

EMERGENCY PILOT PROJECT

# MENA COVID COMMITTEE

ECONOMIC EXPERTS

JUNE 2020



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**"There should be collaboration and coordination within the GCC and the MENA region as a whole in order to reduce the impact of the pandemic and to rebuild the economies in the future."**

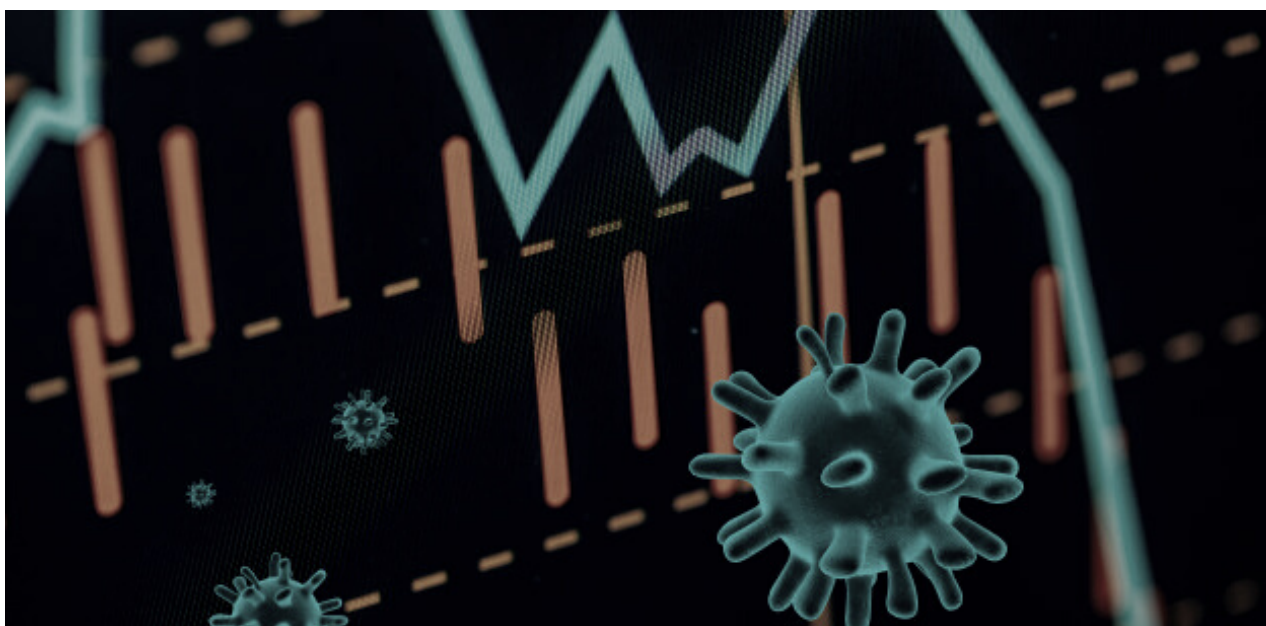
- UAE Economic Expert 16.06.2020

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# EXECUTIVE SUMMARY

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On 16 June 2020, the Institute for Islamic Strategic Affairs (IISA) convened the second webinar meeting of the Middle East and North Africa (MENA) COVID-19 Committee. The meeting was attended by 23 participants: economic experts from Oman, Lebanon, Israel, Turkey, and the United Arab Emirates (UAE), members of the core group, and two representatives from Nordic Ministries of Foreign Affairs (MFAs). The first webinar, held with regional medical experts and humanitarian organisations on 14 May 2020, highlighted concerns about the economic consequences of the pandemic. Therefore, this meeting aimed at assessing the impact of the pandemic on MENA economies and the prospect of regional cooperation to soften the blow.

Participants described multiple shocks throughout the region, with implications to not only the oil sector, but also to other sectors, which were previously heralded as a solution to the risks encompassed in economies reliant on oil. Participants expressed deep concern on the rising rates of unemployment and the possibility of an increase in violence and social unrest. Many participants weighed the prospects of protectionism versus globalisation in the new COVID world. To thwart the maladies of globalisation in this 'world', moving toward deeper regional cooperation may be the solution.

# INTRODUCTION

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The global outbreak of COVID-19 has presented international and governmental institutions with an unprecedented number of challenges: the health and well-being of populations, the movement of peoples within and outside of borders, the consequences of the production and supply of much needed medical equipment, and the implications on the economy, among others. Unlike other regions, the challenges facing the Middle East and North Africa (MENA) region are compounded by varying degrees of instability: intra-state conflicts, rivalries, armed groups, deteriorating health infrastructures in conflict-ridden areas, and international sanctions regimes.

Since 2017, IISA along with its partner, the Swedish Ministry for Foreign Affairs, has been working on an inclusive regional dialogue mechanism process with

influential individuals from 21 regional countries. As the current mechanisms for regional dialogue, such as the Arab League and the GCC, have been shown to be ineffective and non-inclusive, the long-term process aims to form a regional organisation for dialogue that includes Israel, Turkey, and Iran to discuss, manage, and collaborate on issues of the region.

Distinct from other impasses facing MENA states, a pandemic is not limited to borders, political divides, nor nations: the world is a global village when it comes to COVID-19. Under this prism, and as part of the regional mechanism process, IISA has launched an emergency pilot project called the MENA COVID-19 Committee.

