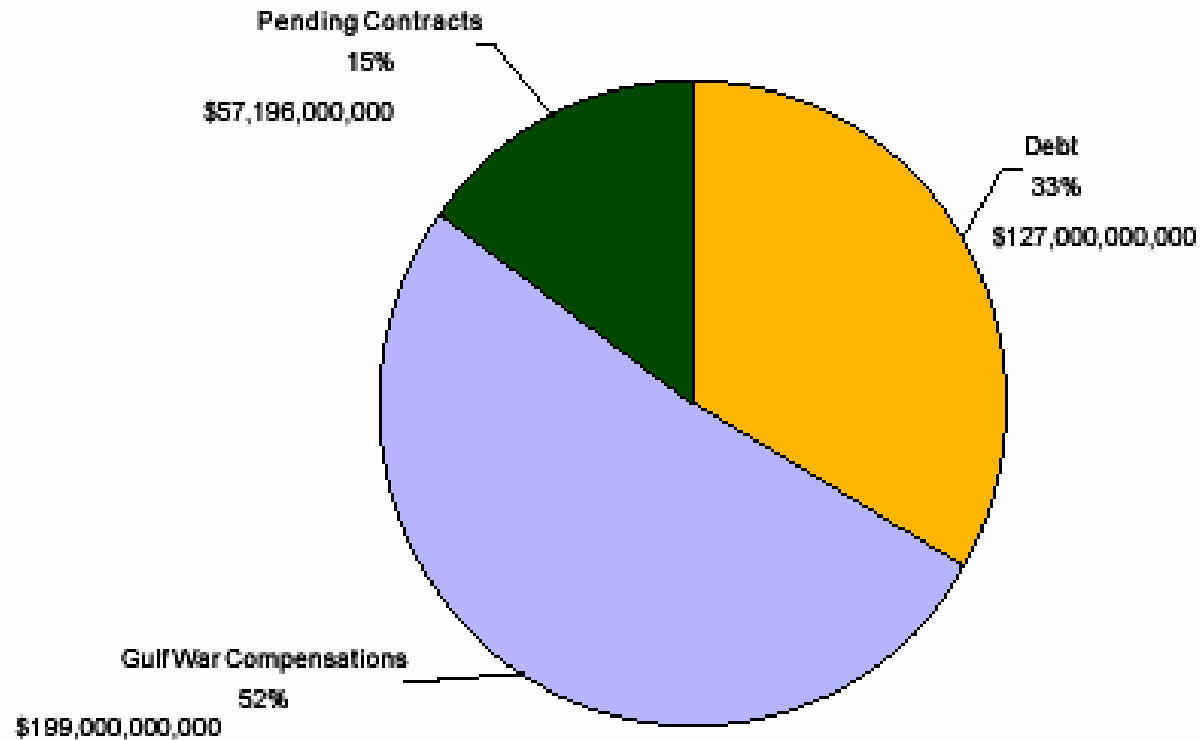
CSIS Report (Barton, Crocker) January 2003

- ◆ Total obligations: \$383.2 billion
 - Debt: \$127 billion (33%)
 - Pending Contracts: \$57.196 billion (15%)
 - Gulf War Compensation: \$199 billion (52%)
- ◆ Compensation claims:
 - \$320 claimed
 - \$148 settled: settled for \$43 billion; \$27 to be paid
 - \$172 unsettled

Iraq: Financial Obligations

Figure 1: Iraq's Overall Financial Obligations (US \$ Billions)

Total: \$383,196,000,000



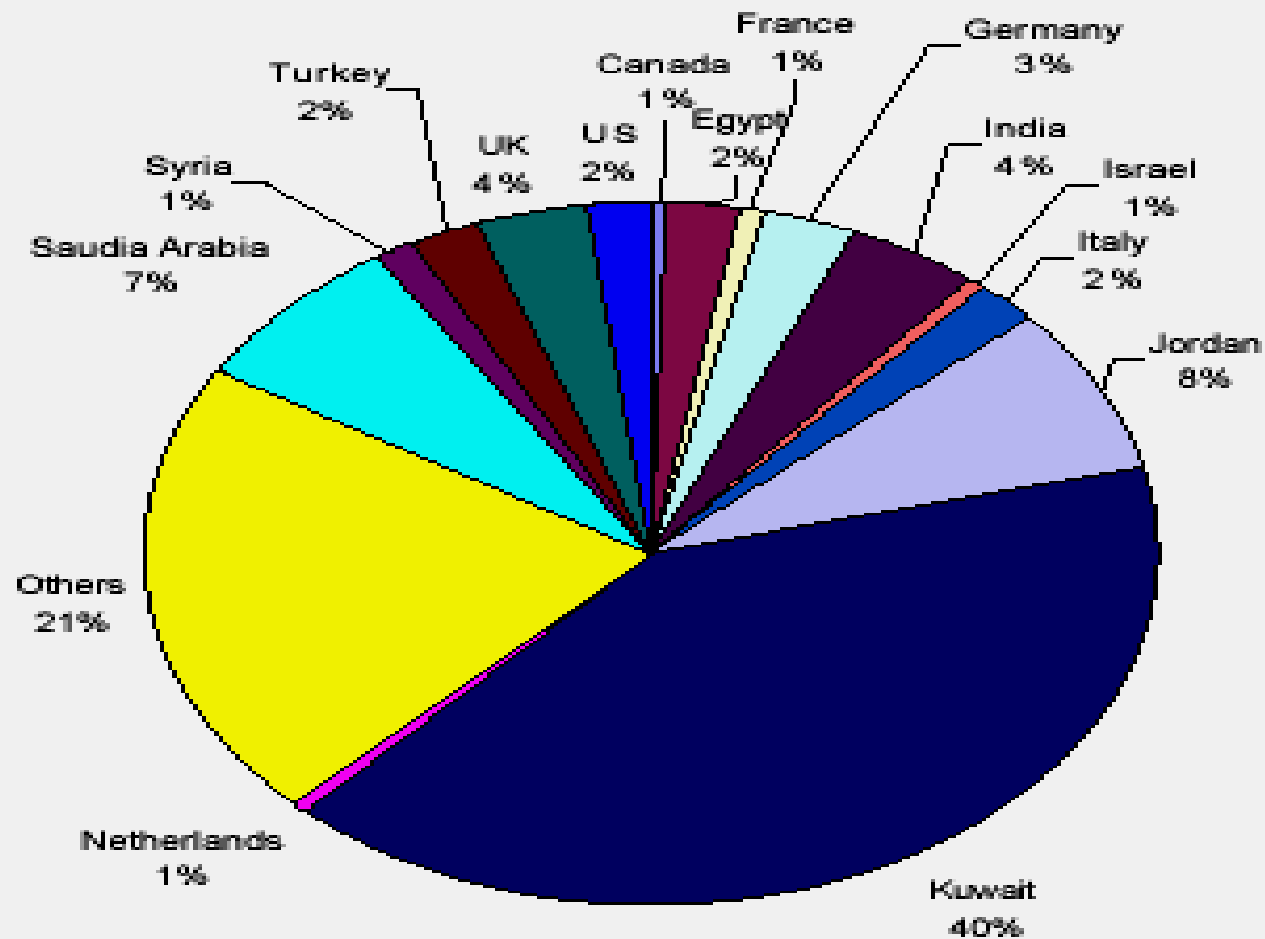
\$320 billion claimed

\$148 billion settled: of those claims settled for \$43 billion (30%), \$27 billion remains to be paid

