Economic Implications of Political Instability in Middle East

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Abstract: *Almost all Arab countries have experienced big and rapid changes in their societies and economies in recent years. In the first half of 2008, oil and natural gas prices began to grow very rapidly, leading to huge profits in Arab oil-producing countries. However, at the same time, they had to cope with the rapidly rising prices of food and raw materials that threatened their economy and social stability. The effects of the financial crisis and the expectations of much lower global growth have been caused by the collapse of oil prices. As a result, Arab oil-exporting countries experienced a decline in revenues and a worsening of trade conditions, as well as a fall in their balance of payments surplus. Political turmoil in the Middle East has strong political and financial implications, especially as they increase the risk of stagflation, a combination of slow growth and rapidly rising inflation. If stagflation appears, there is a serious risk of a return to a recession of a global economy that has just recovered from its latest's crisis. The latest increase in oil prices and the associated increase in prices for other products, especially food, lead to several unfortunate consequences. First, inflationary pressure will grow in already overheated markets of developing economies, where oil and food prices represent 2/3 of consumer basket. Another risk arising from higher oil prices is that all importers of energy and goods will be affected, advanced economies in particular, as soon as they withdraw from the recession and experience anemic recovery. The third risk is that rising oil prices will affect the confidence of investors and increase the risk of aversion, which leads to stock market corrections, which have a downward effect of wealth-spending capital. Business and consumer confidence will probably be affected further by reducing demand.*

Keywords: *Arab countries, Inflation, Oil prices, Political turmoil, Stagflation*

1. INTRODUCTION

Almost all Arab countries have experienced big and rapid changes in their societies and economies in recent years. In the first half of 2008, oil and natural gas prices began to grow very rapidly, leading to huge profits in Arab oil-producing countries. However, at the same time, they had to cope with the rapidly rising prices of food and raw materials that threatened their economy and social stability. The effects of the financial crisis and the expectations of much lower global growth have been caused by the collapse of oil prices. As a result, Arab oil-exporting countries experienced a decline in revenues and a worsening of trade conditions, as well as a fall in their balance of payments surplus (Al-Nasser, 2005). Political turmoil in the Middle East has strong political and financial implications, especially as they increase the risk of stagflation, a combination of slow growth and rapidly rising inflation. If stagflation appears, there is a serious risk of a return to a recession of a global economy that has just recovered from its worst crisis of recent decades. Serious riots in the Middle East have a historically recorded causality of oil price jumps, which in three cases of five, followed the global recession. The Yom Kippur War in 1973 prompted a sharp jump in oil prices, which was a prelude to the world's stagflation from 1974 to 1975. The Iranian Revolution in 1979 led to a similar situation: the stagflation after the jump in oil prices followed by the recession from 1980 to 1981. The Iraqi invasion of Kuwait in August 1990 led to a jump in oil prices at the same time as the US banking crisis had already pulled the United States into a recession.

2. ENERGY POLICY IN THE ARABIC COUNTRIES

Exploiting oil, without a doubt, is the basis on which Gulf countries base their economic development. Since four decades ago, these countries have decided to take control of the exploitation of this key world energy source, which until then was the largest extent controlled by the Western oil consortiums who had very favorable arrangements with the Gulf States.

