FES-Analyse

The Arab World in 2002

Riad al Khouri, BLitt (Oxon)

January 2002

- **The most important new event with a major impact on the Arab World in 2001 was the attack on the United States on 11 September. With the exception of Afghanistan and the US, the impact of the consequences of the 11 September attack was and remains greater on the Arab World than on any other part of the globe.**
- **The main short term influence on the Arab World in 2001 continued to be the Aqsa Intifada, which began in September 2000, and the consequent implications of the conflict with Israel; this was especially the case in the Fertile Crescent, and to some extent in the Nile Valley and the Arabian Peninsula, but less so in the Maghreb and the Indian Ocean States.**
- **Major medium-term trends with an impact on the Arab World as a whole that continued in 2001 included the relatively firm price of oil and the relative weakness of the EU vis-à-vis the US, both of which factors had become more important since March 1999.**
- **Longer term trends that continued to have an impact on the Arab World in 2001 included globalization, in its economic and social aspects, and its antitheses, including fundamentalism (and to a lesser extent autarky) both of which have become increasingly important since the early to mid-1990s.**
- **The interaction of all of the above has resulted in a situation that may quickly lead to greater change in the region as a whole than at any other time since 1991 in the aftermath of the second Gulf war. However, outward change in 2001 has not been great or dramatic, whether before or after 11 September, and the general situation throughout the region apparently resembles what it was before that date.**

Herausgeber und Redaktion: Albrecht Koschützke, Stabsabteilung der Friedrich-Ebert-Stiftung
53170 Bonn, Tel.: 0228-883376, Fax: 883432, eMail: Albrecht.Koschuetzke@fes.de

This paper describes the main trends in and influences on the Arab World (defined to include all countries that are members of the Arab League) in 2001. Beginning with an Overview of the whole Arab World during the year 2001, proceeds to a Political and Economic Analysis by Subregion. **For the purposes of the paper, the Arab countries are divided into five subregions: the Maghreb**, including Libya and all Arab states to the west; **the Nile Valley**, comprising Egypt and Sudan; **the Arabian Peninsula**, including the six Gulf Co-operation Council member states, plus Yemen; **the Fertile Crescent**, including Palestine, Lebanon, Syria, Jordan, and Iraq; and **the Indian Ocean Arab States** (IOAS), including Djibouti, the Comoro Islands, and Somalia. As developments in the latter remained relatively unimportant during the past year, both in themselves as well as in the larger Arab context, they will only be dealt with briefly in the Overview.

Overview

Before 11 September, the Arab World was enjoying moderate political and social stability in 2001 – despite pockets of more or less significant unrest, which however had mostly been of the level of previous years or lower. At the same time, **a modest economic expansion and socio-economic development was taking place across the region**. Globalization was making inroads in most countries, and **structural adjustment including trade liberalization and privatization, was having a more important impact across the Arab World.**

The most important single influence on the economies of the Arab countries as a whole remained the hydrocarbon sector, in particular the export of crude oil. **The engine of growth of the Arab World, except for the Maghreb, remained the four GCC states that are members of the Organization of Petroleum Exporting Countries**, especially Saudi Arabia, still the largest Arab economy, with Kuwait and the United Arab Emirates in a secondary role, followed in importance by Qatar.

Saudi Arabia's GDP is expected to grow in 2001, though at a level lower than the 4.5% recorded in 2000. Despite the drop in oil prices and lower export revenues. The kingdom is still expecting a balanced budget in 2001 despite the declining oil price, as well as a surplus in the balance of payments this year.

The UAE economy is still riding high on the back of the high oil prices of the last 18 months, and is expected to grow at around 4% in 2001. The economies of Kuwait and Qatar should grow more modestly this year, but they are supported by sustainable policies based on prudently low oil prices that can absorb a significant decline from current levels and still be broadly balanced. In addition, government reserves are abundant, which results in negligible domestic or external borrowing needs. Conversely, if the price of oil increases, these two economies stand to make large budget and external current account surpluses that would boost their reserves.

In the Maghreb, the relationship with the European Union was still the single most important influence on individual countries, though with stronger competition from the US. Until 11 September, the continuing relative weakness of the EU vis-à-vis the US was apparent in the Maghreb's improving relations with American firms and contacts with US organizations. On the whole, however, the Maghreb states remained strongly tied to the EU. This was especially the case of Morocco and Tunisia, so far the only Maghreb countries that have signed Euro-Med Association Agreements. While growth in several EU economies was not as strong as in 2000, the impact of this slowdown on the Maghreb was not severe, and **modest progress was registered by most economies in the subregion until the later part of 2001.** In this context of relative stability, always excepting outbreaks of violence in Algeria, **illegal emigration from various Maghreb countries into EU states remained an issue, but did not flare up.**

The situation in the three IOAS remained much as it was in 2000, with the continued influence of France in Djibouti and the Comoros underpinning stability amidst slow growth, while gradual state-building took place in Somalia as a prelude to addressing poverty and other major socio-economic problems. However, even in this distant backwater of the Arab region, **the events of 11 September caused many changes and set the stage for possibly even more important developments**. (A small example of this was even evident in the Horn of Africa, with the disruption of normal money transfer mechanisms from the GCC countries as an indirect part of the US campaign against terrorism causing disruption in the lives of thousands of poor Somalis who rely on remittances from abroad.) **The economic impact on the Arab countries of the attacks on the US has so far been modest, but the adverse consequences for the region could become more significant in the next few months. The events of 11 September are a short-term setback for Arab globalization efforts.** Cross-border flows of people, goods, ideas and capital into and out of the Arab World have been hampered by the consequences of the 11 September events; at the same time, there has also been an impact on intra-regional activity. On the other hand, the successful convening of the World Trade Organization ministerial meeting in Doha provided some high-profile reassurance of the region's stability.