\$172 billion unsettled

Iraq: Unsettled Compensation: \$199 billion

Figure 2: Unsettled UNCC Claims



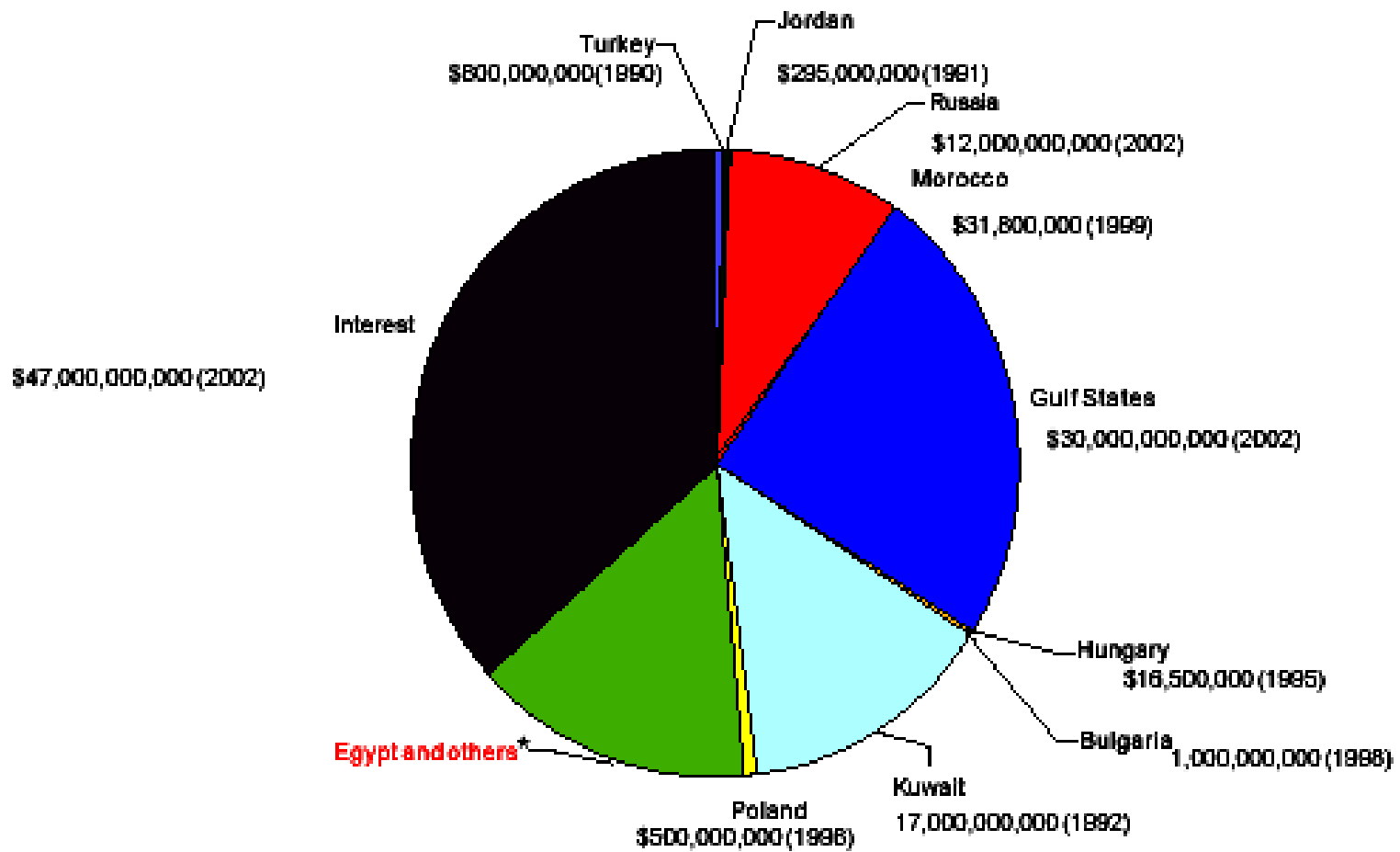
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Iraq: Foreign Debt, \$127 billion

Figure 3: Creditors of Iraq's Debt, by Country of Origin
(Derived from multiple sources. Dates indicate year of stated debt accumulation)



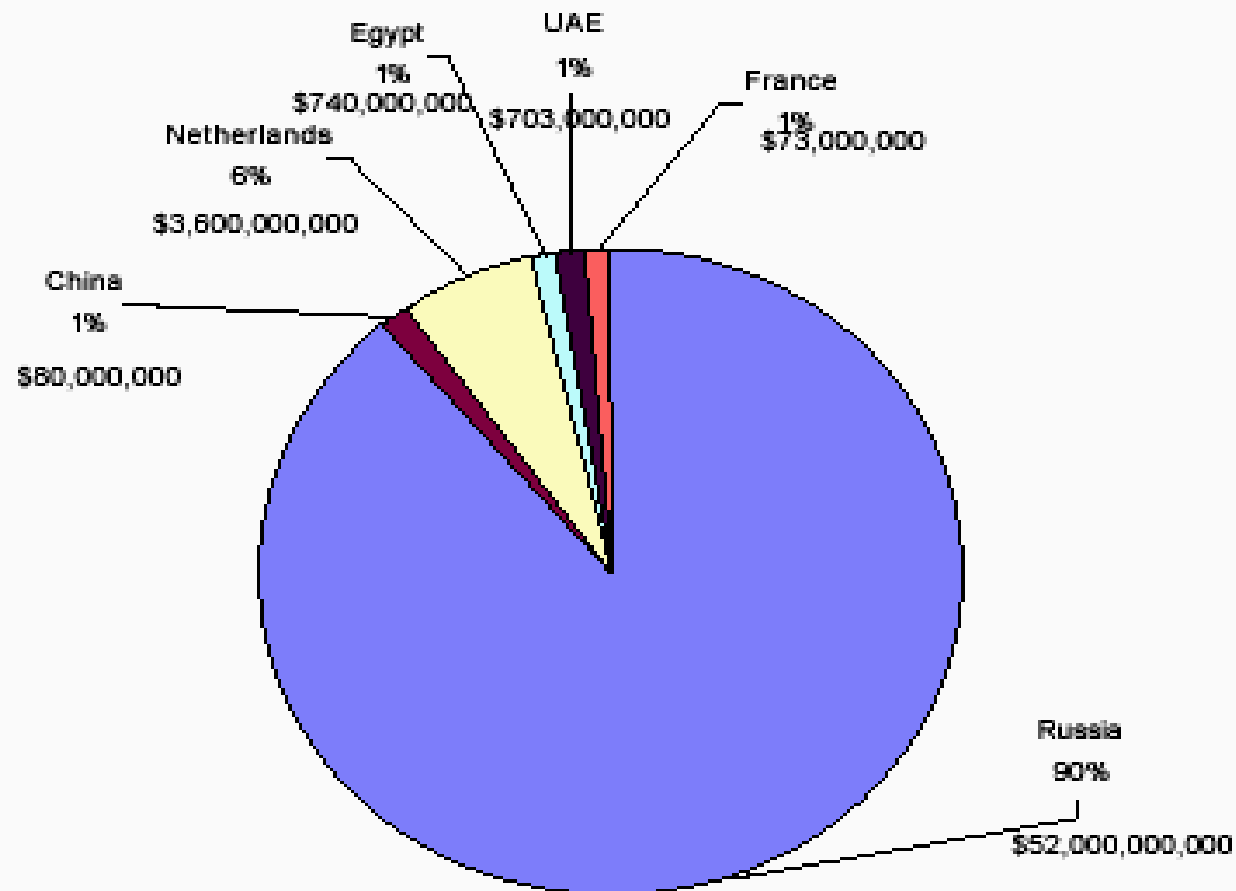
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Iraq: Pending Contracts: \$57.2 billion

Figure 4: Pending Contracts with Iraq, by Country of Origin
(ESTIMATES - Contracts held by both public and private companies)





Iraq: Outstanding Issues

- ◆ Outstanding debts and assets
- ◆ Compensation; Contracts
- ◆ Trade deals & Arrangements, Iraq requires debt forgiveness/moratorium
- ◆ Finance of Reconstruction
- ◆ Transition to Market-based Economy
- ◆ Monetary & Exchange Rate Regime



Iraq Debt & Obligations

- ◆ Should Iraqi debt & other obligations be considered ‘odious debt’ and written-off?
- ◆ Iraq should be provided with debt relief
- ◆ Iraq should not be burdened with reparations/compensation as Germany was after WWI: international community should get involved in ‘nation building’ not imposing additional burdens

Lessons on Nation Building for Iraq [1]

- ◆ It is imperative to establish a secure environment, ‘law & order’ very fast.
- ◆ The central issue is not reconstruction, but state building. Physical reconstruction is important, costly & takes time. But, building political infrastructure & an infrastructure of economic governance, is more complex & important. Iraq has been a command economy & society for nearly 30 years.
- ◆ To build a state, one needs to know what state to build: agreement leading to a stable constitutional structure. ‘Democracy’ cannot be imported, it has to be built. Iraq needs the equivalent of a ‘Taef’ accord to avoid fractionalisation and redistribute power.