Oil price jumps caused by oil shocks will lead to a rise in revenues in OPEC countries, among which are the leading members of the Gulf state (Rivlin, 2009, pp. 25-34). In 2008, a record crude oil price of US $ 147 will be reached, which will enable these countries to strengthen their broadband investments. With 68% of the world's oil reserves, the Middle East and the Persian Gulf play a key role in the conduct of the world's energy policy. In April 2009, oil prices stabilized to around US $ 50 per barrel, despite falling demand and the very bad short-term prospects of the international economy. The main reason for this is that oil became a value for those who lost confidence in the dollar and other currencies. This had a direct impact on the economy of major oil producers. For example, Saudi Arabia went into deficit, 11-12% of GDP for the first time since 2002 (European Commission, 2009). Economic growth slowed down from about 4% in 2008 to about 0% in 2009. In the United Arab Emirates, the large budget surplus recorded in 2008 replaced the deficit in 2009. Today, high government spending meets the costs of reducing the costs of the private sector in the activities of oil production. This is the case, for example, in Kuwait, Libya and Saudi Arabia. With the calculations that oil will be for another 40-50 years, the question is what will the "petroleum states" do when the source of their well-being disappears? Today's wealth is measured by thousands of billions of dollars located beneath the desert sand and the sea. The problem with which the Gulf countries will face in the future is the unchanging of their economies, which are still insufficiently diversified and too dependent on oil and natural gas deals. Some of these countries, such as Bahrain and the Emirates, have made serious efforts in the field of economic transformation, and they have increasingly represented economic sectors such as aluminum industry, petrochemicals, construction, tourism and banking. Arab investors, including national investment agencies such as Kuwait Investment Authority, invested and invested huge capital primarily in the area of Western Europe and the United States. It is estimated that to date around the world has been invested around a billion dollars of "petroleum dollars". About 10% of the sum of money was invested in Arab countries, which is called inter-Arab investment. The growth of investment activities has come in the last ten years, with leading investors Kuwait and Emirates (UAE), while the most attractive location for inter-Arab capital is Saudi Arabia, the most powerful member of OPEC (Al Moneef, 2011, pp. 15-21). Saudi Arabia has been a key player in coordinating a successful OPEC campaign in 1999 and other oil-producing countries to raise oil prices to the highest levels of the Gulf War, all thanks to the management of oil production and supplies. What is attracting special attention today is the ever-growing need for strengthening economic links between the Arab countries themselves. The economic advancement of many of them depends precisely on the will and readiness of the "petroleum states" to help develop neighboring fraternal states. Crude oil is the world's most wanted commodity and accounts for 40% of world energy demand. The daily world consumes 76 million barrels of oil, of which America is 20 million barrels / day, China 5.6 million barrels / day and Japan 5.4 million barrels / day. The long-running period of global economic instability has required Arab oil exporting countries to review their long-term oil price expectations and thereby reduce plans for infrastructure spending and investment in production, which were already low. This has had a negative impact on the economy of the entire region because demand for Arab workers working on oil plants of oil rich Arab states has drastically dropped, resulting in a smaller inflow into Arab non-oil exporting countries. Revenues from tourism have also decreased. All this resulted in less investment of richer Arab states in the poor, those that do not have oil revenues. Governments of Arab countries that are not oil-rich have their energy policy largely based on assistance from richer Arab countries. The high price of oil and gas has a dramatic impact on oil importing countries. High prices of goods have already been the reason, earlier, for demonstrations in many Arab countries. The main reason for public protests is the increase in public transport prices by more than 50% as a result of a jump in oil and gas prices. As a result, there is an increase in the cost of living. Dealing with high oil prices, exacerbated by the lack of resources that would allow the stabilization of economic mechanisms and the easing of prices, is one of the biggest challenges facing oil importing countries. Countries that do not have their own sources of oil turn alternatives in the form of nuclear, solar, wind, biomass and geothermal energy. Oil importing countries are facing a difficult battle for recovery. The reason that the GDP growth rate in 2011 was better than expected is that $ 200 billion is spent on fuel subsidies. This resulted in a hole of some 50 billion dollars in national accounts that would be very difficult to fill in with loans. As long as political transition does not start with its own flows, private investors will be in a state of waiting and observation, and it will take time to go on while returning investments, tourists and capital. Moreover, the international environment remains a problem: the economic appearance of Europe remains challenging, anticipated oil prices are high, and turmoil in Syria could affect many countries in the region.

3. POLITICAL AND OIL PRICES INFLUENCE

Oil prices also played a role in the latest global recession. Until 2008, just before the fall of Lehman - Brothers, oil prices doubled over the previous 12 months, reaching a maximum of $ 148 for bursting "hands of mercy", but weakened by the global economy with shaky financial jumps. It is still not known whether the political "infestation" will spread from the Middle East to other Arab countries. The turmoil can still be contagious and is capable of destroying oil prices to a lower level. But there are great chances for the uprisings to expand and destabilize Bahrain, Algeria, Oman, Jordan, Yemen and possibly Saudi Arabia. Even before the recent Middle Eastern political jumps, oil prices jumped over $ 80-90 per barrel, an increase fueled not only by the energy of thirsty developing economies, but also by non-fundamental factors: assets and goods in emerging market-driven liquidity markets , zero interest rates and quantitative easing in developed economies and limited inelastic oil supplies. The latest increase in oil prices and the associated increase in prices for other products, especially food, lead to several unfortunate consequences. First, inflationary pressure will grow in already overheated markets of developing economies, where oil and food prices represent 2/3 of consumer basket. This poor demand in slow-growing advanced economies, rising product prices can only lead to a weak first wave of inflation. No developed country will make progress without a jerk. Another risk arising from higher oil prices is that all importers of energy and goods will be affected, advanced economies in particular, as soon as they withdraw from the recession and experience anemic recovery. The third risk is that rising oil prices will affect the confidence of investors and increase the risk of aversion, which leads to stock market corrections, which have a downward effect of wealth-spending capital. Business and consumer confidence will probably be affected further by reducing demand. If oil prices rise further, similar to 2008, advanced economies will rapidly slow down economic growth, and many will likely slip into recession. Even if prices remain at the same level for more than a year, global growth will slow down and inflation will rise. Saudi Arabia as the only OPEC oil producer with excess capacity could increase its production, and the United States could use its strategic oil reserves to increase market supply. Over time, but this may take years; consumers could invest in alternative energy sources and reduce demand for fossil fuels through taxation policies that relate to carbon emissions and new technologies. Since energy and food security are economic issues, as well as social and political stability, a policy that lowers the sensitivity of commodity prices should be of interest to both producers and consumers. But it must act immediately. The transition from autocracy to democracy in the Middle East will probably be perverse and unstable at best. In countries with a downward demand for greater revenue and wealth, democratic enthusiasm could lead to large budget deficits, excessive demands for wages, high inflation, and eventually result in a major economic crisis. Thus, a new brave aid program should be designed for the region, something like the Marshall Plan to help Europe after the Second World War, or as a plan to help Eastern Europe after the fall of the Berlin Wall. The funding should come from the International Monetary Fund, the World Bank, the European Bank for Reconstruction and Development, and bilateral assistance from the US, European Union, China. The goal should be to stabilize the economies of the Middle East countries during their delicate political transition. Unstable political transitions can lead to major social unrest, organized violence, and civil war, fueling new economic and political shocks. Bearing in mind the current risk-sensitive oil price, its impact would not be limited to the Middle East.

