

CSIS

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Stability and Instability in the Gulf

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Table of Contents

KEY TRENDS	1
THE “USUAL SUSPECTS” OF INSTABILITY	2
THE BROADER SOURCES OF CHANGE AND INSTABILITY	3
ECONOMIC DEVELOPMENT HAS LAGGED BADLY.....	4
THE MIDDLE EAST AND NORTH AFRICA HAVE HAD A STEADILY, DECLINING SHARE OF THE GLOBAL ECONOMY:.....	5
COUNTRIES DIFFER RADICALLY IN GNP	6
COUNTRIES DIFFER RADICALLY IN RECENT PERCENT OF GNP GROWTH: 1995-1996 AND 1997.....	7
TRENDS IN THE REAL CHANGE IN GDP BY COUNTRY IN THE GULF: 1979-1996	8
TRENDS IN THE REAL CHANGE IN GDP BY COUNTRY IN THE NORTHERN GULF: 1979-1996	9
TRENDS IN THE REAL CHANGE IN GDP IN THE SOUTHERN GULF: 1979-1996	10
TRENDS IN THE REAL CHANGE IN GDP IN THE SOUTHERN GULF LESS THE WARTIME IMPACT ON KUWAIT: 1979-1996.....	11
TRENDS IN THE REAL CHANGE IN GDP IN SAUDI ARABIA: 1979-1996.....	12
DEMOGRAPHICS, ECONOMICS, AND STABILITY	13
THE POPULATION TIME BOMB: DEMOGRAPHICS OF THE MIDDLE EAST: 1990-2030:	14
CIA COMPARATIVE ESTIMATE OF THE POPULATION GROWTH RATE	15
INCREASE IN TOTAL POPULATION IN SELECTED COUNTRIES	16
CIA COMPARATIVE ESTIMATE OF THE “YOUTH RATE”	17
FOREIGN POPULATION IN SELECTED COUNTRIES THE MIDDLE EAST	18
FOREIGN POPULATION IN SELECTED COUNTRIES THE MIDDLE EAST	19
PERCENT OF URBANIZATION AND PERCENT OF LABOR FORCE IN AGRICULTURE: THE PACE OF SOCIAL CHANGE.....	20
INCREASES IN REAL PER CAPITA INCOME LAG BADLY BEHIND ABSOLUTE GROWTH.....	21
NEGATIVE DEVELOPMENT DURING THE 1980S: AVERAGE ANNUAL CHANGE IN REAL PER CAPITA GDP: 1980-1991	22
THE GROWTH OF PERSONAL WEALTH STILL LAGGED DURING THE EARLY AND MID-1990S:.....	23
THINGS GOT BETTER BEFORE THE OIL CRASH: RECENT TRENDS BY REGION AND KEY COUNTRY: 1994-1996.....	24
COUNTRIES NOW DIFFER RADICALLY IN PER CAPITA INCOME	25
THE REGION FAILED TO COMPETE IN WORLD TRADE	26
THE MIDDLE EAST AND NORTH AFRICA BADLY LAGGED IN THE GROWTH OF WORLD TRADE: 1986-1996	27
COUNTRIES DIFFER RADICALLY IN VOLUME OF TRADE	28
US EXPORTS ARE SIGNIFICANT IN SPITE OF THE OIL CRASH.....	29
US IMPORTS FROM THE MIDDLE EAST ARE ALSO SIGNIFICANT	30
THE REGION HAS FAILED TO COMPETE IN ATTRACTING INVESTMENT	31
THE POSITIVE TREND IN FOREIGN DIRECT INVESTMENT IN THE MIDDLE EAST, REVERSED AFTER THE OIL BOOM YEARS	32
THE TREND IN TOTAL FOREIGN DIRECT INVESTMENT IN THE MENA “FLAT LINED” DURING 1990-1996	33
BUT, THE ARAB WORLD HAS CONSIDERABLE PRIVATE WEALTH OF ITS OWN: \$1,568 BILLION IS HELD BY 200,000 PEOPLE	34
AND, STOCK MARKETS GREW WHERE THE PRIVATE SECTOR WAS ALLOWED TO OPERATE.....	35
THE REGION HAS MASSIVE NEW INFRASTRUCTURE INVESTMENT NEEDS: ELECTRIC POWER AS A TEST CASE	36

MOST INDIVIDUAL MENA COUNTRIES HAVE LOW INVESTMENT RATES, WITH NO PATTERN OF RECENT INCREASES.....	37
DEBT PERFORMANCE IS MIXED.....	38
THE DEBT BURDEN TRENDS IN THE MIDDLE EAST WERE RELATIVELY STATIC BEFORE THE “OIL CRASH”: 1980-1995.....	39
HOWEVER, DEBT PERFORMANCE BY COUNTRY IS MIXED	40
THE MIDDLE EAST FAILED TO COMPETE IN PRODUCTIVITY	41
PRODUCTIVITY DROPPED WHILE RISING IN OTHER REGIONS: AVERAGE ANNUAL CHANGE IN TOTAL FACTOR PRODUCTIVITY: 1960-1990.....	42
THE MIDDLE EAST LAGGED IN VALUE ADDED TO MANUFACTURING	43
THE ECONOMICS OF THE “OIL SHOCK”	44
CEA ESTIMATE OF HISTORICAL TRENDS IN GULF OIL PRODUCTION: 1970-1997	45
HISTORICAL TRENDS IN OIL REVENUES: 1970-1997	46
POLITICS AND THE TRENDS IN THE PRICE OF SAUDI ARABIA LIGHT CRUDE: 1970-1999.....	47
THE “OIL SHOCK IN REVERSE:” SHIFTS IN TOTAL OPEC EARNINGS	48
THE “OIL SHOCK IN REVERSE:” SHIFTS IN OPEC EARNINGS BY MAJOR COUNTRY: 1972-1998.....	49
THE BOOM IN 1980 VERSUS THE MID-1980S AND 1990S: SHIFTS IN OIL EXPORT EARNINGS BY COUNTRY	50
THE DECLINE IN REAL PER CAPITA INCOME IN THE MIDDLE EAST, NORTH AFRICA, OPEC AND SAUDI ARABIA: 1980-1995.....	51
DIVERSIFIED EXPORTERS AND WAS FAR MORE VULNERABLE TO OIL PRICES.....	52
THE PER CAPITA INCOME GROWTH OF MENA FUEL EXPORTERS LAGGED BEHIND THAT OF DIVERSIFIED EXPORTERS AND WAS FAR MORE VULNERABLE TO OIL PRICES.....	53
THE FISCAL BALANCES OF MENA FUEL EXPORTERS DETERIORATED RELATIVE TO THOSE OF DIVERSIFIED EXPORTERS.....	54
THE TERMS OF TRADE OF MENA FUEL EXPORTERS DETERIORATED RELATIVE TO THOSE OF DIVERSIFIED EXPORTERS.....	55
ECONOMIES FAILED TO DIVERSIFY AND REMAINED OVER-DEPENDENT ON OIL: OIL AND PETROLEUM EXPORTS AS A SHARE OF GULF ECONOMIES.....	56
PRESSURES ON THE SAUDI BUDGET: THE PROBLEM OF PREDICTING THE FUTURE OF A ONE COMMODITY, STATE-DRIVEN ECONOMY	57
PRESSURES ON THE SAUDI BUDGET: THE ENTITLEMENTS PROBLEM.....	58
PRESSURES ON THE KUWAITI BUDGET	59
PRESSURES ON THE QATARI BUDGET	60
PRESSURES ON THE OMANI BUDGET	61
KEY TRENDS IN THE OMANI BUDGET	62
REGIONAL TRENDS IN MILITARY EFFORT: “THE MOST MILITARIZED AREA IN THE WORLD”	63
THE TREND IN MIDDLE EASTERN MILITARY EXPENDITURES AND ARMS TRANSFERS SINCE THE OCTOBER WAR.....	64
THE DECLINING TREND IN MIDDLE EASTERN MILITARY EXPENDITURES AND ARMS TRANSFERS IN CONSTANT DOLLARS	65
MILITARY EXPENDITURES PLACE A LOWER BURDEN ON GOVERNMENT SPENDING	66
MIDDLE EASTERN MILITARY EFFORTS HAVE ALSO DROPPED SHARPLY AS A PERCENT OF GNP, GOVERNMENT EXPENDITURES, TOTAL POPULATION, AND ARMS IMPORTS: 1984-1996	67
THE DE-RADICALIZATION OF ARMS TRANSFERS	68
THE CONTINUING IMPORTANCE OF THE MIDDLE EAST ARMS IMPORTS AS A SHARE OF THE WORLD DEFENSE MARKET	69
CUMULATIVE ARMS IMPORTS OF THE GULF STATES - 1984-1995.....	70