Lessons on Nation Building for Iraq [2]

- ◆ Humanitarian problems (health, food, shelter, basic public utilities) should receive priority in first phase, but should not predominate over medium-term issues. Early priority to be given to: transition to market economy, currency, customs, taxation, business & competition, banking, debt restructuring & forgiveness
- ◆ There has to be a benevolent/cooperative regional environment: Iran, Syria, Turkey, Jordan, Gulf countries are stakeholders
- ◆ The greater the international support, the easier the process. The UN institutions have to be brought in to forge a strong peace and reconstruction coalition
- ◆ Nation-building takes a longer time, more resources than initially expected: Lebanon good example. Contrast with Afghanistan and Congo or former Yugoslavia

See Carl Bildt, IHT May 7 2003



Economic Consequences of the War on Iraq

Distinguish between consequences and repercussions for:

- ◆ Industrialized countries
- ◆ Regional: oil & non-oil producers
- ◆ National



Short War

- ◆ Main impact is higher fiscal deficits whose positive macroeconomic effects are offset by higher oil prices and uncertainty
- ◆ Probability of ‘double dip’ recession remains high in US, EU and Japan (G8)

Long War

- ◆ The extra government spending required by a long war scenario has a significant adverse impact on investment, growth, consumption, interest rates and stock markets for the decade of involvement.
- ◆ As with the short war, the extra spending has to be borrowed, which crowds out private activity.



Channels of Effects:

- ◆ ↑ oil prices → higher production costs, higher inflation, lower global aggregate demand
- ◆ Confidence: depress business & consumer confidence → lower consumption & investment spending
- ◆ Geopolitical Uncertainty → higher risk premia in financial markets, lower equity prices → wealth effects & investment
- ◆ Travel, Tourism: lower international travel → lower tourism revenues & transport activity
- ◆ Lower growth → lower remittances and growth in recipient countries



Estimates of Decadal Costs to US: Iraq II (Bill Nordhaus)

Source of Cost	Costs of War (billions of 2002 \$)		Notes
	Low (short and favorable)	High (protracted and unfavorable)	
Direct military spending	\$50	\$140	[1]
Follow-on costs			
Occupation and peacekeeping	75	500	[2]
Reconstruction and nation-building	30	105	[3]
Humanitarian assistance	1	10	
Impact on oil markets	-40	778	[4]
Macroeconomic impact	-17	391	[5]
Total	\$99	\$1,924	



Impact of a permanent \$5 a barrel oil price increase after 1 year

	Real GDP	Trade Balance
World GDP	-0.3	0.0
Industrial countries	-0.3	-0.2
United States	-0.4	-0.1
Euro area	-0.4	-0.1
Japan	-0.2	-0.2
Other	-0.2	0.2
Developing countries	-0.2	0.2
Of which:		
Latin America	-0.1	0.0
Asia	-0.4	-0.5
Emerging Europe and Africa	0.1	0.2

Source: IMF staff estimates based on IMF (2000).

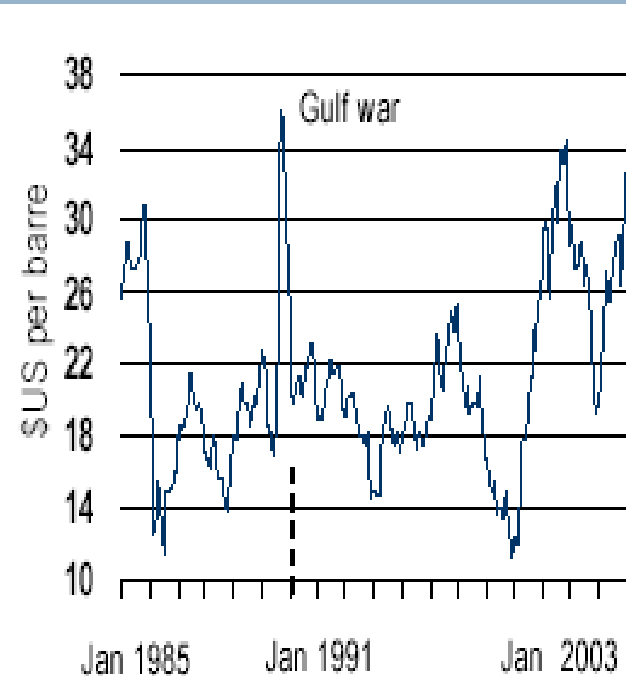


Table 2: Loss in GDP US\$ billion (year 2000 values)

	Short war		Long war	
	2003	2003-10	2003	2003-10
USA	34	491	65	1470
Japan	33	122	39	429
Australia	2	18	4	69
Europe	47	157	67	748
Rest of OECD	7	51	10	149
China	3	2	4	56
Non-oil developing countries	36	129	35	469
Eastern Europe and Russia	11	73	15	183
Total	173	1043	237	3573

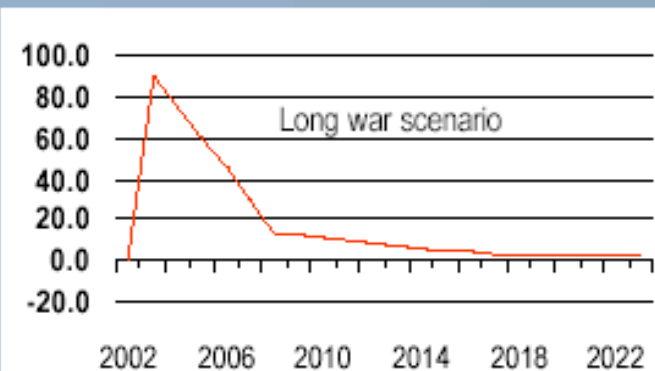
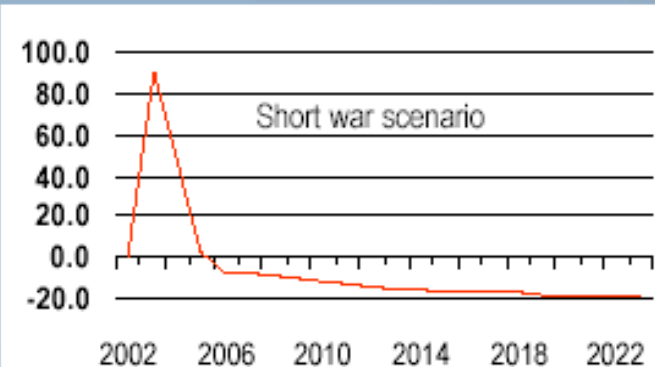
War Effects: oil prices

1. Price of West Texas intermediate crude



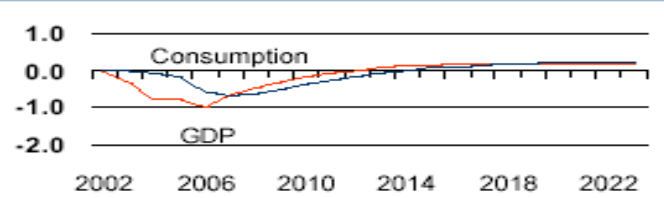
Source: Federal Reserve Bank of Dallas
<http://www.dallasfed.org/html/data/data/oilp.tab.htm>.
Accessed 16 February 2003.

