

## Chapter 2

### Case study: Middle East and North African Economies

The case study questions can be used as a basis for seminar discussion.

#### 1. Summarize the significance of the MENA region to the world economy.

Students should first investigate the combined GDP, economic growth rates and projected rates of this diverse region using material in the case and sources such as the IMF World Economic Outlook. In 2016 the region had a combined GDP of just over \$8 trillion PPP or close to 7% of the world total. Growth rates in the region have fluctuated significantly in the last decade but are predicted to increase slightly again in the next two to five years. However, geopolitical tensions, social unrest and uneven development may continue to disrupt economic progress for many countries in the area.

Discussion of the current significance of this large and disparate group of economies is likely to focus on its very large hydrocarbon reserves and the importance of these finite resources to the global economy. Estimates by the World Bank, IMF, and others suggest that this group of countries collectively hold around 52% of crude oil reserves and 40% of natural gas. However, students should note the very mixed picture and divergence between oil rich countries and their non oil-exporting neighbours.

#### 2. Analyse the factors that have led to the growth and uneven development in the region

Students might begin by studying the wide range of GDP per capita figures for countries in the region whilst noting that some of these might be misleading in a region characterized by small, wealthy elites and widespread poverty.

It might be beneficial to first discuss with students what generally determines the rate of growth of a country, e.g. quantity and quality of resources including land, labour, and capital, as well as other factors such as the political environment.

Much of the regions historic growth can be attributed to the presence of natural resources and, in particular, oil and gas production. However, a turbulent socio-political environment with ongoing conflicts in Syria, Iraq, Libya, and Yemen, and high levels of corruption, public discontent and unresolved religious differences have all contributed to uneven development across the different MENA countries. These same factors discourage inward foreign investment and private sector activity seen as essential for economic growth, which is low across the region when compared to the OECD average.

### **3. Why might the region's non-oil producing countries see stronger growth?**

Students should note that during periods of rapid increase in the oil price on world markets the oil producing states have benefitted directly from oil revenues and have used some of the wealth to develop modern infrastructure and create jobs. The same booms have also provided opportunities for migrant workers from nearby non-oil producing countries such as Jordan, Egypt, and Yemen who have found employment in the oil industry, construction, and teaching. Remittances sent home by these workers have helped to boost their own economies, although many of the countries remain extremely poor. Further investigation should reveal that in recent years, during times when the oil price has fallen, the non-oil producing countries that have more diversified economies, less dependent on oil as a percentage of overall GDP have seen slightly stronger growth rates although remain poorer in absolute terms.

### **4. What are the main priorities for governments in the region in the medium term?**

Clearly governments in the region face serious policy challenges. The oil-exporting countries in particular need diversification strategies to reduce their reliance on oil revenues, and long-term solutions to the numerous conflicts will significantly encourage foreign investment.

The outlook for the Middle East region continues to be uncertain, particularly if the oil price remains depressed and conflict continues to impede economic activity and inward investment. Governments will need to find policies that stimulate investment confidence and growth, reduce public discontent, and respect religious differences.

Private business is seen as essential for economic recovery and diversification, yet the private sector accounts for only 40 per cent of GDP in the MENA region against an OECD average of 59 per cent. In some countries, such as Libya, the share is just 5 per cent.

Foreign direct investment inflows have always been unevenly spread across the MENA countries. The richer countries have been and remain the main destinations, but as the case study notes, FDI has fallen precipitously in recent years from a high of almost \$127 billion in 2007 to \$25 billion in 2016, an all-time low of only 1 per cent of GDP. Regulatory/administrative and regional instability and insecurity are deterrents to inward investment.

Some non-oil related industries including tourism have dropped sharply in countries such as Tunisia and Egypt due to terrorist attacks at resorts, and intra-regional trading has also reduced, with only 10 per cent of the region's

trade taking place between MENA countries.

- 5. Prepare a report on the future prospects for the region focusing on:**
- a. regional stability and security**
  - b. economic diversification and productivity**
  - c. attracting foreign direct investment**
  - d. addressing inequality**

These are a complex range of issues and could be separated.

If undertaken as a single piece of work the answer should be in report format and should include the following:

A broad summary of the current issues/stage of development.

An outline of the potential benefits of diversification and increased productivity to both oil producing and non-oil based economies in the region.

Specific policy initiatives designed to attract inward foreign investment should be considered linked to regulatory, administrative, regional instability and security issues and to the development of modern infrastructure in many countries.

Policy to address inequality should consider not only differences in wealth and income but also restrictions placed on women, migrant workers, and religious freedoms. The form of government and social indicators including, birth rate, literacy rates, life expectancy may have some relevance.