The crisis has increased the risk profile of several key Arab countries. As a result, the Arab World is likely to receive less capital flows in the wake of 11 September attacks. Foreign direct investment into the Arab World, which rose to $ 4.6 billion in 2000, may drop to $ 3.5 billion this year and go even lower in 2002 if present rends continue.

Another impact of the 11 September attacks has been **a surge of anti-Arab sentiment abroad, which prompted investors from the region to consider trimming their sizeable financial ties to the US**, as some Arab investors are worried that their US assets may be frozen in the global crusade against terrorism. As much as two-thirds of the estimated $ 1,000 billion that Arabs hold abroad is thought to be invested in the US or deposited in American banks. Up till now, **there has been no dramatic shift to move out of the American market or US banks. However, things could take a sharp turn for the worse if the US decides to strike against one or more Arab countries or to freeze assets and accounts of alleged terrorist organizations**.

The region's bourses were also affected by the events of 11 September. **Following the attacks, all Arab stock markets moved significantly lower and some lost most of the gains recorded since the beginning of the year.**

Local interest rates in the various Arab countries have been moving down in line with US rates; and the trend is likely to continue, bringing lower borrowing cost to businesses in the months ahead. Markets are now discounting weaker demand for oil associated with a much slower global economy.

The energy markets were hit by post-11 September turmoil, even though underlying trends in oil production throughout 2001 meant that Arab oil output had already fallen. Saudi Arabia's daily production was cut from more than 8.3 million barrels at the beginning of 2001 to less than 7.5 million barrels from September, but **after the attacks on the US in particular, attempts to raise the oil price became more difficult**, with the West seeing a lower fuel import bill as helpful in pulling Western economies out of recession. Although the attacks on the US did prompt a rise to around $ 30/b, this quickly subsided to $ 20, below the OPEC-set minimum target of $ 22. However, **with the world sinking into recession and civilian aviation brought to its knees, there is little chance of demand improving**. A further challenge for Arab oil producers is that, as more Russian, Central Asian, and West African oil comes on stream, the world will become less dependent on Arab supplies in the short run.

The political and cultural impact of the consequences of the 11 September attack was and remains great. Throughout most of the Arab World, tension between Islam and modernity remains. Since 11 September it is clear that **some of the resonance of Osama bin Laden's appeal to the Arab masses lies in their having had little alternative means of political expression. Before 11 September, some political and cultural openness had begun to penetrate conservative or other authoritarian Arab systems, but the situation after the attacks on the US became less clear.** On the one hand, a continued relaxation in the political atmosphere would help to ease tensions arising in various Arab countries as a result of rapid change in the context of globalization; at the same time, fear of anti-Western activities and a desire by the US to clamp down on what it perceives a extremist tendencies would cause a move towards less openness.

The consequences of the 11 September attacks have complicated the stance of various forces in the Arab World's vis-à-vis Israel. Though the attacks on the US mean that there is a chance for American policy to evolve in a direction more favorable towards the Palestinians, Israel in the short-run emerges as an even more valuable ally of the West in the region. American attitudes towards the Palestinian issue seemed to have shifted slightly after Secretary of State Colin Powell's speech in November on taking steps to resolve the Israeli-Palestinian conflict, but other events have since complicated matters and resulted in a more dangerous situation in Palestine.

However, on the whole across the region, with the exception of Palestine, outward change in 2001 has so far not been great or dramatic, whether before or after 11 September; and the general situation throughout the Arab World apparently resembles what it was before that date. Nevertheless, this by no means implies that no change is in the offing, and the present relative calm – outside of Palestine – is partly the result of a wait-and-see attitude by regimes and businesses alike, whether Arab or foreign.

Exceptions to this on a practical level and in the short-term are the airline and tourism sectors. Air travel to and from the region has dropped by around 35% since 11 September. Many of the major local and international carriers have cancelled certain destinations and reduced the number of flights operated. Hotels in Egypt, Jordan, Lebanon and the UAE among other parts of the region reported drops in occupancy of 30-70%. International tourists arrivals in the Arab world were in excess of 30 million in 2000, with their spending estimated at around $ 21 billion. However, their numbers dropped drastically in the period following 11 September and they are not expected to recover soon. **Barring catastrophic upheaval, whether the rest of the Arab economy also suffers or recovers in 2002 depends for most of the region on oil and the GCC economies, with EU relations as an added important factor in the Maghreb.**

The Arabian Peninsula

The past year has seen the Arabian Peninsula states continuing to cope with Islamist movements, often through liberalization.

Bahrain has made a strategic shift to openness, welcoming back thousands, including some former Marxists, from exile in an announcement in February that grants them amnesty. The year has also seen freedom for political prisoners, a scrapping of emergency laws, and a promise to revive elections open to all Bahrainis, men and women alike, with municipal polls set for next year and parliamentary elections in 2003.

Kuwait is further along in legislative life, but democracy has brought Islamists into the Parliament, which legislates against public freedom. The Kuwaiti Parliament and cabinet are embroiled in a dispute over whether to adopt Shari'a as the legal system. The government has blocked the change, but Kuwaiti Islamists are continuing to press for adjustment of existing codes to make them consistent with religious laws, including barring banks from charging interest.

Qatar has promised to establish an elected parliament within two years; **Saudi Arabia**, a firm opponent of elections, has expanded the authority of an advisory council to the king; and **Oman and the UAE** have also indicated that they would be working to make their systems more consultative and broad-based.

Whether these liberal trends will continue remains to be seen. In **Yemen** however, the reaction to the events of 11 September has been for the state to tighten its security grip in an attempt to appease the West. US officials and the Yemeni authorities have begun to work more closely. Yemeni security police have begun to pick up suspects for interrogation. The Yemeni government adopted strict new visa requirements. It will no longer be possible to get a visa at the airport or border. At the same time, the Yemenis have been providing the US with phone records and dossiers on suspects.