2. Oil price shocks (Percentage deviation from base of US\$25 per barrel)

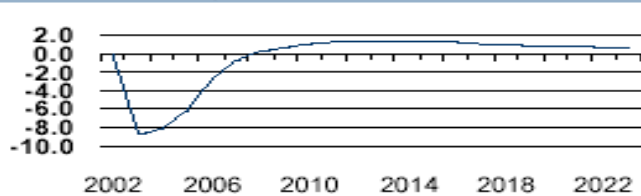


War Effects:

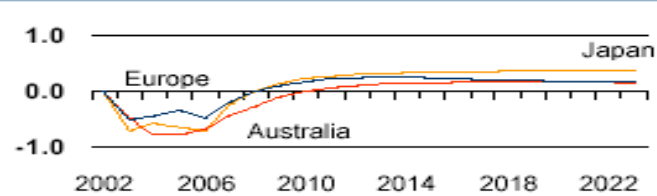
3. Short war: combined effects
(Per cent change from base)
Real GDP and consumption, USA



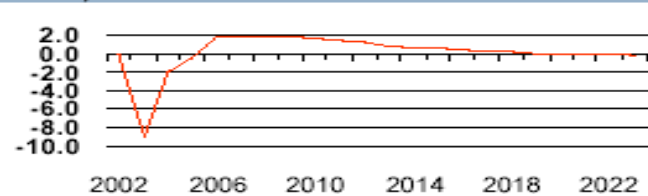
Real investment, USA



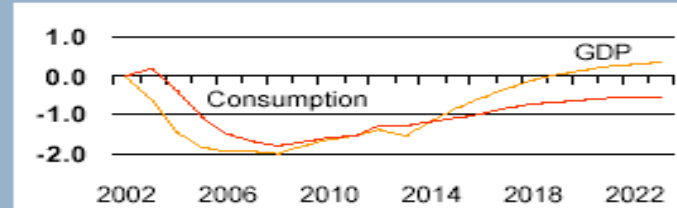
Real GDP



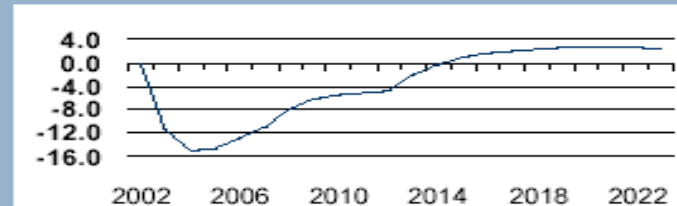
Equity prices, USA (percentage point change from baseline)



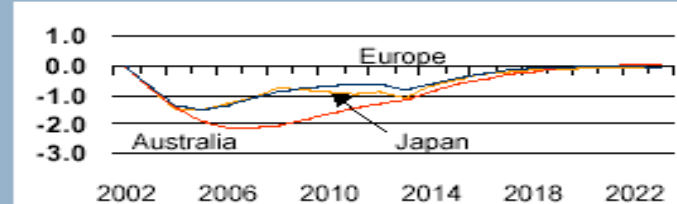
4. Long war: combined effect
(Per cent change from base)
Real GDP and consumption, USA



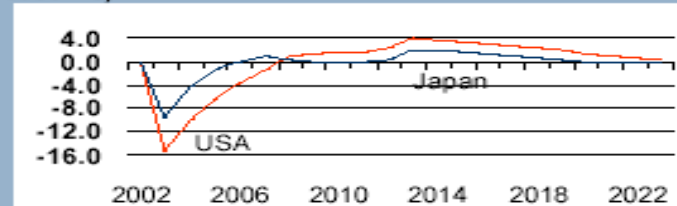
Real investment: USA



Real GDP



Equity prices, USA (percentage point change from baseline)



Real GDP Growth % p.a. IMF WEO

	Average 1985-94	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Middle East and Turkey	2.9	4.3	5.1	6.6	3.8	0.8	5.8	1.4	4.5	5.1	4.9
Bahrain	3.6	3.9	4.1	3.1	4.8	4.3	5.3	4.8	4.1	4.1	4.3
Egypt	3.0	4.5	4.9	5.9	4.5	6.3	5.1	3.5	2.0	3.0	3.5
Iran, Islamic Republic of	1.5	2.9	6.6	6.0	3.7	1.8	5.2	5.7	6.0	6.5	5.9
Iraq	...	...	...	...	...	...	...	...	...	...	...
Jordan	3.5	6.2	2.1	3.3	3.0	3.1	4.2	4.2	4.9	5.0	5.5
Kuwait	0.3	16.0	5.1	2.3	2.4	-2.5	1.4	-1.1	-0.9	2.0	2.1
Lebanon	-2.1	6.5	4.0	4.0	3.0	1.0	-0.5	2.0	2.0	3.0	3.0
Libya	-1.0	-0.3	3.3	5.2	-3.6	0.7	4.4	0.6	1.7	2.3	2.8
Malta	5.4	6.2	4.0	4.9	3.4	4.1	6.1	-0.8	2.7	2.8	3.3
Oman	5.3	4.8	2.9	6.2	2.7	-0.2	5.1	7.3	1.9	4.1	3.2
Qatar	-0.5	2.9	4.8	25.4	6.2	5.3	11.6	7.2	3.0	4.0	8.2
Saudi Arabia	2.9	0.5	1.4	2.6	2.8	-0.8	4.9	1.2	2.1	4.0	3.1
Syrian Arab Republic	4.5	7.3	4.7	4.1	6.3	-0.9	0.6	7.2	2.7	2.8	3.0
Turkey	4.2	6.9	6.9	7.6	3.1	-4.7	7.4	-7.5	6.7	5.1	5.0
United Arab Emirates	2.4	7.9	6.2	6.7	4.3	3.9	5.0	-9.4	-0.9	7.2	4.0
Yemen, Republic of	...	10.9	5.9	8.9	6.5	2.7	4.4	3.4	4.3	4.2	4.7

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Economic Costs & Consequences for Arab Countries

- ◆ Regional insecurity, uncertainty & political instability → lower confidence, higher risk, lower domestic & foreign investment and international capital flows, reduced regional labor flows
- ◆ Oil exporters: higher oil revenues, but lower investment & tourism, ↑ military spending: Kuwait, Saudi Arabia, UAE



Economic Costs & Consequences for Arab Countries

- ◆ Oil importers: lower growth prospects, lower trade, lower investment & tourism, lower remittance flows with negative impact on current accounts and balance of payments: Jordan, Egypt, Syria, Lebanon, Tunisia & Morocco



Economic Costs & Consequences for Arab Countries

- ◆ Risk factors:
 - Future course of oil prices
 - Future of OPEC
 - Regional geo-strategic & political instability
 - Reform agendas
- ◆ Overall effect: lower growth over 2003-2005 by 1%-2%
- ◆ High dependence on remittances and unilateral transfers