COMPARATIVE ARMS IMPORTS OF THE GULF STATES – 1986-1996	71
GULF ARMS AGREEMENTS AND DELIVERIES: 1987-1997	72
KEY STATES AFFECTING THE REGIONAL BALANCE	73
THE CUMULATIVE IMPACT OF THE ARAB-ISRAELI PEACE ACCORDS, SANCTIONING OF LIBYA, END OF THE IRAN-IRAQ WAR, END OF THE COLD WAR, GULF WAR, AND ECONOMIC RECESSION	74
THE IMPACT OF THE END OF THE COLD WAR AND THE GULF WAR ON NEW ARMS SALES TO SELECTED MAJOR BUYERS	75
NEW ARMS PURCHASES BY MAJOR BUYERS IN THE MIDDLE EAST AND NORTH AFRICA BEFORE THE END OF THE COLD WAR: 1987-1990	76
SHIFTS IN ARMS BUYS OF MAJOR BUYERS IN THE MIDDLE EAST AND NORTH AFRICA AFTER THE COLD WAR: 1994-1997	77
THE CUMULATIVE DECLINE IN MILITARY SPENDING BY SELECTED MAJOR BUYERS IN CONSTANT DOLLARS: 1984-1996	78
THE DECLINE IN SPENDING BY SELECTED MAJOR BUYERS: 1984-1996	79

Key Trends

- **The “Oil Crash.”**
- **Limited Diversification, Economic Reform.**
- **Demographic Pressures.**
- **Youth Explosion – So Many Age 14 or Younger, So Few Real Jobs.**
- **“Statism” -- Regardless of Nominal Type of Regime.**
- **Budget Deficits; Problems in Financing the Patriarchal State.**
 - **Declining Investment**
 - **Declining Military and Arms Expenditures**
- **Political and Social Alienation: Failed Ideologies, Intense Social Change.**
- **Redefining Islam.**
- **Continuing Regional and Internal Security Challenges.**
- **Asymmetric warfare, Internal Security Problems, Proliferation**

The “Usual Suspects” of Instability

- **Succession Issues**
- **Internal Politics**
- **Arab-Israeli Conflict**
- **Islamic Extremism**
- **Rogue States: Iran, Iraq, Libya, and Syria**
- **Intra-Southern Gulf Tensions**
- **Corruption**
- **Water**
- **Lack of Democracy**
- **Terrorism**
- **Human Rights**

The Broader Sources of Change and Instability

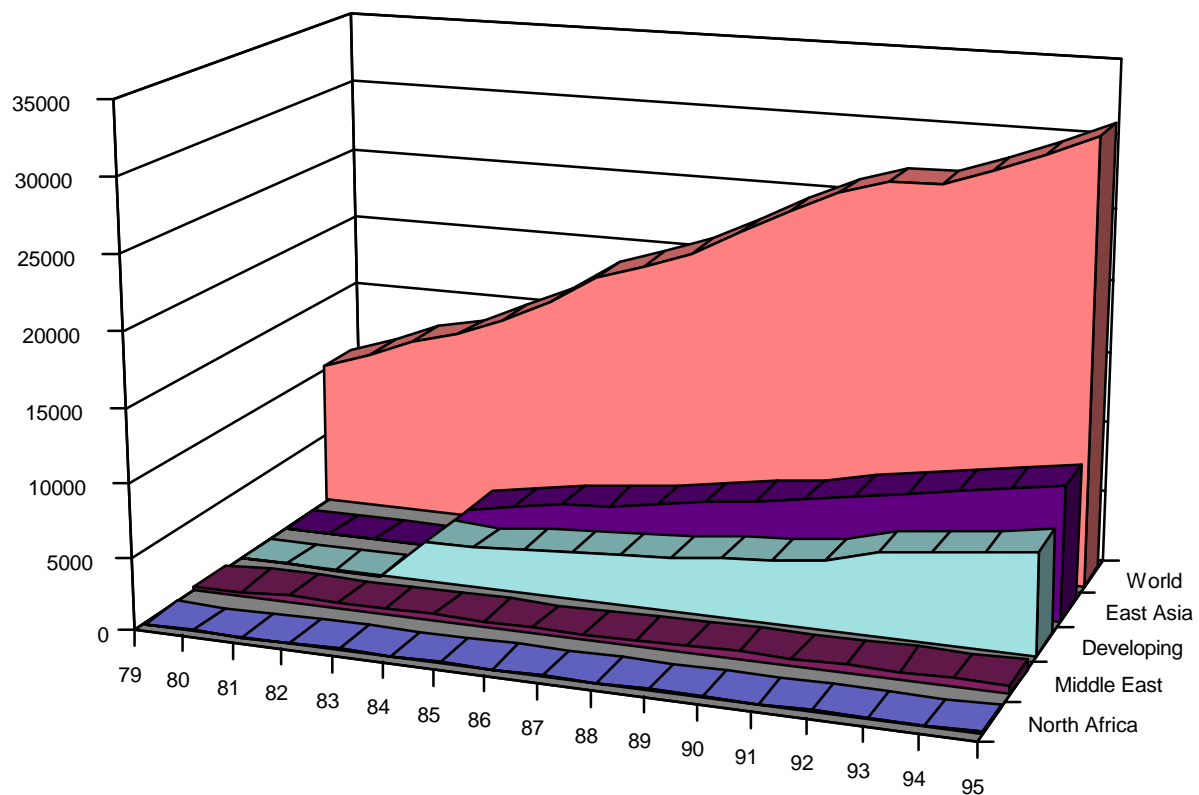
- **Patriarchal structure of governments**
- **Lack of rule of law**
- **High population growth rate**
- **Excessive state sector/government control of economy**
- **Over-reliance on oil and gas sectors coupled to uncertain long-term energy development**
- **Over-reliance on non-productive service sectors**
- **Excessive government employment/ false jobs**
- **Structural and disguised unemployment**
- **Lack of global competitiveness**
- **Regionalism and Pan-Arabism**
- **Mismanagement of agricultural sector**
- **Failure to reduce dependence on water**
- **Desertification**
- **Other religious divisions (e.g. Islamic extremism, Jewish extremism, Sunni vs. Shi'ite, Christian ethnocentrism)**
- **Ethnic/racial divisions (e.g. Arab vs. Berber, Arab vs. Black)**
- **Tribalism/clans/family nepotism**
- **Over-urbanization/concentration in capital**
- **Inadequate infrastructure/inadequate infrastructure**
- **Failure of educational system/inadequate educational infrastructure**
- **Failure to offer opportunities to native youth**
- **Displacement and alienation**
- **Over-reliance on foreign labor**
- **Labor migration**
- **Excessive military spending and arms imports**
- **Proliferation**
- **Transfer of advanced conventional weapons and technologies**
- **Border disputes**

