

# Geopolitical Developments: The Middle East, Conflicts and a Positive Agenda for Action

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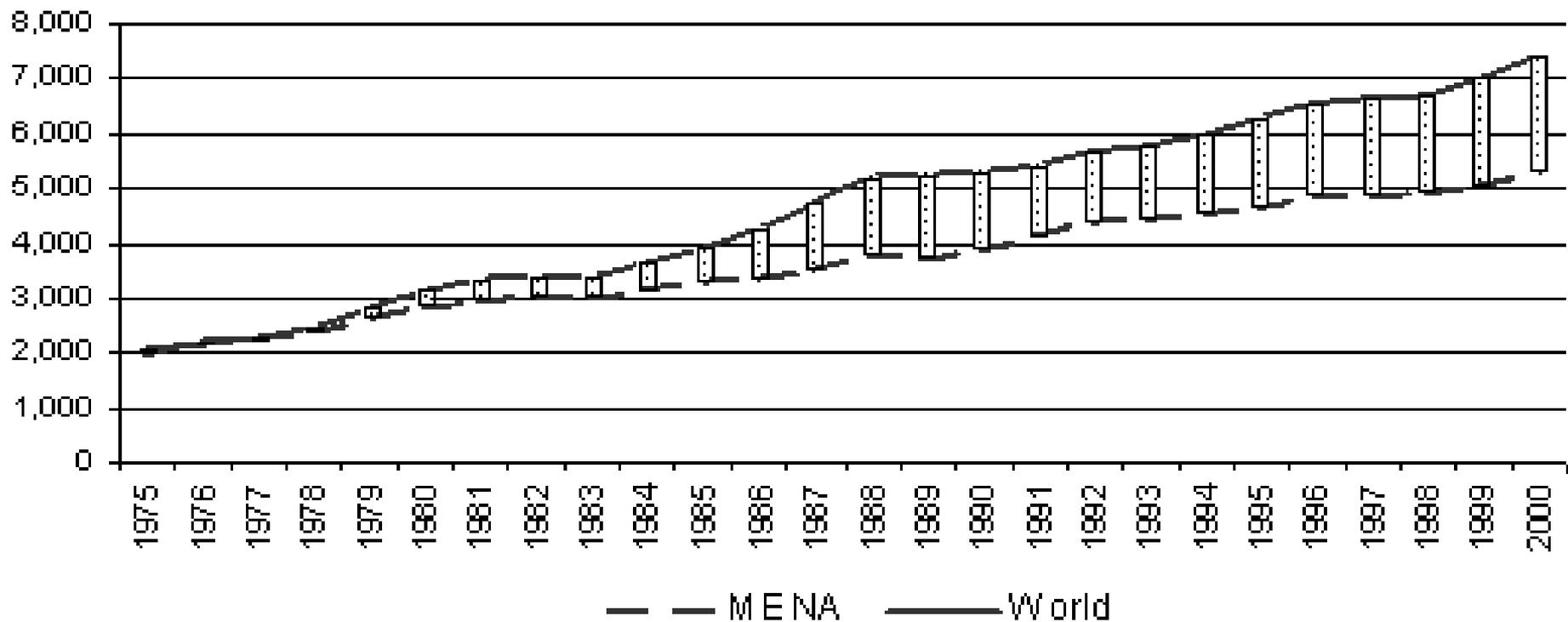
# Agenda

1. MENA Background
2. Consequences of September 11 Events
3. A Positive Agenda for Action in the Middle East

# MENA Background [1]

- Demographic Time Bomb or ‘Blessing’?: High population and labor force growth rates
- Volatile economic growth rates
- Vulnerabilities: conflicts, energy markets & prices, climatic conditions
- Stagnating or falling per capita real incomes

# World & MENA GDP per capita



# MENA Background [2]

- Limited production and export diversification
- Limited integration: trade, investment
- Limited Capital Markets integration
- Large & Growing ‘Digital Divide’
- Brain drain & Capital flight