External financing: Middle East and North Africa, 1997-2003

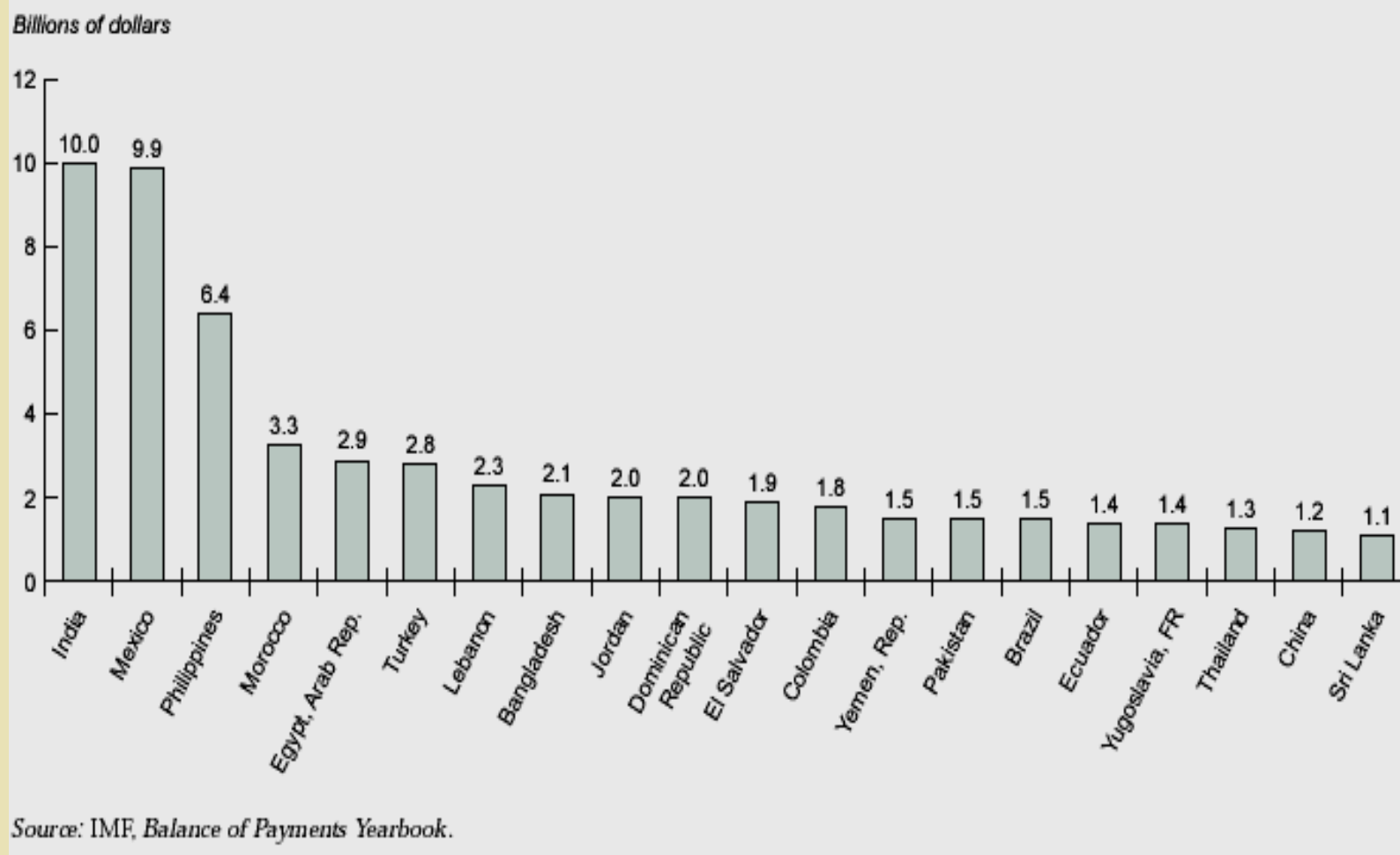
	1997	1998	1999	2000	2001	2002	2003
Current account balance	2.3	-27.8	4.2	40.8	28.9	24.7	9.5
as a percentage of GDP	0.5	-5.8	0.8	7.4	5	4.5	1.7
Financed by							
Net equity flows	7	7.8	3.9	2.7	5.3	3	2
Net debt flows	-4.4	8.3	-2.2	-6.5	1.7	-0.3	2.5
Official creditors							
Official creditors	-4	-1.7	-2.7	-2.9	-1.2	-1.6	0
Private creditors							
Private creditors	-0.4	10	0.5	-3.6	2.9	1.3	2.5
Memo items							
Net private flows (debt+equity)	6.9	17.8	4.4	-0.9	8.3	4.3	4.5
Net official flows (aid+debt)	0	2.5	0.6	0.9	2	1.8	3
Workers' remittances	9.4	10.3	10.5	10.9	13.1	14	-



Worker's remittances received by developing countries, 1995-2002, \$ bn

	1995	1996	1997	1998	1999	2000	2001	2002
All developing countries	48.1	52.6	62.7	59.5	64.6	64.5	72.3	80
Middle East and North Africa	8.6	9.1	9.4	10.3	10.5	10.9	13.1	14
Arab Republic of Egypt	3.2	3.1	3.7	3.4	3.2	2.9	2.9	-
Jordan	1.2	1.5	1.7	1.5	1.7	1.8	2	-
Lebanon	-	-	-	1.2	1.4	1.6	2.3	-
Morocco	2	2.2	1.9	2	1.9	2.2	3.3	-

Top 20 Developing Country Recipients of Worker Remittances 2001 \$ bn

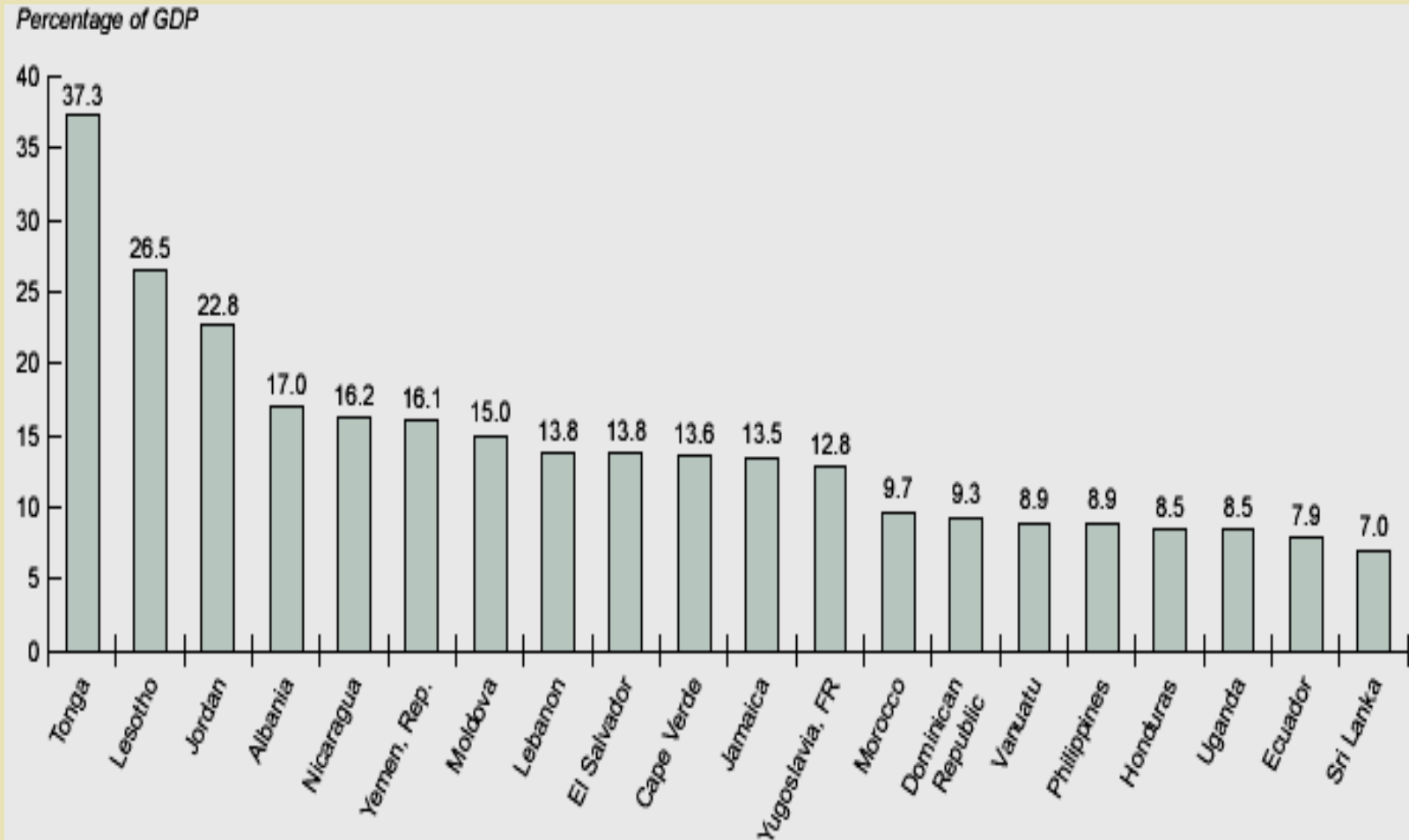


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Top 20 Developing Country Recipients of Worker Remittances 2001 % GDP