US-Yemeni relations have been rocky since the Gulf war, when Yemen did not support the anti-Iraq coalition, but now **the Yemeni government appears to be moving closer to the West**. US economic aid was terminated after the 1991 Gulf war, except for recent food aid. Whether more Western help will be forthcoming to help Yemen out of its economic mess in return for serious security co-operation remains to be seen.

Security co-operation continues to be strong within the subregion, and the GCC joint air defense system, which was officially launched in February, has successfully started operations.

In other moves to tighten security control, the UAE has come under pressure to introduce stricter regulations to control funds deposited in banks and financial transfers. The UAE has responded to the challenge, stating in early November that it is prepared to play its part in the international effort to protect the world economy from money laundering, and announcing major changes to its financial system. These include new anti-money laundering legislation due to be introduced soon. There will also be a ceiling on the amount of money that can be brought into the country undeclared, although that limit has yet to be announced. Having gained a reputation for financial laxity the UAE is keen to redress the balance. In the meantime its officials have been working closely with US officials to target suspect organizations.

However, it should be remembered that this process began before 11 September. In an earlier indication of moves by the UAE to conform to Western standards, the chairman of the Central Bank said on 8 September that the government would soon issue legislation penalizing money laundering.

Economically, the GCC has this year pushed forward several important topics aimed at boosting regional co-operation. Foremost among these are measures to implement unifying customs tariffs (in 2003) and a monetary union (by 2010), while talks between the EU and the GCC regarding a possible free trade agreement resumed. GCC countries have also said they will join forces with the others to cut oil production in January to stem the falling price of crude. The Dolphin scheme, which plans to supply Qatari gas to the UAE and possibly further to Oman and Pakistan, is the first such international project in the region, including a 24.5% French stake in the operating firm.

However, the general trend in the subregion after 11 September has been of caution and contraction. Stock markets in most of the GCC states were negatively impacted by the recent attacks on the US, though the value of shares on the UAE bourses in Abu Dhabi and Dubai rose after the attacks. The rise was spurred by initial expectations that Gulf investors in the US would repatriate much of their money. Such an injection of funds would have helped the Dubai Financial Market and the Abu Dhabi Stock Market continue their moderate gains of 2001. This, however, did not take place and shares fell again. Unlike the pattern in the UAE, the larger Gulf markets did drop immediately after the attack. **Saudi Arabia's bourse, the largest in the Arab world, fell after the attack as did that of Kuwait (the second largest). These and other GCC bourses remain in the doldrums, and the short-term outlook is still bleak.**

In a long-term approach to ensure sustainability, GCC economies have attempted diversification and globalization. Bahrain is an old hand at this strategy, Saudi Arabia and Kuwait have undertaken more non-oil based manufacturing in 2001, and Qatar and Oman have been involved in media activity and transport projects respectively.

However, in 2001 the UAE has taken the lead among the GCC economies in innovative cross-border business. Dubai in particular has looked more and more towards foreign involvement in its economy, and the emirate is increasingly turning to tourism, which now account for 20% of GDP. After 11 September however, this major source of income will undoubtedly decline. Less than two weeks after the attack, luxury hotels in Dubai had already reported a 30% fall in bookings and tourists may well take their time before returning. Visitors from neighboring Saudi Arabia are still coming to Dubai, but speculators have oversupplied the emirate with luxury hotels, and European and US travel agents have long been offering rooms at prices substantially below the rack rates.

A more successful recent example of diversification is the establishment of the Dubai Internet City and the adjacent Media City. Microsoft and Cisco Systems are prominent players in the former, which seeks to bring information and communication technology companies together in one location, and the recent relocation of Middle East Broadcasting Corporation, with its vast pan-Arab coverage, from London to Media City was a major victory for the emirate.

Also moving to globalize, some UAE companies have made efforts to expand into the international arena. The real estate company Emaar has set its sights on India, where it is to build a group of luxury villas, complete with golf course and all amenities. Emaar is 20% owned by foreigners. The Abu Dhabi-based telecommunications company Thuraya is similarly trying to expand into wider markets. It has already has signed service provider agreements with 45 countries and aims to cover 100 countries by the end of the year. Thuraya has major foreign shareholders, largely telecommunications companies.

Like their counterparts regionally and worldwide, GCC airlines have suffered. On September 24, Dubai-owned Emirates airlines, one of the world's fastest growing carriers, announced that it would cancel 26 of its flights per week to 11 destinations in Europe, the Gulf and the Indian subcontinent. In addition to a drop in bookings, Emirates airlines has suffered losses on another front. It owns 42.6% of Sri Lankan Airlines, a carrier only recently itself struck by terrorism. On 24 July, Tamil Tiger rebels attacked Colombo airport and destroyed one third of the airline's fleet.

Gulf Air, jointly owned the governments of Abu Dhabi, Bahrain, Oman and Qatar, announced, on September 26, that it would cut back operations by 15% in order to reduce costs. It is also urging employees to take up its offer of early retirement.

The 11 September effect seems to have been behind the announcement by Sharjah that it would be postponing the launch of its own international airline, Sharjah Airlines, until next year. Sharjah claimed is in talks with another emirate to finance expansion once the airline is launched and it has already leased three aircraft from three foreign firms.

Despite the gloom, Emirates airlines stated that it would still take delivery of 11 new, wide--bodied aircraft by September 2002. Emirates airlines was the first airline to commit to the planned Superjumbo A380 earlier this year. The company made profits for the six months to the end of September of $ 46 m a 2.4% rise over the same period last year. Although the effects of 11 September have yet to appear in profit statements the company also announced that from next year it would add five new routes to its network while continuing to operate all current services.

The Fertile Crescent

The co-incidence of the events of 11 September with the continuation of the Aqsa Intifada, the blockade of Iraq, and the pressures of globalization meant that the Fertile Crescent area had a problematic year. With growth economic rates in all five countries of the subregion low, poverty expanded and living standards fell as governments restructured economies. In Palestine and Iraq, emergency conditions deteriorated, while in Syria and Lebanon, deterioration was mixed with some positive change.