Economic Development Has Lagged Badly

- **The real GDP of the Middle East and North Africa “flat-lined” during 1979-1997, compared to East Asia, the developing world and the developed world.**
- **The US and World Bank project improvements during the 1990s to 2015, but estimates differ sharply and the Middle East will not catch up with that of high growth regions like East Asia.**
- **The great uncertainties are:**
 - **Oil revenues and external demand.**
 - **Rates of economic reform.**
 - **Population trends.**
 - **Impact of war.**
 - **Internal stability.**
- **Past World Bank, IMF, country, and US estimates exaggerated recovery in the out years.**
- **No one as yet has a convincing model of oil demand, prices, and revenue flows**
- **Some countries are talking up virtually the same economic reform plan for the third to fifth time.**

The Middle East and North Africa Have Had A Steadily Declining Share of the Global Economy:

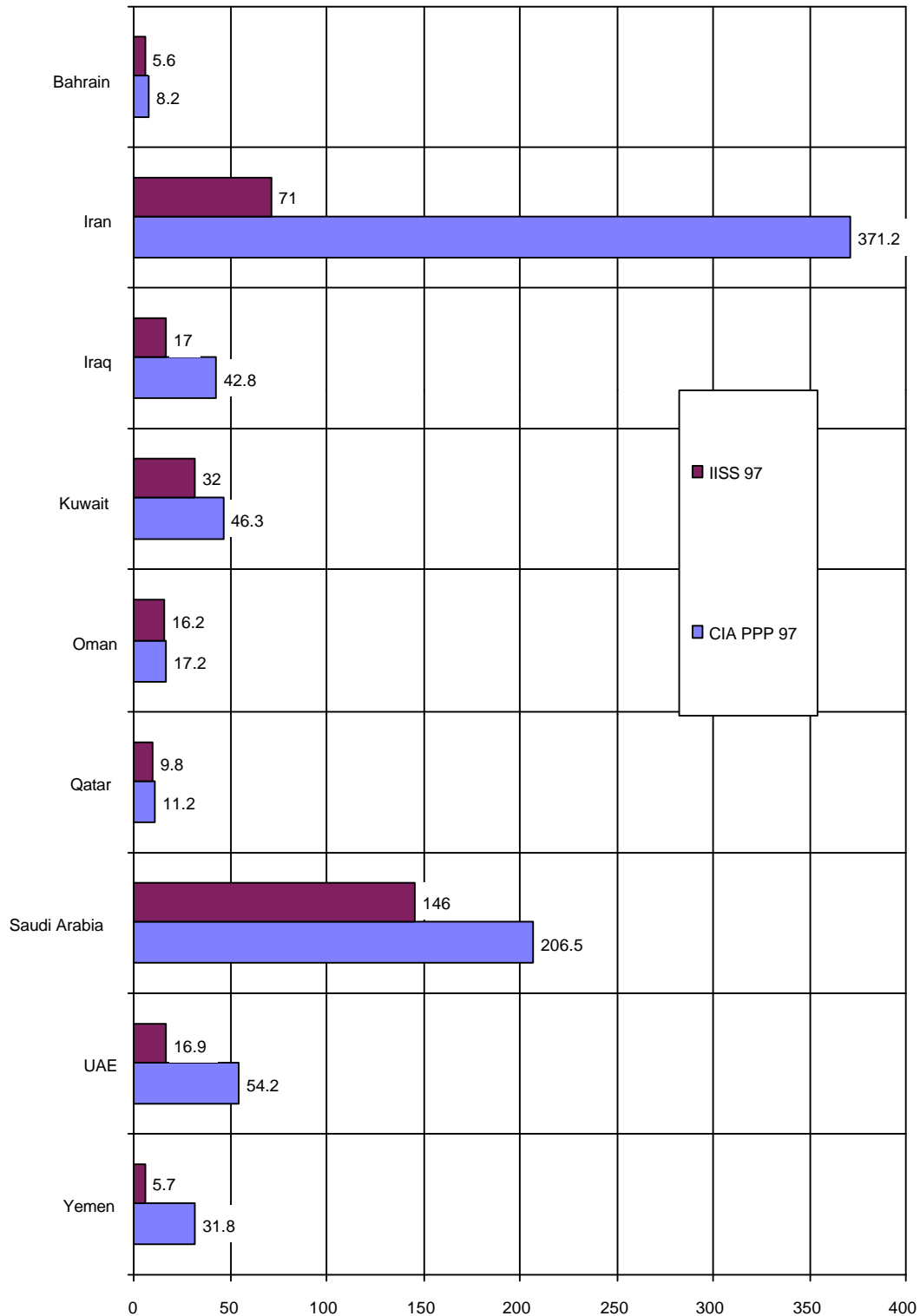
The GNP of the Middle East Relative to World Total - 1979-1995 in \$Current Billions)



Adapted by Anthony H. Cordesman from ACDA, World Military Expenditures and Arms Transfers, various editions. Middle East does not include North African states other than Egypt.

