

Roundtable Takeaways

Deepening socio-economic challenges in the Middle East and North Africa: What are the risks and the possible ways out?

School of Government, Luiss Guido Carli, Viale Pola 12, Aula 12

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Moderating:

- Prof. Luigi Narbone, Director Mediterranean Platform – Luiss School of Government

Speakers:

- Farah Al Shami, Senior Fellow, Leading ARI's Social Protection Program, Arab Reform Initiative (ARI)
- Tarek Megerisi, Senior Policy Fellow, European Council on Foreign Relations (ECFR)
- Steven Heydemann, Professor in Middle East Studies, Smith College
- Robert Springborg, Professor at the Naval Postgraduate School (NPS)

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Introduction

The Covid-19 pandemic and the consequences of the Ukraine war have hit non-oil and gas exporting countries in MENA hard. Spikes in commodity prices, high inflation, currency devaluations, growing fiscal problems and contracting investment are having a strong impact on the economies of Tunisia and Egypt, while countries long affected by conflict and crises such as Syria and Lebanon are facing economic implosion.

This situation aggravates long-term social problems such as unemployment, inequalities, rising poverty and youth and marginal communities' disenfranchisement.

- Are the national and international policies to counter the current economic instability adequate?
- What are the risks of the current socio-economic situation spiraling out of control and igniting new cycles of violence and migration?
- What would be alternative approaches to increasing social security for the people, providing better prospects for sustainable economic growth and addressing long-standing social problems in these countries?

Explaining the Crisis in Tunisia

Tarek Magerisi

- The country was grappling with a massive credit problem and has been in a debt trap since the revolution.
- The covid-19 pandemic brought about the foreign exchange deficits. This was exacerbated by the inflation caused by the Ukraine War, since Tunisia relies on importation for its industry and goods.
- The region has a broken economic system and defunct social contract.
- Tunisia does not have oil resources to compensate for the loss of tourism or other lost revenue.
- It's getting harder for Tunisia to access credit, which makes it harder for it to maintain the key imports people use for daily life.
 - o There is no aid, deals with IMF, alternative functions, debt mechanisms, and so it's hard to see where the relief comes from.
- The private sector is not getting any more free to plug in to the global economy.

Egypt is Following Lebanon Down the Rabbit Hole

Robert Springborg

- The well-being of individuals in the overall economy has never been so bad in Egypt.
 - o 56 percent of the government's budget is dedicated to debt servicing.
 - o The allocations to basic social services have been kept at about a third of the constitutionally mandated limits.
- The regime's response has show that it is profoundly disconnected from the society which it rules.
- The duopoly between the regime and crony capitalists is broken.
 - o The military is withdrawn into its own shell and the crony capitalist leftovers have decamped, claiming that it is increasingly difficult to do business Egypt.

- The question is: can the president reduce the amount of patronage that flows into the military?
 - That has been the focus of the IMF program, which has laid out terms and conditions for the military's role in the economy, calling upon it to regulate its unregulated behavior.
 - Nothing has happened so far: very insignificant privatization, the military continues to expand its activities in several areas, as well as land reclamation.
 - The water is not available for many projects, much less now due to the GERD.
- The IMF program will remain stalled due to two reasons:
 - The president will not stand up to the military
 - The IMF proposed that Egypt sell some of its state-owned enterprises to the GCC states but the terms and conditions have not been suitable for either Egypt or the Saudis or Emiratis.
- Where is this leading?
 - The international rating agencies continue to downgrade Egypt and are not able to issue eurobond.

The Financial and Economic Crisis in Lebanon

Farah Al Shami

- In Lebanon, we have inefficient rentier economic models that are unproductive and do not generate constant value and highly reliant on food and energy imports.
- The governance model is the root problem.
 - The system is characterized by elite capture, clientelism, sectarianism, confessionalism, consociationalism, crony capitalism, etc.
 - This is a weak system as it does not govern the economy to the benefit of the people but to the benefit of the ruling elite.
- The covid-19 pandemic and the Ukraine War have had a strong impact on the situation in the country because they compounded already existing problems.
- The “no-policy” policy has increased the forms of poverty and vulnerability.
 - Food and energy security have seen double digit inflation.
 - The cost of the food basket has increased by 351 percent from 2021 to 2022.
 - The cost of 20 liters of gasoline increased by 35 percent.
 - Adding to these the currency devaluation and parallel exchange markets, we now have stagflation with galloping inflation.
 - Inflation in the past months increased from 124 to 269 percent.
- There are also sticky prices.
 - The cost of goods permanently increases with the increase of the dollar but does not decrease if the dollar decreases.
 - In anticipation of inflation, businesses charge more for goods and services.

Syria is an Unmitigated Disaster

Steven Heydemann

- Syria's economic crisis was severe before the war.
- What we see is a country that has been battered by at least four different vectors of economic suffering.
 - o Sanctions
 - o Destruction of critical infrastructure due to indiscriminate attacks by the regime and Russia
 - As much as 20 percent of the residential infrastructure is destroyed
 - Massive damage has been done to water, hygiene, sanitation, electricity, and education infrastructure
 - As much as 80 percent of wholesale vegetable markets in Syria have been destroyed
 - o Collapse of Lebanese economy
 - Freezing of assets in Lebanese banks
 - o Predatory practices of Assad regime
 - Large-scale diversion and theft of humanitarian assistance
 - A political economy of predation and extortion
- Other impacts of the war
 - o Over 12 million Syrians are food insecure and nearly 90 percent live below the poverty line
 - o Basic commodity prices have gone up 800 percent in the past two years
 - o Unofficial employment rates are nearly 50 percent
 - o There are shortages of fuel, water, and electricity
 - o There is an increase in crime and domestic abuse
 - o Syria's GDP went down 3.5 percent
 - o There are more Syrians fleeing the country, with over 78,000 Syrians applying for asylum in the EU
 - o Women and children are forced to work
 - o Russia's invasion of Ukraine compounded all these problems due to Syria's reliance on imported oil and wheat
 - Russia and Iran recently ended the supply of oil and wheat at a subsidized rate to the Syrian regime