The Lebanese economy has come under increasing pressure in the last year.

The Lebanese government has taken some significant steps to reorganize the country's ailing infrastructure, most notably in the telecommunications sector and the postal service. Both of these have seen their foreign elements removed in recent months, as the Lebanese government unilaterally cancelled the two existing mobile telephone contracts with LibanCell and Cellis, and SNC-Lavalin from Canada pulled out of the postal service. The two current operating companies have not ruled out bidding for the licenses, but they will face tough competition from Gulf telecommunications companies such as Q-Tel of Qatar and Etisalat of the UAE. Clearly the global downturn, especially in the telecommunications sector, will not help.

Other infrastructure sectors have not progressed as far as mobile telecommunications or the postal service. The projected sales of the electricity and water companies have not moved significantly and so they continue to face a general lack of funds in a country saddled with huge debt. There has been no progress on the management of Beirut port either since Dubai Ports Authority announced that it would withdraw from that contract.

Lebanon needs to integrate into the international community in order to economically survive. Confidence was not helped by the impact of the 11 September attacks, although it did temporarily relieve pressure on the Lebanese pound. On a more positive note, for the first time, the Lebanese cabinet passed a lower draft budget than the previous year, a positive response to market pressures.

As the country's debt rises, foreign exchange reserves fallen. Foreign currency reserves are down over $ 1.5 billion from $ 5.9 bn at the start of the year. Much of the foreign exchange has been spent shoring up the Lebanese pound, which had come under increasing pressure as worries grow about financing the debt and political instability followed the arrest of dissidents in August who are opposed to Syria's presence in Lebanon.

Lebanon and the US have entered a tense standoff following disagreement as to whether the

Lebanese based Hizbullah, was a terrorist organization. Lebanese Prime Minister Hariri rejected the claim, the first time in the current anti-terror campaign that any country has directly defied US demands. The US formally asked Lebanon to freeze Hizbullah assets, accusing Lebanon of neutrality, which was not an acceptable position and implied double standards. Lebanon is saddled with debt and can ill afford to become a pariah state. However, the US has repeatedly said that it will take action against countries that do not freeze the assets of terror organizations, by blocking those country's assets held in US banks. If such threats become reality, Lebanon could find itself in serious trouble. One third of Lebanon's $ 2.7 bn in gold reserves is housed in the US. However, Lebanon has complied with other US requests. The Lebanese central bank had worked hard to check the records of Lebanese commercial banks to see if they had any links with previously published terrorist organizations. New anti-money-laundering laws passed last April bring the country into line with international standards.

Privatization of loss-making state companies is also an important priority, but inevitably the political fallout inherent in the process is causing problems. The government faced strikes and protests when it imposed staff cuts of almost a quarter on the over-staffed, losing national carrier, Middle East Airlines with the intention of readying it for privatization. However, there are no potential buyers for the airline on the horizon, given the meltdown in the global aviation sector post-11 September. Despite this lack of success, the government seems intent on pushing ahead with similar restructuring of the electricity and water utilities, as neither of them is expected to appeal to investors in their current state. Lebanon already has to import power from Syria to meet its current demands.

Attempts at a fiscal correction could be hampered by the repercussions of the attacks in the US. Moreover, the uncertain geopolitical environment now jeopardizes privatization and economic growth, both of which are key to stabilizing the debt burden. **Lebanon remains very vulnerable to regional developments, which could rupture the fragile domestic consensus and compromise the government's reform program** and consequently, postpone any fiscal correction.

Like Lebanon, **Syria continues to implement economic reform**. Prominent has been a draft banking law, which allows private banks to establish offices in Syria, with Lebanese banks likely to be the first to move in. Despite the legislative activity, more legal changes will be required in order to overhaul the state banking system before foreign banks are permitted to enter. Syria has stuck to its policy of autarky and has not yet approached any foreign institutions for help to establish a banking control commission, but without such a body no foreign banks would trust the system enough to invest in Syria. Banks and financial institutions are themselves seen as vital to Syria's rapprochement with the outside world, as they are essential for credit and financial transactions, which would help rebuild the Syrian economy.

A positive step was the announcement on 15 September by the state Commercial Bank of Syria that it had joined the Visa International network and would issue credit cards. Earlier this year the government altered the official exchange rate to match the market rate, a step that was vital to the establishment of a credit card system.

Syria also has entered a rapprochement with subregional neighbors. The free trade agreement with Jordan in October will take into account changes in Jordanian trade laws following the kingdom's joining the World Trade Organization. Syrian-Iraqi trade has grown. The visit by Syrian Prime Minister Miro to Baghdad in August resulted in a number of contracts for joint companies and Iraqi imports from Syria are expected to reach $ 1.5 bn by the end of this year, all within UN trade limits. Both countries have also said that they are close to naming the contractor for a new oil pipeline that will transport Iraqi oil to the Syrian Mediterranean coast. This is especially beneficial to the Iraqis in the current situation, which has deteriorated since last year.

Te course of events since September 11th has not helped boost Syria's economy. Losses for Syrian Arab Airlines have mounted. The company had been growing by 15% per year before the attacks and would now only grow by 5%. Syrians traveling had fallen by 11% since September and the number of visitors to Syria had fallen by 12%, harming the country's fledgling tourism industry.