Countries Differ Radically in GNP

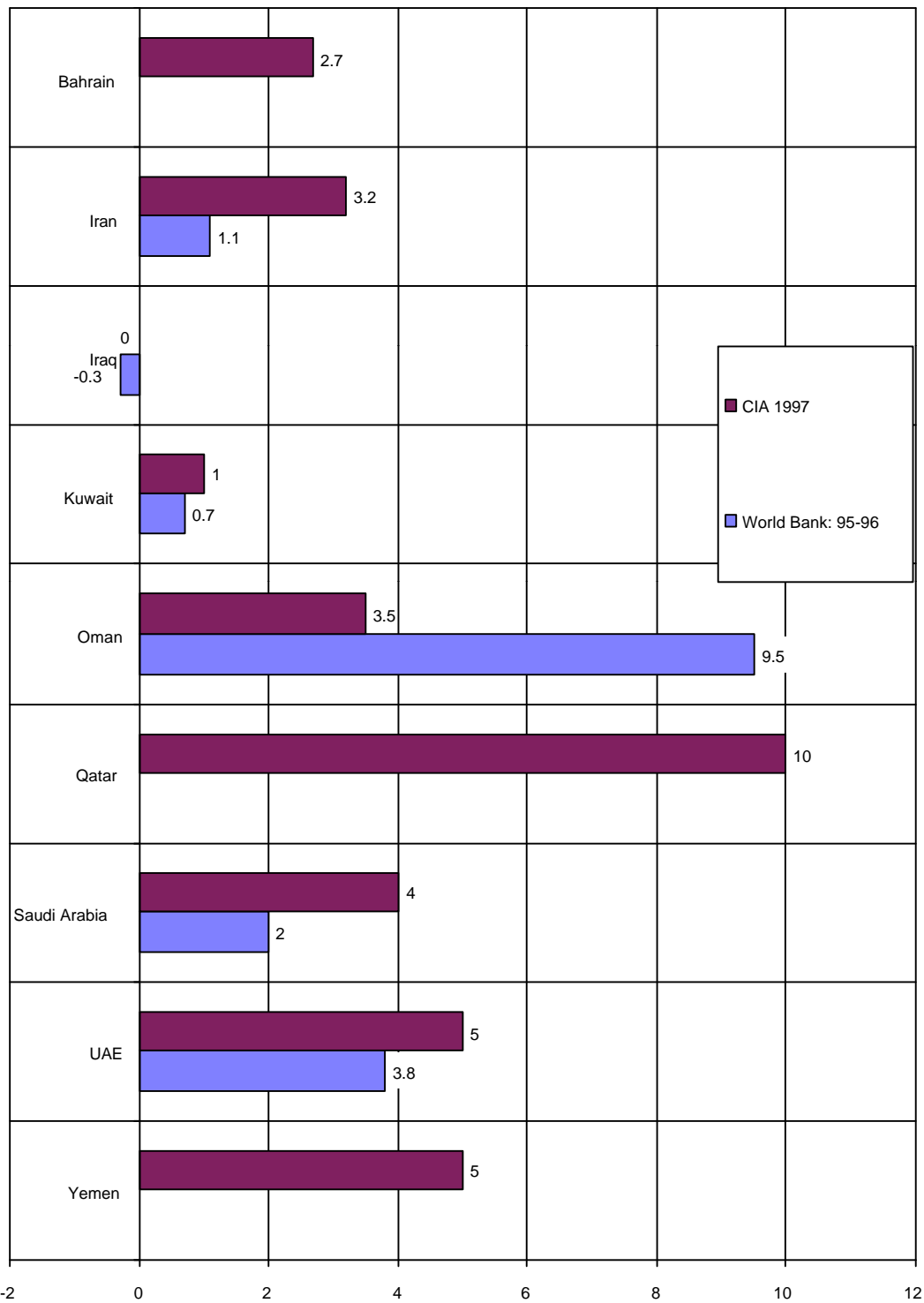
(In \$US Current Billions)



Adapted by Anthony H. Cordesman from CIA, World Factbook, 1998, and IISS, Military Balance, 1998-1999.

Countries Differ Radically in Recent Percent of GNP Growth: 1995-1996 and 1997

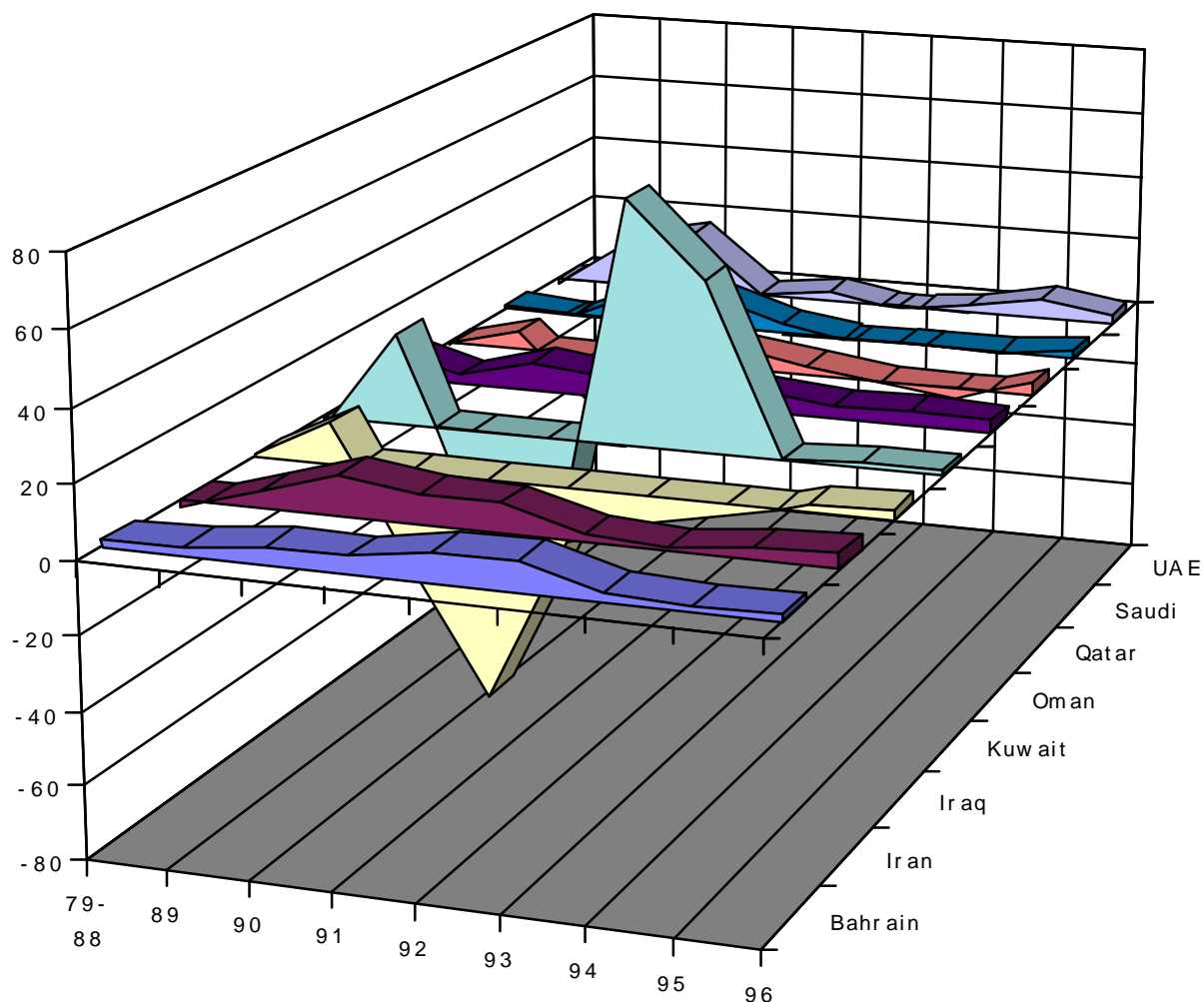
(Average Percent of Annual Growth)



Adapted by Anthony H. Cordesman from World Bank, *World Development Indicators*, 1998, pp. 172-174.