4. UNEMPLOYMENT AND POVERTY

The level of unemployment, especially among young people, is one of the main short-term and long-term challenges for many Arab economies. Unemployment among young people is particularly alarming in Algeria, with a youth unemployment rate of 45%. However, figures in other countries, Saudi Arabia or Egypt are also worrying, where this figure is 25%, but like Algeria, they have a higher percentage of people under 15, which could mean an increase in youth unemployment in the future. Therefore, one of the biggest challenges for a large number of Arab countries is unemployment and the need to create jobs for a growing young population. This socioeconomic situation is becoming even more complex in countries that have no income from oil exports and with strong demographic pressures. Very soon, they will have to create jobs for a predominantly young population. Morocco and Egypt are probably the best example of this situation with unemployment and illiteracy, which are serious problems within the poorest part of the population. They together with the Gulf immigrants are most affected by the economic crisis and the decline in employment and remittances. Other exporting countries, such as Algeria and Sudan, with a medium inflow and a large young population will also face similar challenges.

The next challenge, linked to the rise in unemployment, is a possible increase in poverty. According to Arab Human Development Report for 2009, compared to other developed countries with similar income and society development, the Arab countries should get more results in poverty indicators (Arab Human Development, 2009). The economic crisis and public deficit put development and plans into public investment, industrialization processes, social policy and employment at risk. With an increase in unemployment, the economic crisis is turning into a social one, especially in countries with lower income per capita and poorer conditions of human development. In Arab countries with a higher percentage of the population below the poverty line (The Palestinian Territory, Yemen, Algeria, Egypt), the economic stimulus program is not sufficient in itself to create enough new jobs and prevent the rise of poverty in the short run. If economic stagnation continues or economic recovery continues at a slow pace, a large number of households in these countries will be at risk. In order to rid themselves of these economic hardships in such risky households, their governments should implement programs to combat poverty directly. Reinforcement of political reforms and development plans set in the years of economic boom are most needed to reduce the dependence of Arab countries on changes in oil prices and the international market. Greater diversity and industrialization is the key to creating a sustainable economy capable of creating new jobs.

5. CONCLUSION

The global economic crisis that began in the second half of 2008 has affected many Arab countries through several channels of transmission. The impact of foreign investment in the region was reduced, the crude oil market experienced a significant price correction after reaching the record level in 2008; international tourism in destinations in the Middle East has declined; and the global demand for non-oil products has been reduced. Oil exporting countries have suffered a reduction in oil revenues and have had to adapt their ambitious development plans to this situation. However, the Gulf countries managed to maintain their development projects by hitting their major National Investment Funds. They also intervened actively to protect their financial markets that were severely

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affected by the fall in the price of coin. No Arab country has escaped the detrimental impact of the economic crisis, the impact on most countries was the only slowdown in economic growth, rather than the economic downturn. From everything that emerged from the crisis, it can be concluded that oil importing countries should as oil exporting countries, build export promotional programs and improve their national capabilities to innovate and adapt existing technologies in order to reduce the reliance on a limited amount of their exporting goods) of mainly natural resources), to separate its economic activities and sources of revenue, to use greater integration into world markets and to change the growth model from extensive to intensive sources, for example from fuel and other primary production to technological progress and productivity. In addition to scarce resources, the Arabs are scared of Tehran's determination to vigorously over its nuclear ambitions-particularly frightened by Egypt, fearing that there will be a disturbance of the balance of power in the Middle East if Iran succeeds in making a nuclear bomb. There is increasing opinion that some of these countries will also engage in military nuclear strategies in the background of civilian nuclear programs.

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