However, after the 11 September attacks on the US, Damascus has found itself increasingly a center of international attention. **While Syria is still on Washington's list of states that sponsor terrorism, Syria was elected in November 2001 to the UN Security Council without objection from Washington. As Syria prepares to take its seat now in January 2002, Syrian President Bashar al-Assad continues his attempts to liberalize Syrian political and economic life.**

No less than five foreign ministers from EU countries have trooped to Damascus since mid-September to discuss Arab opinion and support for the US. The Austrian president, also came in October, as well as a series of ministers from Arab countries and UK Prime Minister Blair. Absent thus far has been Palestinian President Yasser Arafat, who was to arrive on a state visit to Damascus on 25 September. That was called off at the last minute, with the Palestinians and the Syrians exchanging blame for the cancellation. It was expected to have been a watershed event that would have signaled the end of an eight-year freeze in Syrian-Palestinian relations following Arafat's conclusion of an interim peace accord with Israel. Palestinian President Yasser Arafat had originally been scheduled to visit Damascus on 12 September, but that was postponed after the attacks on the US the day before. The Palestinian National Authority and Syria have seen a warming of relations under Bashar al-Assad. The Syrian president has supported the principle of exchanging land for peace in Arafat's stalled negotiations with Israel. The collapse of peace talks since the Palestinian revolt against Israeli occupation erupted has made it easier for Arafat to smooth his relations with Damascus. President al-Assad met Arafat on the sidelines of an Arab summit held in Amman in March. Syria has made several goodwill gestures towards the Palestinian Authority, including recognizing its passports, allowing Palestinian students to study at Syrian universities and allowing Israeli Arabs to visit Syria. Syrian Prime Minister Miro held talks in August with Palestinian Finance Minister Nashashibi and Industry Minister Krunz on ways of promoting bilateral economic cooperation. This is especially beneficial to the Palestinians in the current situation on the West Bank and Gaza.

At the start of the year 2001, the Syrian government quietly announced a Damascus Spring as part of President Bashar al-Assad's promises for economic and political reform. Following a crackdown in February, opposition leaders have again been arrested or re-imprisoned. The dissidents – who include journalists, academics, intellectuals and some parliamentarians – claim that they are fighting against the rise of corruption and the need for more freedom and the existence of a peaceful public opposition. The authorities see these figures as overstepping the mark by trying to portray Syria's past in a bad light. Furthermore, **the country sees itself as one of the last defenders against an expansionist Israel. This was the reasoning behind keeping such tight state control on the economy and political processes, and continues to be of concern, especially as regional tension has increased. However, times are changing rapidly in the subregion, and it is clear that al-Assad's reforms will ultimately have to be implemented.** Syria also took a significant step when it attended the 27-state EU and Mediterranean conference in Brussels in November. **Talks between Syria and the EU for an association agreement – much like that already signed with Jordan – have progressed.**

Through the EU-Jordan Association Agreement, which may enter into force early this year, the kingdom sought to deregulate its trade with the EU countries, amounting to some $ 1.3 billion a year. By joining the WTO early last year, Jordan reached another important milestone in its efforts to boost trade and free its economy. The situation regarding Jordan's Qualifying Industrial Zones (QIZs) is encouraging. QIZ projects have been multiplying in Jordan. At the heart of QIZ lies a US attempt to bring Israel closer to her neighbors, including Jordan. Under the Jordan-US Free Trade Agreement (FTA) US tariffs on Jordanian imports will come down almost immediately, while Jordanian tariffs will be eliminated over ten years. The US-Jordan FTA, signed into law on 28 September is an expression of America's commitment to Jordan. QIZ will continue to exist under the FTA. Though the new pact will eventually make QIZ irrelevant over the long term, there will still be room for the latter for some time. This is because the FTA calls for the imposition of a relatively high 35% minimum on the Jordanian content of value-added in order for a product to enter the US duty-free. QIZ mitigates this by allowing Israeli and Palestinian inputs to contribute cumulatively to the required Jordanian value added. Insofar as a 35% level will not be easy to achieve, the easier terms of QIZ will prove more advantageous for Jordanians wishing to sell their products in the US.

Many potential investors are attracted by the privileges of investing in QIZ Jordan but are reluctant to invest due to the political unrest across the border. The increase in the number of QIZ companies will be a function of the political stability in the region as many potential investors are deterred by the instability In the West Bank and Gaza. Investors seeking to tap Jordan's QIZs have settled into await-and-see approach against a backdrop of spiraling violence in the region. But already established QIZs have been under fire from an Anti-Normalization Committee and investors were blacklisted as „normalizers: with the Jewish state.

Jordan became the only Arab country to have a free trade agreement with the US and the fourth country worldwide after Canada, Mexico and Israel. The US-Jordan FTA is expected to boost Jordanian exports to the US and to attract foreign direct investments to Jordan.

Jordanian exports to US markets are showing great potential. From $ 64 million in 2000, they are expected to reach $ 212 million by the end of this year.

Jordan is vulnerable to geopolitical developments because of its reliance on international grants and subsidized petroleum. However, Jordan has left no doubt that it is supporting the international coalition against terrorism. Therefore, it is likely to continue to receive substantial support.

Implementation of the FTA is expected to facilitate a substantial expansion of Jordanian exports to the US, which have historically been meager. However, Jordan's exports to the US are stronger due in part to the growth of QIZs. Coupled with job-creation in the Aqaba Special Economic Zone (ASEZ), the dent made in unemployment could be considerable. In May, King Abdullah officially launched the ASEZ, which is expected to attract substantial and qualitative investments in light industry among other sectors.

Jordanian GDP in 2001 will rise by about 4%, a performance better than any of its subregional neighbors, but nevertheless one that is buoyed by massive foreign aid. While trade liberalization measures such as Jordan's accession to the WTO, the initiation of QIZs, and the Jordan-US FTA are valuable, other critical variables also have a substantial impact on the timing and magnitude of Jordan's stability. A sudden or unexpected change in these factors can disrupt the momentum. By the same token, improvement in these areas (such as resolution of the Israeli-Palestinian dispute or the lifting of the trade embargo on Iraq) could further enhance the overall economic situation of Jordan.