Trends in the Real Change in GDP by Country in the Gulf: 1979-1996

(Percent of Real Annual Change)

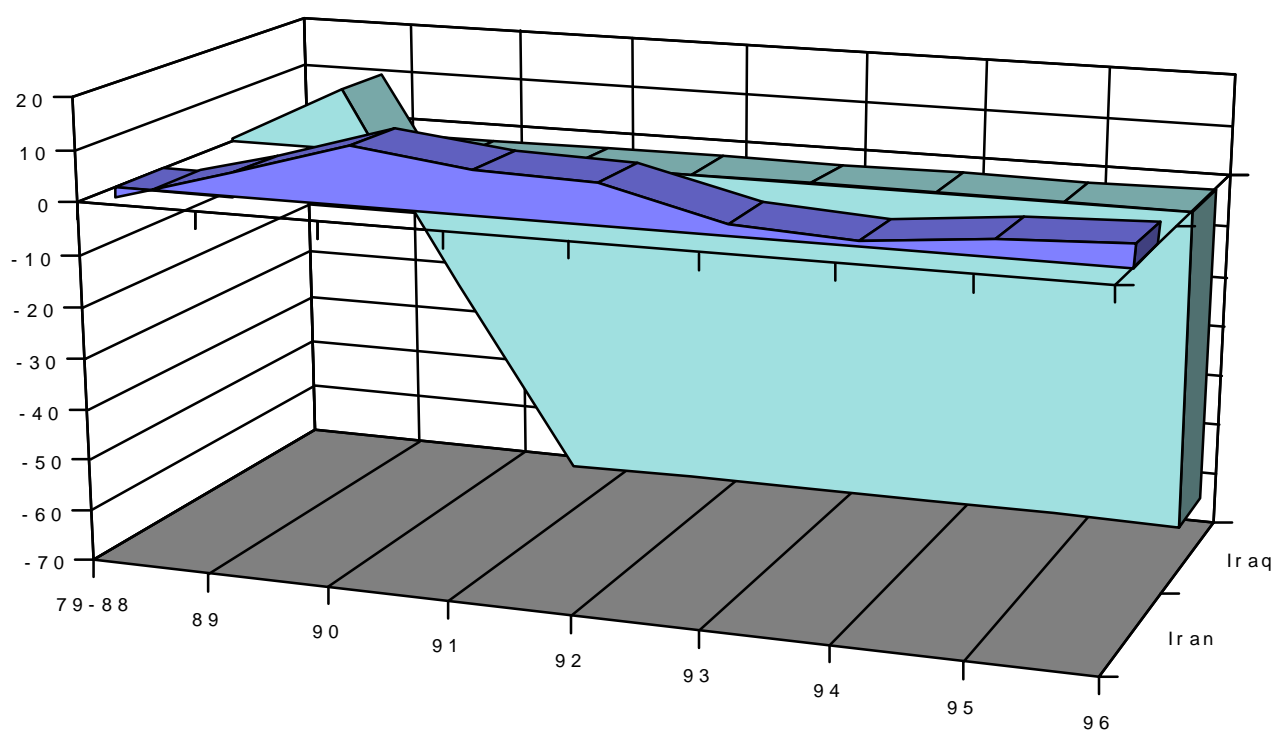


Adapted by Anthony H. Cordesman from IMF, World Economic Outlook, May, 1997, pp. 138-139.

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Trends in the Real Change in GDP by Country in the Northern Gulf: 1979-1996

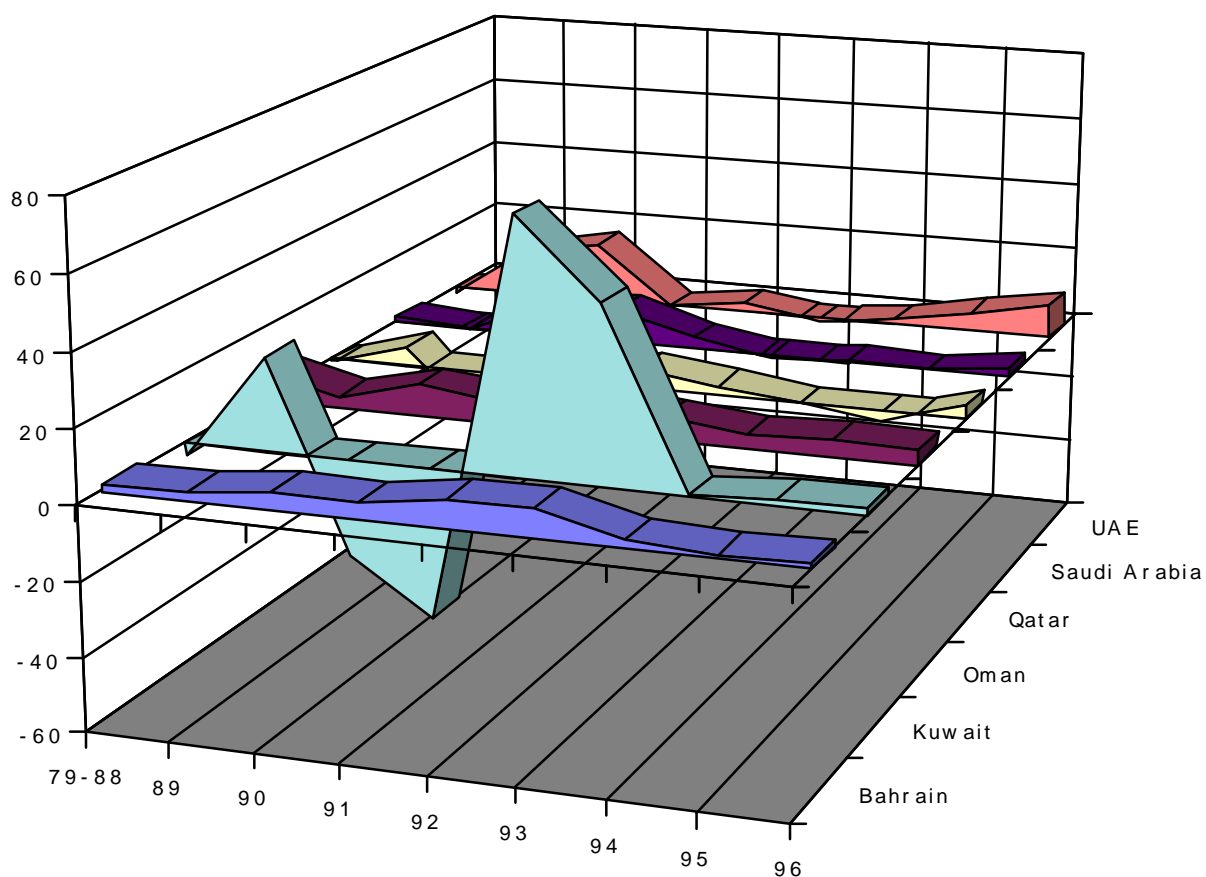
(Percent of Real Annual Change)