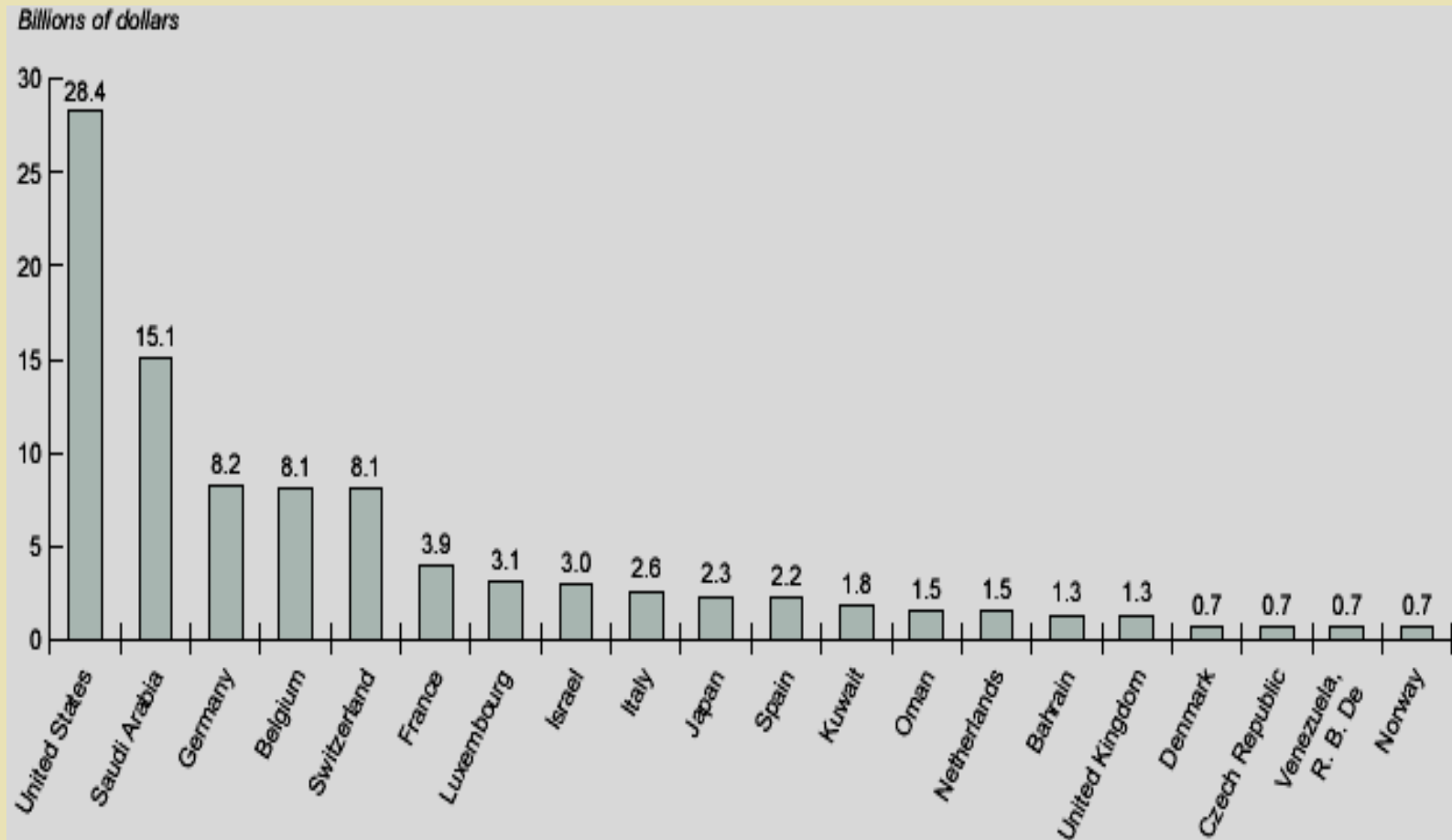
Source: IMF, Balance of Payments Yearbook.

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Top 20 Country Sources of Worker Remittances 2001 \$ bn



Source: IMF, *Balance of Payments Yearbook*.

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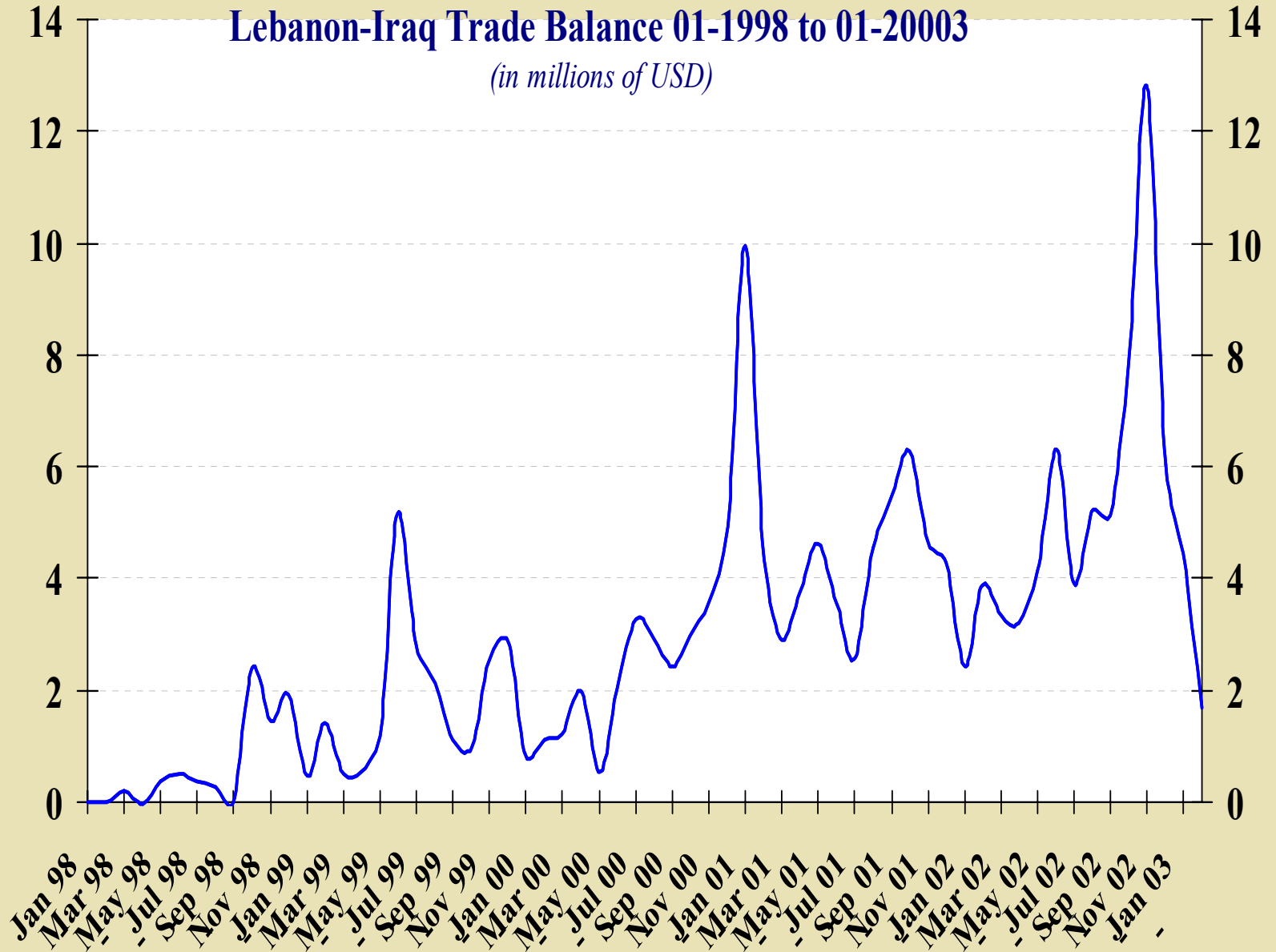
Economic Consequences of War for Lebanon: I