The Maghreb

In 2001, the relationship with the EU remained the single most important influence on individual Maghreb countries, though with stronger competition from the US. Until 11 September, the continuing relative weakness of the EU vis-à-vis the US was apparent in the Maghreb's improving relations with American firms and contacts with US organizations, but after that the situation has become less clear. The Maghreb states are net food importers, mainly of cereals but also meat, while the EU in many agricultural market segments produces more than it needs. The prosperity gap between the Maghreb and the EU, its closest non-Arab neighbor and largest trade partner, has widened rather than diminished.

On the whole, however, the Maghreb states remained strongly tied to the EU, which had a mixed economic performance for the first eight months of the last year and poorer prospects after that. The Maghreb states are net food importers, mainly of cereals but also meat, while the EU in many agricultural market segments produces more than it needs, exporting some of these surpluses to the Maghreb. The latter in turn exports extensively to the EU, especially the Tunisians, with three-quarters of their trade being with the EU countries. At the same time, the prosperity gap between the Maghreb and the EU, its closest non-Arab neighbor and largest trade partner, has widened rather than diminished, despite very close links.

While growth in several EU economies was not as strong as in 2000, the impact of this slowdown on the Maghreb was not severe, and modest progress was registered by most economies in the subregion until the last part of 2001.

The subregion enjoyed relative stability in 2001, except for some outbreaks of violence in Algeria. During the second half of the year, the Algerian internal situation heated up somewhat. The government reinforced warnings concerning the illegality of demonstrations, while in July US President George W Bush urged Algeria's president to pursue economic and political reforms, as protesters deplored repression of youth and ethnic protests. Meanwhile, efforts to restructure the Algerian economy continued, with the World Bank in the same month approving a $ 16.5 million loan to fund a project to modernize Algeria's financial system infrastructure. The EU is discussing a Euro-Med Association agreement with Algeria, but the Europeans are calling for more meaningful economic and political reforms.

Illegal emigration from various Maghreb countries into EU states remained an issue, but did not flare up alarmingly. The most serious incident of the year took place in late June when Spanish police captured more than 200 North Africans trying to enter Spain illegally by crossing the Strait of Gibraltar from Morocco. Otherwise, before 11 September, the prospects of a falling population in Europe began to impinge on the immigration issue and soften the attitude of some EU countries. After the attacks in the US, things changed but the picture remains unclear.

In 2001, the confrontation between Algeria and Morocco did not escalate, and bilateral relations remained stable. However, the unsolved Western Sahara issue remained at the heart of the Algeria-Morocco dispute. In June, the humanitarian aspects of the issue re-emerged, as it was reported that Sahrawi refugee camps in the Algerian Sahara desert faced a food crisis. Stop Hunger Now, an international hunger relief organization based in the US, took the lead in mobilizing an international response to an impending hunger crisis in the Western Sahara desert; while United Nations agencies called for an emergency assistance to the Sahrawi populations sequestered in southwestern Algeria.

By contrast, in Morocco and Tunisia, domestic stability was maintained. Against a backdrop of lower EU growth, Moroccan and Tunisian export growth has slowed. Combined with the probable negative shock to their respective tourism industries by the 11 September events, this will lead to lower growth.

Tunisia benefited from improved competitiveness of its industries and the prudent macroeconomic policies of the government, although the fiscal deficit is still high. These strengths should allow Tunisia's attraction to foreign investors to remain unscathed. However, **on the political and cultural levels, Tunisia has been progressively turned into a sort of police state; basic human rights (free speech, privacy of homes, assembly) are not respected; people live in fear of repression; the courts have lost their independence; and democracy has been replaced by a one-party regime controlled by a president whose family exploits presidential privileges in order to enrich itself.**

By contrast, Morocco witnessed improvement in the political outlook with an increasingly problematic economy. The government is dependent on privatization revenues to finance part of the higher fiscal deficits, and receipts from these sales may be delayed or lower than planned. Morocco's total public debt reached $ 29 billion in 2001, which represents 81% of GDP, and is expected to increase in 2002 to finance the budget deficit. External debt amounted to $ 15 billion while domestic debt increased to $ 14 billion. The 2002 budget has allocated $ 4.2 billion to service the debt of which $ 2.8 billion is to cover domestic debt payments and $ 1.4 billion external debt. Morocco's external debt has been declining in the past year mainly through transforming part of the debt to investments in the country. External debt dropped from $ 16 billion in 2000. Domestic debt, on the other hand, has been increasing and it approached, for the first time, external debt levels. The rise in domestic debt is exhausting an increasing segment of domestic liquidity needed for private sector's investments. The Moroccan government has resorted to the domestic financial market and to privatization proceeds to cover its budget deficit. Morocco has not fully allocated privatization proceeds to investments; it has rather used partly them to financing the budget deficit. The 2002 budget plans to use revenues from privatization to reduce its projected deficit from 5.9% to 3%.

Libya moved closer to the rest of the Maghreb, as well as to the West in the wake of the end of the Lockerbie trial in the winter of 2001. Libya and Algeria signed a series of co-operation agreements after the Algerian-Libyan joint commission held two days of meetings in Sirte in August. The accords covered investment, economy, trade, finance, education and security. Libya has benefited from these links, as well as from the better oil prices that had prevailed earlier in the year.

Mauritania remained out of the news for most of the year, maintaining its traditionally strong ties with the EU. This was confirmed in August with the renewal of the Mauritania-EU Fishing Protocol providing increased fishing opportunities for EU vessels and more money for Mauritania.

In conditions that still prevail in the Maghreb, economic benefits – e.g. of increased intra-regional trade – remain secondary to considerations of national security, the regional power balance, and the patterns of political alliances. The political and structural features of the region are the major determinant of economic policymaking rather than vice versa. The crucial issue of regional power balancing is reflected by the predominant bilateral pattern of trade and other forms of economic co-operation that are used in order to exploit or change regional alliances. In this context, attempts by the Arab Maghreb Union (AMU) countries to develop multilateral co-operation among them continued to progress slowly. The 4th session of the consultative council of the AMU was held in Morocco in the first week of September with the participation of the five Maghreb states and in presence of the Moroccan Prime Minister, Abderrahman Youssoufi. The infrastructure commission of the AMU consultative council was also active during the year in discussions of major projects. The 8th meeting of the ministerial sector-based council for training, employment and social affairs of the AMU recommended in July the creation of a Maghreb database network on employment and professional training, while Morocco called on Maghreb countries to adopt a joint strategy to take up the challenge of new information technologies.