Adapted by Anthony H. Cordesman from IMF, *World Economic Outlook*, May, 1997, pp. 138-139. No estimate is possible for Iraq after 1992. Iranian growth through 1992 consists largely of post-war recovery, financed through foreign debt/

Trends in the Real Change in GDP in the Southern Gulf: 1979-1996

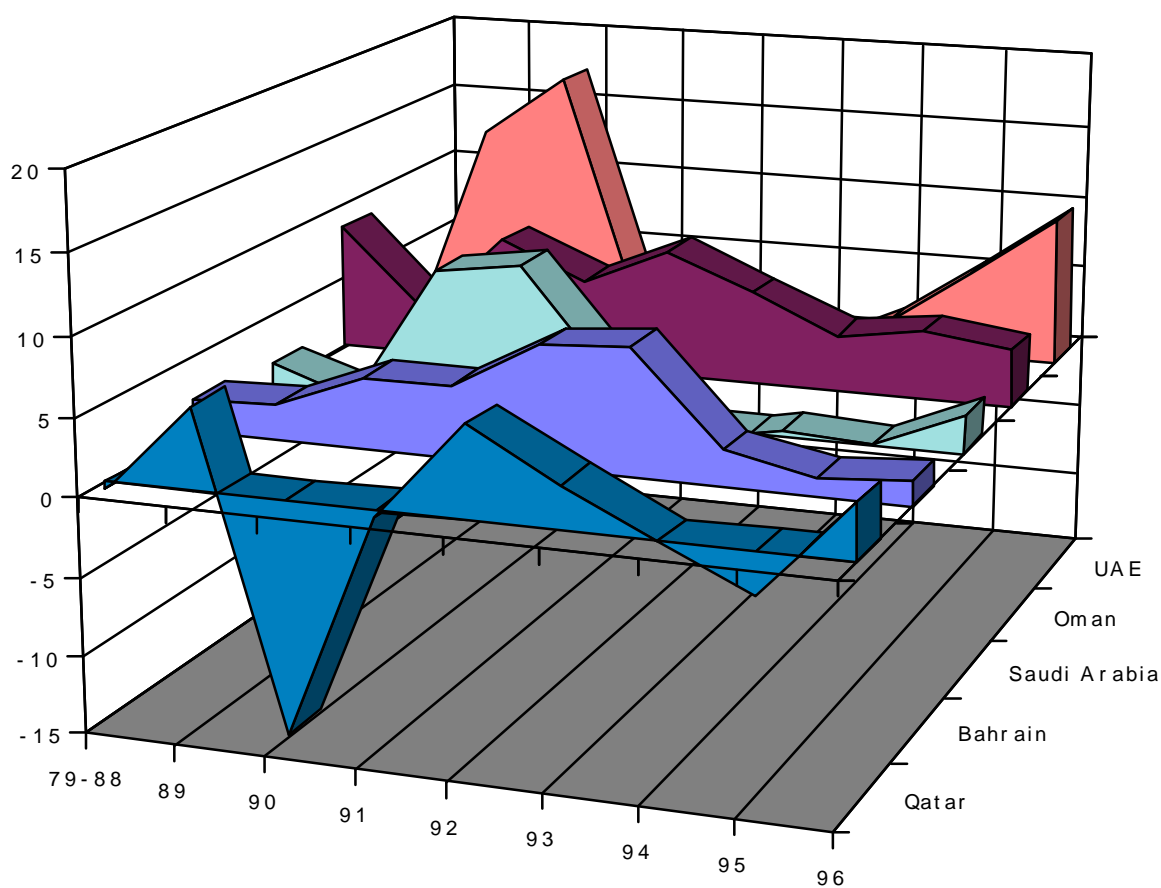
(Percent of Real Annual Change)



Adapted by Anthony H. Cordesman from IMF, World Economic Outlook, May, 1997, pp. 138-139. Adapted by Anthony H. Cordesman from IMF, World Economic Outlook, May, 1997, pp. 138-139. Note: Virtually all of shift is driven by oil export revenues.

Trends in the Real Change in GDP in the Southern Gulf Less the Wartime Impact on Kuwait: 1979-1996

(Percent of Real Annual Change)