- ◆ Short-term vs. long-term effects and consequences
- ◆ Trade: larger trade deficits
 - Imports: impact of higher oil prices +\$300/\$450 mn.
 - Exports: to Iraq , to countries in Gulf, Europe
- ◆ Remittances: effect on incomes of Lebanese working in the Gulf and R.O.W
- ◆ Investment ↓ : higher regional risk & contagion effects leading to higher equity premium
- ◆ Tourism: by source, from Arab countries, Europe & R.O.W



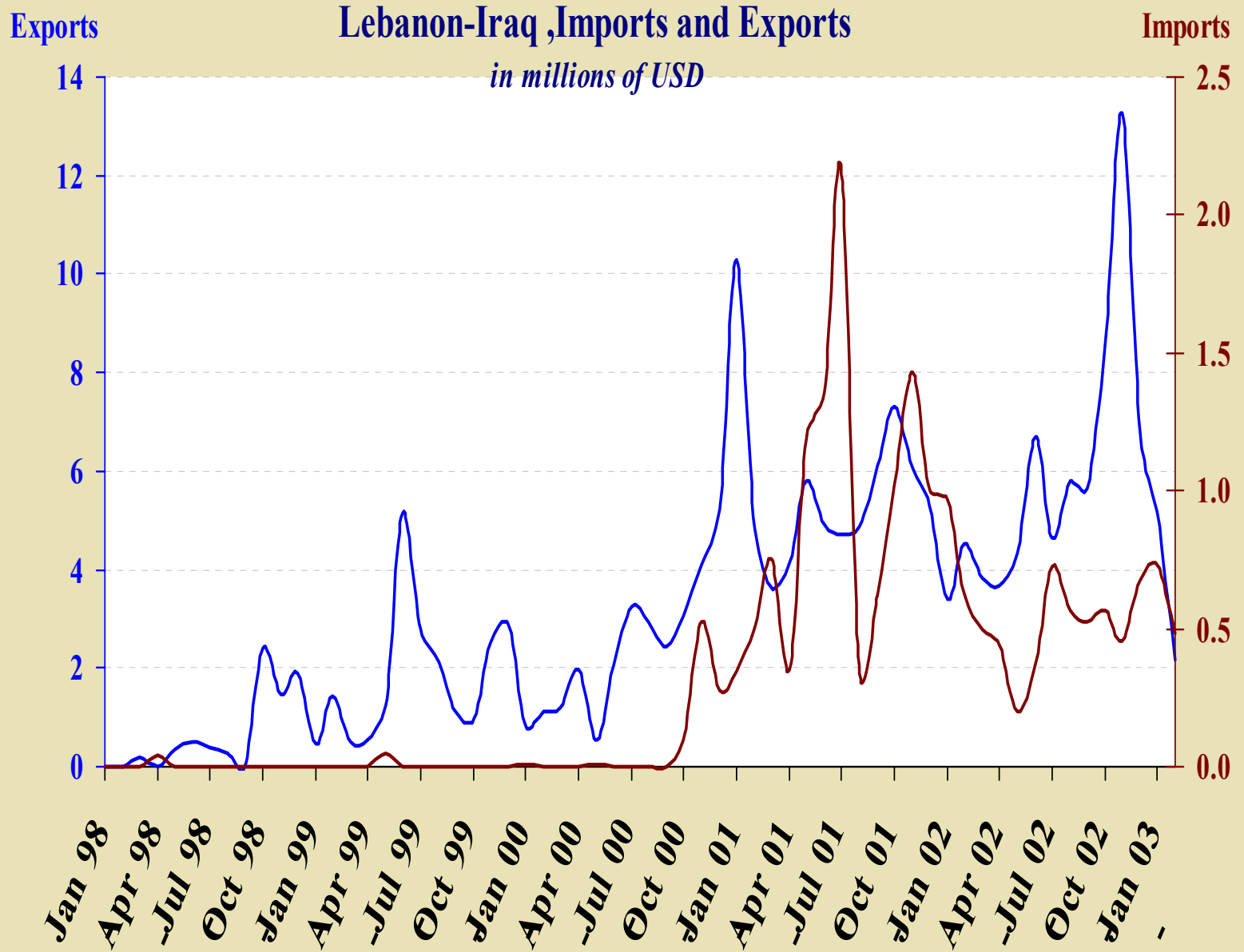
Economic Consequences of War for Lebanon: II

- ◆ Economic Growth: reduced growth by 1%-2%. Potential offset from participation in reconstruction of Iraq ?
- ◆ Anticipate lower balance of Payments surpluses or deficits
- ◆ Fiscal: higher budget deficits due to lower revenues
- ◆ Financial: reduced remittance flows, potentially offset by higher 'safe haven' capital flows
- ◆ Economic Policy Reforms ? Regional insecurity & instability, domestic political & electoral concerns reduce prospects of reforms
- ◆ Risk factor: negative impact higher if war extends to Syria



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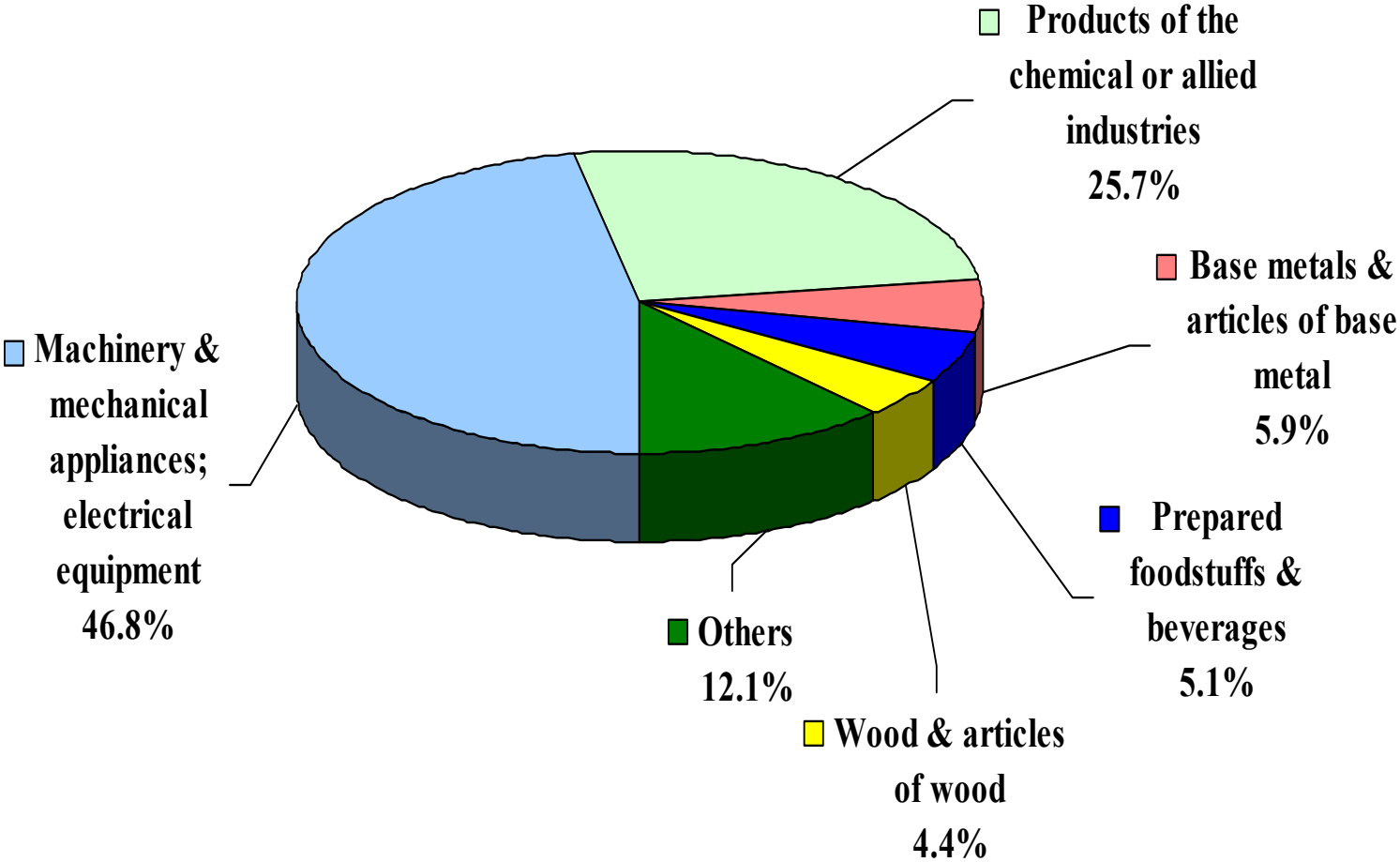