Though there was no substantial increase in trade or other forms of interaction among the Maghreb countries themselves in 2001. However, the prospects for stronger inter- and intraregional economic integration among the Arab states as a whole and the EU, as well as with the Maghreb countries seem to have improved slightly. Arab member states party to the Euro-Mediterranean Association Agreements are set to establish a Mediterranean Arab Free Trade Area (MAFTA) according to a declaration by Morocco and Tunisia, in partnership with Egypt and Jordan, in June 2001. The initiative is proposed in the belief that such an alliance would bolster each country's economic position and increase investments between them as well as strengthen their ties with the EU. While noting the Euro-Med agreements impose complicated rules of origin on imports from third countries, the harmonization of legislation is still needed among Arab states. This will put Arab countries in a better position to benefit under their agreement. The harmonization of rules of origin among the Arab partners would be a first step towards achieving the trade area. (While Morocco's and Tunisia's trade agreements with the EU have already entered into force, Jordan and Egypt are signatories to the agreements and their trade pacts are waiting for all EU Parliaments to endorse them.) The initiative was proposed in the belief that such an alliance would bolster each country's economic position and increase investments between them as well as strengthen their ties with the EU.

The Nile Valley

Politically, Egypt in 2001 was little changed on the previous year, with the exception of the emergence of Amr Mousa as a potential successor to President Hosni Mubarak. Mousa's move to the head of the Arab League in Cairo from his previous post as foreign minister of Egypt has given him a springboard to the country's highest office. In this way, a potentially destabilizing factor on the Egyptian scene has diminished, to the longer-term benefit of the country.

However, **while political and social stability were maintained in Egypt in 2001, the performance of the Egyptian economy in 2001 up till September was mixed.** The Egyptian pound came under pressure from regional tension, and the Central Bank took steps in recent months to release the pressure on the national currency, such as the 6% devaluation in August.

However, as recently as November, the dollar continued to record strength against the Egyptian pound reflecting Egypt's difficult economic conditions. After the 11 September attacks on the US, Egypt's tourism industry, the country's largest source of foreign currency revenue, has been hit hard. The tourism sector is undergoing a major decline while transport revenues, including those from the Suez Canal, are projected to fall by $ 433 million.

Along with Suez Canal earnings, remittances by Egyptian expatriates and petroleum exports, tourism is one of Egypt's largest foreign-revenue earners. Fear of flying, a global recession, and caution about holidaying in the Middle East at such a politically turbulent period have quickly left their mark on Egypt's prospective earnings from tourism. This fall comes at a time when the Egyptian tourist industry was expanding rapidly, especially along the Red Sea coast and the Sinai Peninsula, in spite of the tension in the West Bank and Gaza. Now, hotels that were to open in the autumn have postponed their launches, awaiting reassurance that tourists will return to the region.

The vast majority of tourists to Egypt come not from the US, but from Europe and Arab countries, and the drop in hotel occupancy tends to suggest that the latter groups are just as nervous as the Americans are about traveling to Egypt. While a total of 5.5 m people came to visit Egypt in the year to October 2001, only 2.75 m – 3.85 m are expected in the following twelve months. The government estimated that tourism receipts could drop by 30-50% in the year following 11 September, and would total only $ 3.2 bn for the calendar year 2001.

The year 2001 was already a tough one for Egyptian tourism, with numbers for each of the first nine months of the year falling on the previous year. This problem is largely explained by anxiety over the violence in Israel and Palestine and the devaluation of the Turkish lira in February 2001, which made Turkish tourist destinations more competitive. Although no official figures are available for the number of tourists that have come to Egypt since 11 September – or those that have cancelled their trips – estimates are that arrivals had fallen by 40-45% in October and were likely to fall further.

To counter these trends, Egypt has been taking steps to encourage visitors. As of November it made a 40% cut on tourist fares on EgyptAir domestic flights for six months and delayed the increase in entrance fees to archaeological sites until November 2002. Egyptians, who pay substantially less than foreigners, had their domestic airfares fares cut by 15%. These measures were boosted by a further statement from the government on 1 November in which it said that state banks would provide interest-free loans for five months to tourist facilities. In November the Egyptian government also approved a $ 30 m fund that would provide incentives for to international charter companies to continue flying to Egypt. The government will cover the costs of empty seats up to a maximum of 30% of all international flights arriving at Egyptian airports other than Cairo and Alexandria.

The tourist drop will also harm the national flag carrier, EgyptAir, as well as smaller airlines. EgyptAir announced in September that it would indefinitely suspend all flights to Pakistan and Yemen, cut global operations by 15%, and not go ahead with the planned purchase of two Boeing 777s, which had been scheduled for delivery in September. However, it is expected that Egyptian carriers will be able to pick up additional passengers from those airlines that have cancelled flights to the Middle East. (Singapore Airlines and Delta are among the companies that have stopped flying to Cairo since the attacks.) Furthermore, Egyptian airline operating costs are lower since staff salaries are more modest, and the country's carriers also enjoy full government support. This close relationship has been shown in recent weeks, as Egypt's airlines were offered $ 5 bn in insurance guarantees. EgyptAir, whose assets are estimated to be around $ 13 bn, received liability guarantees of $ 1.2 bn; the other Egyptian registered airlines shared the remainder of the guarantee. Despite setbacks, development of Egypt's transport infrastructure has continued:

in November, Egypt's first Build-Operate-Transfer airport was inaugurated with the arrival of German tourists. The Kuwaiti Kharafi Group built the airport, near the Red Sea.