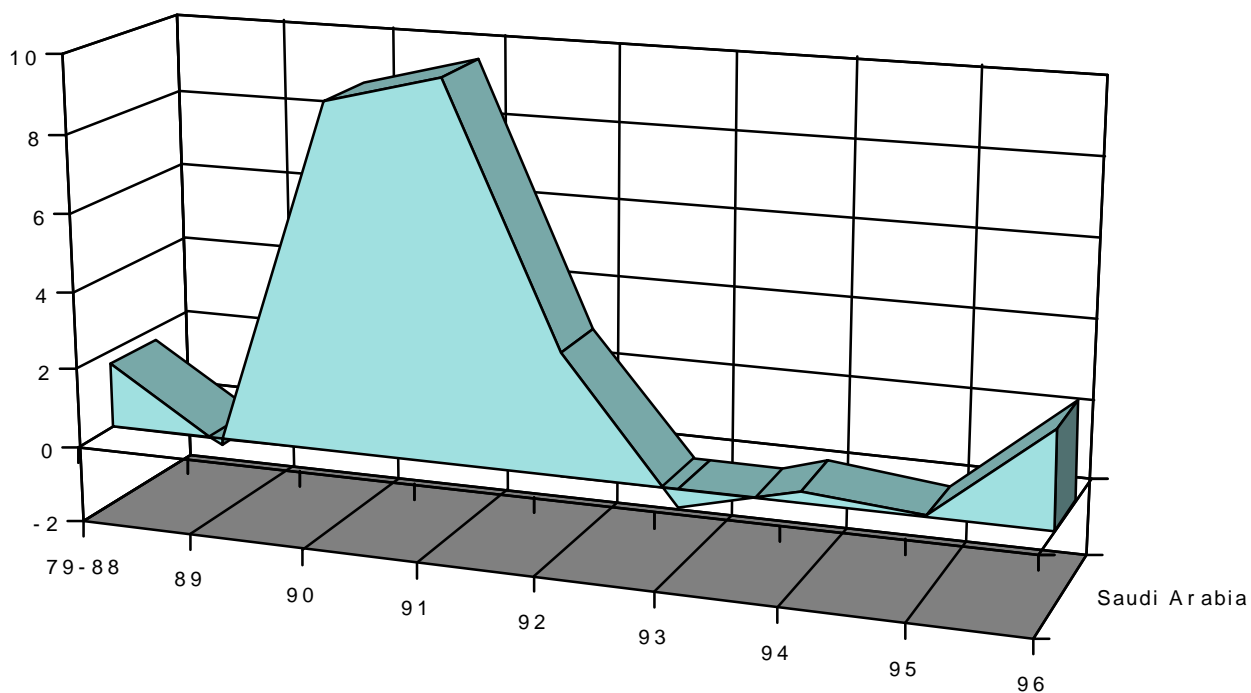


Adapted by Anthony H. Cordesman from IMF, World Economic Outlook, May, 1997, pp. 138-139. Note: Virtually all of shift is driven by oil export revenues.

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Trends in the Real Change in GDP in Saudi Arabia: 1979-1996

(Percent of Real Annual Change)



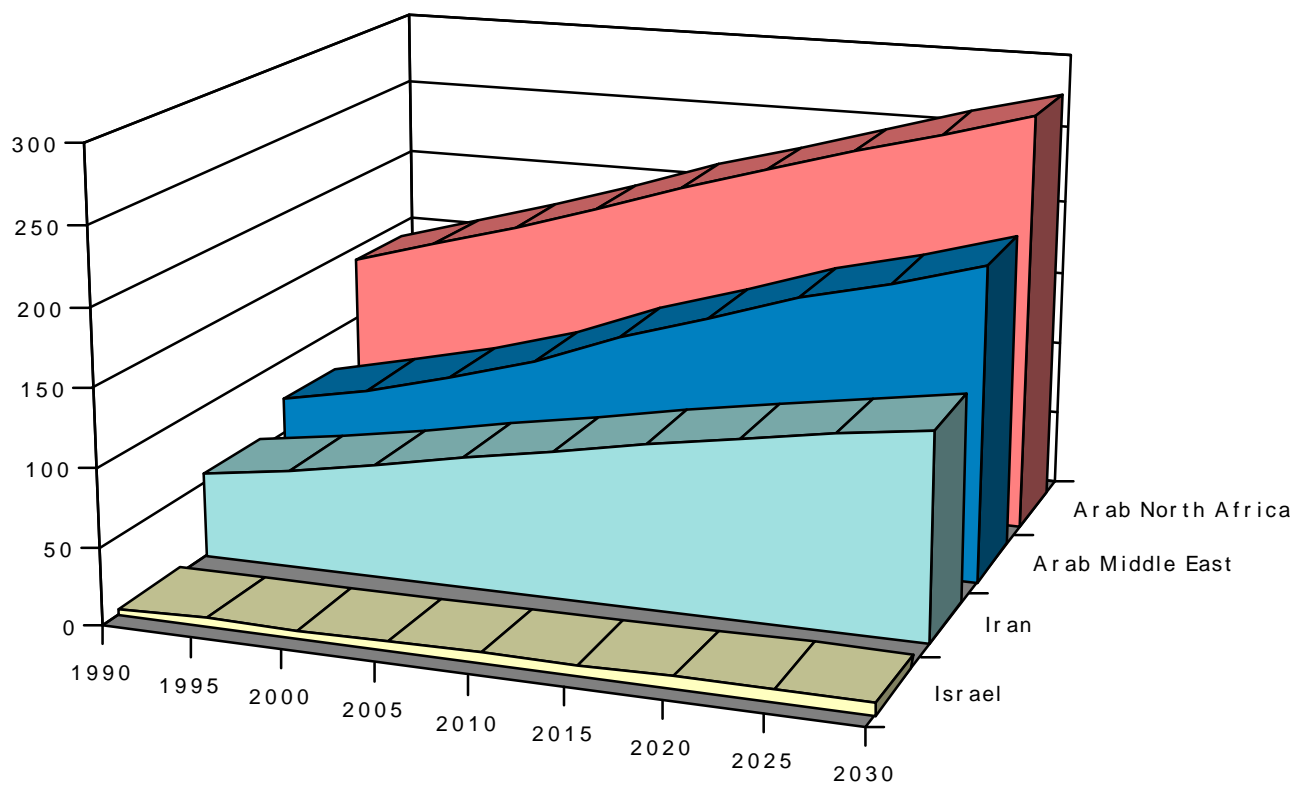
Adapted by Anthony H. Cordesman from IMF, World Economic Outlook, May, 1997, pp. 138-139. Note: Virtually all of shift is driven by oil export revenues.

Demographics, Economics, and Stability

- **Population growth averages over 3% annually and exceeds or equals real economic growth.**
- **True development normally requires 2% more annual growth than population growth.**
- **The population is very young: 40% or more is 14 years of age or younger.**
- **The Gulf States are grossly over-dependent on foreign labor.**
- **Women have very low productivity gain as part of the work force.**
- **“Statism” means many jobs are frustrating disguised unemployment or underemployment.**
- **Jobs in the private service tend to emphasize imports and related service sectors; not real economic development.**
- **Education is slipping in quality and economic relevance; real job experience is dropping as a training tool, and Islamic education tends to have little economic value.**
- **There is no single act of moral and intellectual cowardice and stupidity in the Arab World more universal than the failure of its political leaders, intellectuals, and religious leaders to come to grips with population planning!**

The Population Time Bomb: Demographics of the Middle East: 1990-2030:

(Johns Hopkins/World Bank Estimate Made in 1995 in Millions)