# ME & World Trade % Change

	1990-2000	2000	2001
ME Exports	7%	42%	-9%
World Exp	6%	13%	-4%
ME Imports	5%	10%	4%
World Imp	7%	13%	-4%

# 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

# 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

- Reduces financial development: less financial deepening and disintermediation
- Increases business transactions costs
- Increased security generates welfare losses: estimate of \$75 billion loss following 11.09

# 11-09: Additional Transactions & Frictional Costs

- Airline insurance: + \$1.25/\$1.85 p.p.
- Air/Sea Cargo insurance: + 0.027-0.05% of insured value
- 3rd Party damage cover reduced to \$50 mn from \$1.5 bn
- Airline surcharges: \$8 p.p. \$0.10-\$0.15 /Kg.

# Impact of September 11 Events

- International Trade costs increased by 1%-3% as a result of additional security measures, compliance adding to frictional/transactions
- MENA countries affected the most
- Commodity pattern of trade affected

# Impact of September 11 Events

## 2 Views:

- ◆ Limited medium & long-run effects:  
higher transactions/friction costs
- ◆ Self Fulfilling Equilibrium: Pessimism  $\Rightarrow$   
 $\downarrow$  asset prices  $\Rightarrow$   $\downarrow$  spending & investment  
 $\Rightarrow$  recession &  $\downarrow$  profits

## ■ Middle East

# III. Risk Factors in International Economy

- Oil market, prices, supply
- Delayed recovery or double-dip recession

# 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

# A Positive Agenda for Action: *Mare Nostrum, Mare Pacifica*

# Political

- “Why Do They Hate Us So Much?”
- US geo-political & geo-economic hegemony: extra-territorial scope of sanctions, Kyoto
- Globalization also means global consequences of local actions: Balkans, Chechnya, Palestine
- US & the Islamic World: US must develop a policy
- Resolving Arab-Israeli conflicts and the Israeli-Palestinian conflict

# Arab Countries & Islamic World

- Arabic peoples make up less than 1/5 of all Muslims
- Top 4 most populous Muslim states: Indonesia, Pakistan, India, Bangladesh, Nigeria
- Over 1/3 of all Muslims live as minorities: China, France, India, Philippines, Nigeria, Balkans

# An Agenda for a Positive Action Plan for the Middle East

- Economic
- Financial
- Political & Security

# Economic Action Plan

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

# A 'Prodi 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 "Prodi Plan for the Reconstruction and Development of the Middle East".

# A 'Prodi Plan for the Reconstruction & Development of the Middle East

- A New, Re-invigorated Barcelona Process is required
- Reform and Modernization in the ME
- Support moderate forces

# A Prodi Plan for the Middle East: Initiatives (1)

- **A substantially augmented 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 Prodi 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.
  - ◆ GAFTA should be realized in parallel with the creation of an Arab Common Market.
  - ◆ Full harmonization of Mediterranean rules of origin.

# A Prodi 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 Prodi 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 Prodi 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 issued by the Middle Eastern countries.

# A Prodi Plan for the Middle East

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

# A Prodi 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, and their aftermath*

# 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 in Iraq and potential extensions to other countries in the region will not resolve the fundamental political, social and strategic issues. Indeed it will exacerbate existing tensions, lead to further instability and deterioration in economic conditions, poverty and growth prospects, fractionalization, 'balkanization' of region.

# Politics & Security: Priorities

- Middle East at an important cross-roads: a point of conflagration and world instability

Priority to resolving Arab-Israeli conflicts and not just the Israeli-Palestinian conflict

Establish a clear strategy for the US 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 should be the Focal Point

# Geopolitical Developments: The Middle East, Conflicts and a Positive Agenda for Action

- *“Vision is not enough. It must be combined with venture. It is not enough to stare up the steps, we must step up the stairs”. V. Havel*
- *We must have courage and resolution to change take action.*