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Main Lebanese Products Exported to Iraq during 1997-2002






Two Thoughts (1): Power & Hegemony

« However excellent its intentions it is the perceived hegemony that the US already exercises throughout the world that fuels not only terrorism-the classic weapon of the underdog-but worse, sympathy for terrorism and for the hatred that breeds it. Military power may acquire empires, but it is not enough to sustain them. »

Sir Michael Howard IISS FT Weekend 7/8 Sept 02



Two Thoughts (2): Democracy in the ME

« but the expectation that the overthrow of Saddam Hussein will release democratic forces in Iraq that will provide a beacon for the entire Middle East demands a considerable suspension of disbelief. The best intentioned of liberators may have to stay and maintain ‘order’ » for long enough for democracy to become rooted; to engage in... ‘nation building’ »

Sir Michael Howard IISS FT Weekend 7/8

Sept 02

Politics & Security

- ◆ War on Iraq and potential extensions to other countries in the region:
 - Will not resolve the fundamental political, social and strategic issues and challenges facing the countries of the region
 - Lead to further instability and deterioration in economic conditions, poverty and growth prospects, fractionalization, ‘balkanization’ of region
 - Escalation of anti-US sentiment and terrorism

“The ultimate weakness of violence is that it is a descending spiral, begetting the very thing it seeks to destroy.” Dr. Martin Luther King, Jr.



Politics & Security: Priorities

- ◆ Middle East at a critical cross-roads: a point of conflagration and world instability
- ◆ Priority must be to resolving Arab-Israeli conflicts and not just the Israeli-Palestinian conflict or rebuilding Iraq
- ◆ The US must establish a clear strategy to mend its relations with the Muslim world and resolve the tensions which are now having clear repercussions and contagion in Europe and the rest of the world
- ◆ The International Community and its institutions [the UN the Arab League] must be the focal point of conflict risk reduction & resolution
- ◆ **Arab countries must set a ‘pro-active agenda’ to deal with the challenges and risks of post-war Iraq regional context**





Positive Agenda for Action [I]

- ◆ *Implement Political, Economic & Financial reforms: Public sector reform & governance*
- ◆ *Private sector development and job creation; private sector participation in infrastructure & public utilities*
- ◆ *Achieve Arab regional economic integration and increased integration with the EU through tool of Association Agreements*



Positive Agenda for Action II

- ◆ *Invest in Human Capital: education & skills to face the challenges of international competition & integration*
- ◆ *Prepare & Implement Strategy to enter information age: e-Economy and e-Society*
- ◆ *Address the ‘Gender divide’: increase labor force participation & fight against discrimination of women*



An Agenda for a Positive Action Plan for the Middle East

A Strategic Action Plan for the Middle East
should address three dimensions:

1. Economic
2. Financial
3. Political & Security



Economic/Financial Action Plan

- ◆ Increase integration through trade, investment, capital markets and human capital flows
- ◆ Support domestic economic, financial and social reforms
- ◆ Support economic transition for countries in the region
- ◆ Plan for the Reconstruction & Economic Development of the ME
- ◆ Tools: EU Association Agreements, WTO



A Plan for the Reconstruction & Development of the Middle East

- ◆ EU's commitment:burden will be on EU to help integration of ME countries:
 - Increased Regional Integration
 - Greater support to the efforts made to strengthen ties and deepen South-South economic integration (Marseilles Declaration)
- ◆ EU's commitment must be articulated in a “Plan for the Reconstruction and Development of the Middle East”.



A Plan for the Reconstruction & Development of the Middle East

- ◆ A New, Re-invigorated Barcelona Process is required:
 - EU has historical, cultural & strategic interests in the ME
 - EU has large Arab & Muslim minorities
 - EU has substantial economic & financial interests in the region
- ◆ Support forces of modernization & reform



A Plan for the Middle East: Initiatives [1]

- ◆ **A substantially augmented and revised MEDA II program**
- ◆ **Set-up the proposed Euro-Mediterranean Investment Bank (EMIB):**
 - Increase the financing of regional infrastructure projects in the Middle East (roads, pipelines, telecommunications, info-structure, water, power and other)
 - Reduce private sector transactions costs and foster intra-Arab trade and investment, bringing the region into the digital age.



A Plan for the Middle East: Initiatives [2]

- ◆ **Institutional development of regional organizations responsible for the management of regional integration initiatives:**
 - Arab countries should accelerate the implementation of the multilateral trade agreement, the Greater Arab Free Trade Area (GAFTA) now projected for 2005.
 - Expand GAFTA to include services
 - GAFTA should be realized in parallel with the creation of an Arab Common Market.
 - Full harmonization of Mediterranean rules of origin.
 - Agenda for removal of non-tariff barriers



A Plan for the Middle East: Initiatives [3]

- ◆ **Assist in the harmonization of policies and frameworks for bilateral and multilateral trade and investment agreements:** create attractive investment environments
- ◆ **Promote foreign direct investment by setting-up a EuroMed Investment Guarantee Agency (EMIGA)** to provide guarantees for European private sector investment projects in the Mediterranean countries.



A Plan for the Middle East: Initiatives [4]

- ◆ **Promote access by the EuroMed partners to the expanding European Capital Markets.**
This would:
 - Reduce the perceived risk of investment in Arab countries
 - Help expand the European capital markets,
 - Expand the economic size of the Euro currency area
 - Provide increased portfolio diversification for European and international investors and attract increased financial flows to the Middle East.



A Plan for the Middle East: Initiatives (5)

- ◆ **Provide preferential access to finance in the European Capital Markets** by allowing the tax deductibility of interest income arising on bonds and securities issued by the Middle Eastern countries.



A Plan for the Middle East

- ◆ It can be a start in addressing the economic, social, political and strategic challenges facing the Arab countries
- ◆ Starts addressing some of the fundamental underlying causes of violence and terrorism.
- ◆ The Plan should also be buttressed by a stronger political foundation to the EU's cooperation with the Mediterranean as a strategic partner



A Plan for the Middle East

The EU should possess and develop, the political willpower to seize the historical, geo-strategic opportunity in the Mediterranean and the Middle East created by the end of the Cold War and as a consequence of the terrible events of September 11 2001, their aftermath and the war on Iraq



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