Nor was the news from other sectors better, including hydrocarbons, a mainstay of the economy. Egyptian oil production continued its slide in October to 633,000 barrels per day (bpd), down from September. Natural gas production and sales remained flat, but petroleum revenues – although unpublished – would have been hit by the 25% drop in oil prices since shortly after 11 September. Along with tourism and revenues from the Suez Canal, oil exports are one of the most important sources of Egyptian hard currency revenues. However, the sector has been given small boosts. The US firm Ocean said in October that production had begun on its newly-discovered offshore wells, while France and Egypt signed a gas production and transport agreement on 12 November. Gaz de France and state-owned Egyptian General Petroleum Corporation, and the Egyptian Natural Gas Holding Company have agreed on joint development of gas reserves for export to France and other destinations in Europe. Development of facilities for exporting Egypt's gas also continues. The US firm Bechtel announced that it had won a contract for engineering and design of a liquefied natural gas (LNG) terminal in the West Delta Deep Marine area, a large gas field offshore from Alexandria. The facility, 50 km east of Alexandria, will include a marine terminal, storage facilities, and a liquefaction plant. British Petroleum (BP) is planning to build an LNG plant at Damietta, in the Nile Delta, and Royal Dutch/Shell is said to be looking to build another. Union Fenosa, Spain's third largest power utility, has been seeking partners to participate in its LNG terminal project, with BP and Royal Dutch/Shell targeted. The Spanish firm has contracted to buy 4 bn cu. m of gas per year from the Egyptian General Petroleum Corporation, and its envisaged plant would have two trains handling 4 bn cu. m per year each. Egypt is planning to cooperate with Syria and Cyprus to develop oil and gas reserves in the eastern Mediterranean. Before exploration can begin, however, the continental shelf and the exclusive economic zones of Cyprus and Egypt must be agreed, in an area where Israel and Lebanon would also have an interest. (Egypt is also involved in a gas pipeline to supply Jordan, Lebanon and Syria from Sinai.)

In addition to developing its reserves of hydrocarbons, Egypt is trying to exploit other natural resources. Tantalum, a rare metal, has been discovered in industrial quantities in the eastern desert. In a $ 40 m deal with the Egyptian government, Gippsland, an Australian firm, has secured 50% ownership of the 48m-ton deposit and it will be responsible for development of the find. Another Australian firm, Centamin, is optimistic about being able to extract large quantities of gold from a site in the eastern desert. The firm believes that there are sufficient quantities of gold that can be extracted relatively easily and cheaply to make it one of the more important mines in the world. This would rank Egypt as the world's fourth largest gold producer, but the firm is having trouble raising the capital needed to bring the project to fruition.

However, it will take some time for output from these and other projects to make a difference in Egypt's foreign sector; meanwhile, the country's trade deficit for the first half of 2001 rose by about 7% as traditional exports suffered. Although Egypt has long been an exporter of raw materials, especially cotton, its exports in that category are declining. While total exports for the first half of 2001 have risen, cotton and raw material exports were down about 10% over the same period last year.

Although cotton has traditionally been a major source of foreign revenue, exports and production have been dwindling. Since early October, cotton shippers have indicated that war premiums on shipments from the Middle East would rise- due to fear that further conflict due to the events of 11 September may have repercussions in the region. Egypt is to be hit for premiums as high as $ 800 per 40 ft box, potentially harming the cotton export industry further.

Egypt's trade deficit is exacerbated by large imports of wheat. According to figures released in November, Egypt imported 2.9 m tons of wheat from the start of the fiscal year on July 1. Although the majority came from US suppliers, French imports have been making steady gains in recent months.

Under these circumstances, it is not surprising that share values in the country have fallen. The Cairo stock exchange fell in the wake of the 11 September attacks on the US. It recovered a certain amount since then, but closed on November 21 at a seven-year low. Several Egyptian companies have published disappointing news: for example, Egypt's dominant beverages producer, Al Ahram Beverages, said that it expected its sales to be hit by the fall in tourists visiting Egypt. The company estimates that 19% of beer and 85% of wine is sold to tourists, and expects that sales will drop by 9% and 50% respectively.

The Sudanese economy has not been as badly hit as its northern neighbor by the 11 September events, particularly since the vulnerable sectors of tourism and airlines play such a small role in Sudan. However, even before 11 September, expectations in Sudan were so much lower than Egypt: Sudan did not offer any short-term prospects for rapid growth or development. On the other hand, the country enjoyed an increasing measure of stability during the year, offering the possibility that it would strengthen its position in the global community and mend toes with the West. By end-summer, the US government had appointed John Danforth as a special envoy to Khartoum, with the task of helping to reconcile the country's belligerent factions. Prior to that, Libyan leader Mu'ammar Qaddafi had arrived in Khartoum in July for talks with Sudan's president Omar Hassan al-Bashir in connection with peace proposals for the country, sponsored jointly by Libya and Egypt. The Sudanese government then announced in August that an Afro-Arab peace summit would be held in an attempt to end the country's 18-year civil war. Previously, it was announced in late June that the ten African countries that use the waters of the Nile River, most of which passes through Sudan, have agreed to cooperate to optimize the river's resources and combat environmental degradation.

These and other moves gave greater promise that Sudan's endemic civil war and development dilemmas would be ameliorated. However, the 11 September attacks once again served to confuse the issue. Washington sources including the State Department repeated their assertion that in recent times Sudan was linked to terrorism, sometimes providing safe haven and even a place of recruitment for Islamic militants. So far, Sudan has not suffered directly from these assertions in the wake of the 11 September attacks, but a source of anxiety has been re-introduced into the Sudanese development process, which may retard it once again.

Riad al Khouri
BLitt (Oxon), Director, Middle East Business Associates (MEBA) wll MEBA@nets.com.jo