Capacity for Spill-over and Policy Responses

Tarek Magerisi

Capacity for Spill-over

- The MENA region is one of the poorest-linked regions in the world so an economic collapse in one country does not necessarily impact another.
 - o Perhaps Egypt is different due to its role as an agricultural exporter.
 - o A lot of the problems are rooted in the defunct social contract created by the earlier generation of rulers in the region.

- People will be driven to shape the politics in different ways:
 - o Populations engaging across borders to define new ways to protest
- The Gulf states are the new kings of the region
 - o The old order was led by Syria, Egypt, and Iraq but this has shifted to Abu Dhabi, Doha, and Riyadh.
 - o They can feel good and buy out the key assets but are there really any constructive policies?

Policy Responses

- On the domestic side
 - o There are no policies to deal with the economic crisis right now.
 - o The president loves to centralize decision-making but has zero experience of how to administrate a country, in addition to lacking the self-awareness to know that.
- On the international side
 - o There is a life support machine with Algerians providing free energy and the EU providing budget support.
 - o There is a big question on how long this can continue and when it will break.

Robert Springborg

Role of GCC

- One speculation is that the GCC is doing something similar to Israel, which has kept all its neighbors at bay and expanded its reach into North America, Asia, and Africa.
 - o The GCC is tired of the problems in the Middle East. It is investing in dictators in the region when required but looking east to China for their economic future.
- What is the GCC leaving behind in the Middle East?
 - o It is leaving the consolidation of authoritarian power.
 - o This is being indirectly supported by the international financial institutions, such as the IMF.
 - The bank has been interested in using electronic means to upgrade governance and deter corruption.
 - This is described as legibility, which simplifies tax collections, tracking of bank accounts, etc.
 - The cost, however, is the degree of control that is being asserted over the lives of individuals.
 - Societies are seen as threats which must be stripped of their economic and political capacities.

Policy Responses

- The outside world has given in to the above-mentioned status quo.
 - o The democratization initiatives are nothing like the programs of the past.
 - o The EU and US do not want to lose easy access to the Gulf and Egypt and have therefore, turned a blind eye.

- The world let Lebanon fall apart and are not rushing to help it. I think it will be the same throughout the region.
 - o The West will not go in and Gulf has checked out.
 - o China will be a main beneficiary.
 - o Egypt will play a significant role in the Suez Canal zone and establish themselves in the Red Sea.
- The collapse of the Middle East should not be taken lightly, and the West will pay a high price for it.

Farah Al Shami

International Aid

- There are two important layers to the problem in the country:
 - o There have been serious problems of human development infrastructure in the country.
 - o There has been a disintegration from the global financial market.
- Taking these two points into consideration, international donors and financial institutions have had a shallow approach.
 - o There are two key factors why Lebanon has not received assistance:
 - The government is affiliated with a party that is designated as a terrorist group.
 - Although the IMF has tried to approach the Lebanese government, the terms and conditions were unsuitable.
- There is much need for the support programs of the UNICEF and ILO, despite all their shortcomings.
 - o The trans-state actors receive support through these programs, but this has further weakened the state's role in providing social security and services.
- Most of the money comes in the form of loans and not grants.
 - o This increases the country's debts.

Steven Heydemann

Spill-over

- What we are more likely to see are the fraying of economic and social fabric, as well as the outflowing of Syrian refugees.
- There are two principal regional linkages:
 - o Refugees
 - Lebanon has the highest per capita number of refugees in the world, but also Jordan and Turkey.
 - As economic conditions have worsened in the countries, there has been increasing attention in these countries on the economic strain of refugees, as well as anti-refugee sentiment, and measures to push Syrians back to Syria.
 - The refugee component is an important one to consider when thinking about the future of economic stability in Syria.

- Captagon
 - Syria is a narco-state and Captagon is now the single largest source of foreign exchange revenue for the Assad regime, exported to Saudi Arabia, the Levant, and Iraq.
 - Estimates are somewhere between \$3-6 billion and up to \$20 billion.
 - In 2021, legal exports totaled around \$800 million while Captagon exports totaled \$3-5 billion.
- Both these factors have been seen by neighboring countries as potential sources of instability and unrest that have very high potential to undermine social conditions, cohesion, economies, and societies in Syria and beyond.

Policy Responses

- One of the principal responses to the above two factors has been normalization.
 - This would possibly induce the Assad regime to take more seriously its role to create the conditions for the return of refugees and to cap the production of Captagon.
 - The sanctions and isolation hadn't worked so normalization was used as an alternative and incentive for change.
 - It was initially hoped that the regime would change some things before being admitted to the Arab League, but this has not happened. Captagon continued to flow into the Gulf region.
 - The Syrian regime is using refugees and Captagon to continue extracting resources from the Gulf, but the Gulf is not playing along.
- Sanctions on Syria prevent any kind of meaningful economic engagement with the country.