## MEETING SUMMARY

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On 16 June 2020, the Institute for Islamic Strategic Affairs (IISA) convened the second webinar meeting of the Middle East and North Africa COVID-19 Committee. The meeting was attended by 23 participants: economic experts from Oman, Egypt, Lebanon, Israel, Turkey, and the UAE, members of the core group, and two representatives from Nordic MFAs. The first webinar, held with regional medical experts and humanitarian organisations on 14 May 2020, expressed deep concern about the economic consequences of the pandemic. Therefore, this meeting aimed at assessing the impact of the pandemic on MENA economies and the prospect of regional cooperation to soften the blow.

### MULTIPLE SHOCKS AT ONCE

Due to different capabilities in the MENA region, economies are going through multiple shocks. One participant described a kind of 'triple threat': the oil shock, the

financial shock, and the COVID-19 shock. Oil-exporting economies, such as those in the Gulf, are seeing lower global demand for oil as well as low oil prices, and face a contraction of roughly 3.1% on average, which estimates to 425 billion USD, another participant noted.

Dropping oil prices, amounting to roughly 60%, has already had negative consequences on some states. Oman, for example, has been downgraded by Moody's and S&P. Similarly, oil-importing economies are being affected by a decline in investment and capital flow. These shocks may also cause barriers for countries in debt to borrow and may therefore affect future growth.

As a whole, the region is facing economic contraction to various degrees. Worst affected are those countries that were already struggling, such as Iran, Yemen, and Lebanon. Lebanon may be facing a depression with a 15-20% fall in

GDP. On the other hand, Turkey is estimated to have a fall of 5% GDP for 2020. However, with Turkey's close trade ties to the Eurozone, which is also set to contract by 7.5%, the effects may be more wide-ranging.

**"Every country seems to be on its own. Iran is not able to get a lot of things it needs, like [an] IMF loan, due to the boycott... the way forward? More cooperation will help a lot, on the economic and on the political front, because the fragility is very strong"**

- Economic Expert, OMAN

Another participant pointed to the World Trade Organization (WTO), which has forecasted two scenarios. In the optimistic scenario, world trade will contract by 12%. In the pessimistic scenario, world trade will contract by 32%. When compared to other regions, the MENA region relies the most on imports, which are estimated to be around 39% of GDP. Food and imported merchandise in the region account for 12%, a participant said. In conjunction with these shocks on the global value chain, there will be severe impacts on both consumption and food security.

## UNEMPLOYMENT & WELL-BEING

Increasing rates of unemployment was highlighted as the biggest concern among participants. The unemployment rate in the region is already one of the highest in the world. Turkey's unemployment rate is at 14% and may rise. Israel had low unemployment, a controllable deficit, and a good GDP growth is now facing an unemployment rate that grew from 4% before the pandemic to 25%.

Egypt is facing a crisis like no other. One participant said that the pandemic has brought structural problems in the country to the surface, particularly in the informal sector. Therein, businesses are not registered and do not pay taxes. Therefore, the relationship between the businesses and their employees remain unclear. This makes the definitive number of unemployed elusive, but it has been surmised to be around 50%.

In Lebanon, the situation is quite grim. The unemployment rate is over 35%, with a poverty rate over 50% and food poverty over 25%.

Participants agreed that the rise in unemployment has been largely linked to the region's attempt to diversify. Many states have tried to diversify their economies by focusing on the hospitality sector, whether it be retail, tourism, airlines, etc, in the hope that it would 'de-risk' them out of the oil sector. Yet, those sectors are precisely those that have been the most severely hit by COVID, participants said.

With rising unemployment, participants expressed concerns of the possibility of increased social violence and unrest. One participant explained that the concern is not only about COVID and its effects, but also other physical risks, such as climate risks that make the region vulnerable. Tied to unemployment is also public health security and food security, the participant said, and these factors will impact security in general.

The consequences to the most vulnerable are even more concerning, one participant said. With the MENA region having the largest number of displaced persons in the world, there is no clear understanding of the

implications of COVID on these populations. The participant called for cooperation and statistics and said that all countries that have violence are extremely vulnerable to COVID.

### **GLOBALISATION VS NATIONALISATION: ARE WE SEEING A SHIFT?**

The effects of the Eurozone contracting may have consequences for the countries in the MENA region. Israel, for example, is largely dependent on export. However, if there is little or no recovery in Europe and Asia, the ability for Israel to recover will be much more difficult.

Discussions on globalisation versus local production/protectionism were frequently mentioned, especially in terms of the need to reduce dependence on foreign sources (i.e. China) and to diversify the supply chain and to reinforce local production. This was underlined by one participant, who discussed the availability of masks - the infrastructure of the local manufacturing sector had been severely cut before COVID-19,



which forced the country to look outward to purchase much-needed medical equipment. This led to exorbitant delays with high risks to public health.

Another participant pointed out that the pandemic has pushed countries to look at localisation and nationalisation - to look at homegrown industries, their businesses, and ways to support their citizens. However, the participant said, this is not the right decision and that protectionism should not be a reasonable option. One participant pointed to Oman, Saudi Arabia and Bahrain as being on the same page in terms of fiscal challenges and underlined that while the way forward will be challenging - that without regional cooperation there will be more opportunities lost.

There seemed to be overarching questions between economic interdependence versus local industry. One participant urged protectionist trends not to take over too much, but that there must be a new balance in the new 'COVID world'. This balance, they said, may be through a regional mechanism for trade.

Ultimately, participants agreed that further and deeper cooperation is needed.

**"This has shown all of humanity that we are all on the same boat. This is important for the future, for collaboration activities, as well as for international disputes. We must strengthen peace and cooperation between countries... [to] arrange economies and structures of the new normal...."**

- Economic Expert, TURKEY



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