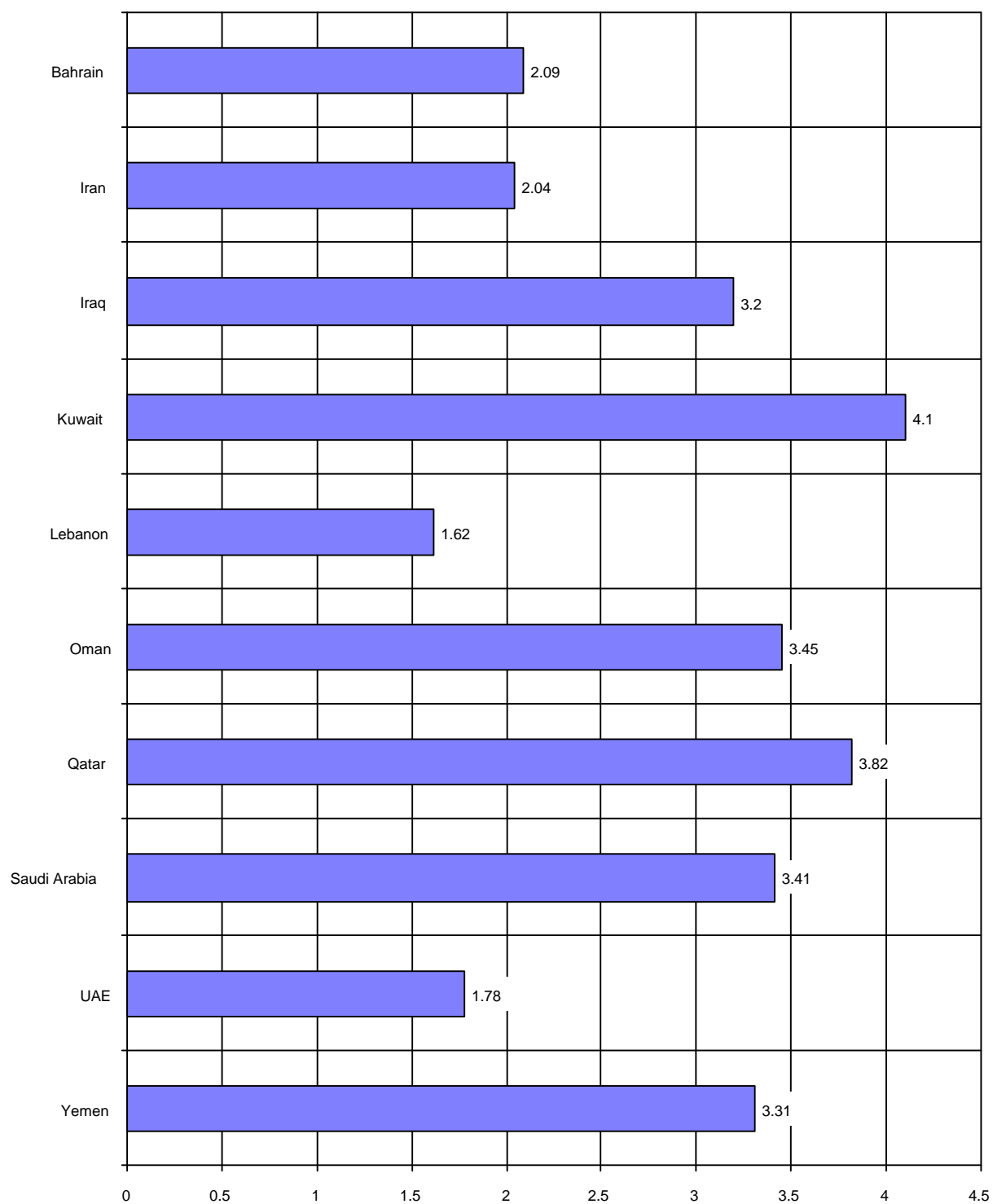


Adapted by Anthony H. Cordesman from World Bank data base for World Population Projections, 1996.

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CIA Comparative Estimate of the Population Growth Rate

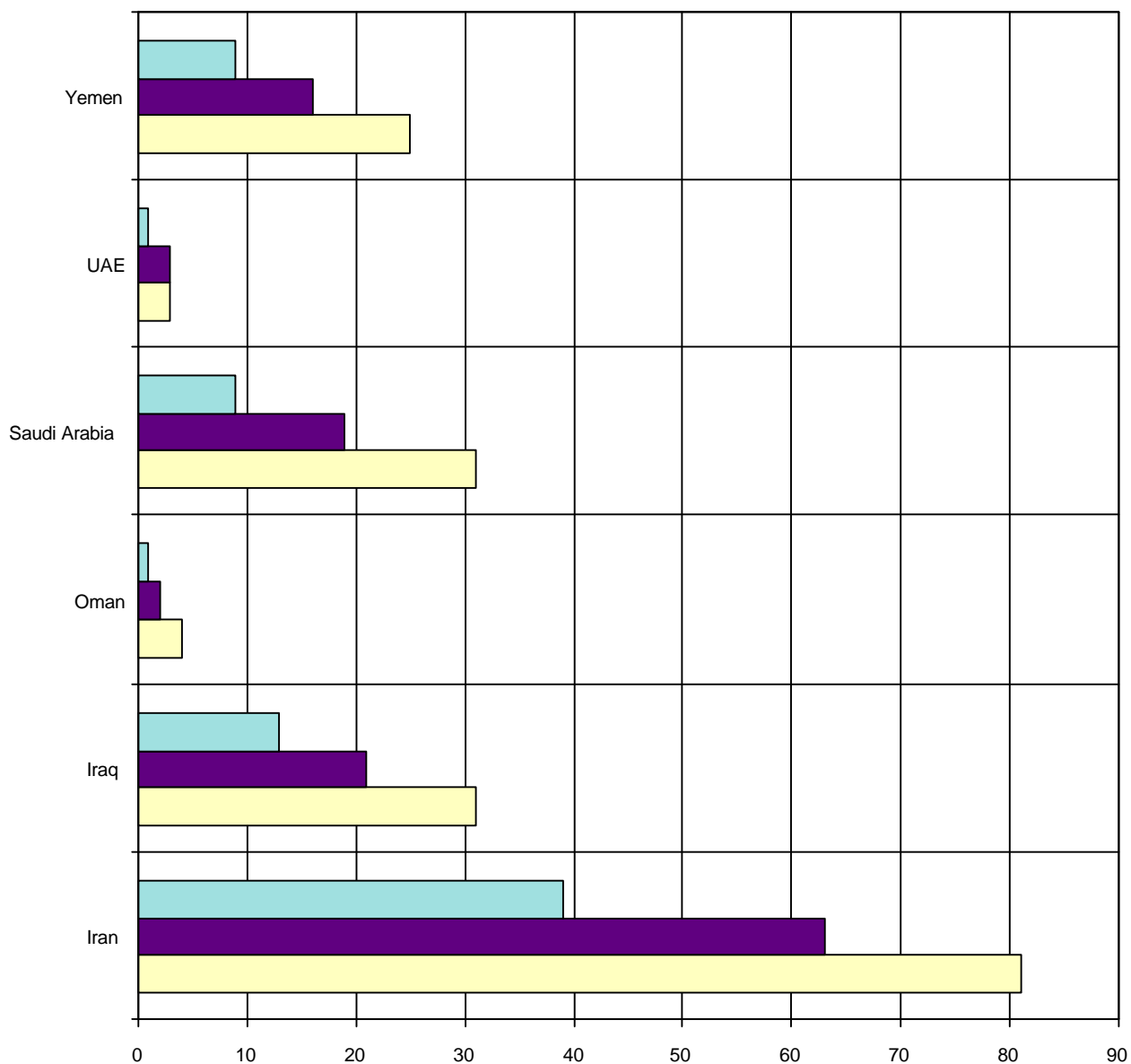
(Percentage Growth in 1998)



Adapted by Anthony H. Cordesman from CIA, World Factbook, 1998.

Increase in Total Population in Selected Countries

(in millions)

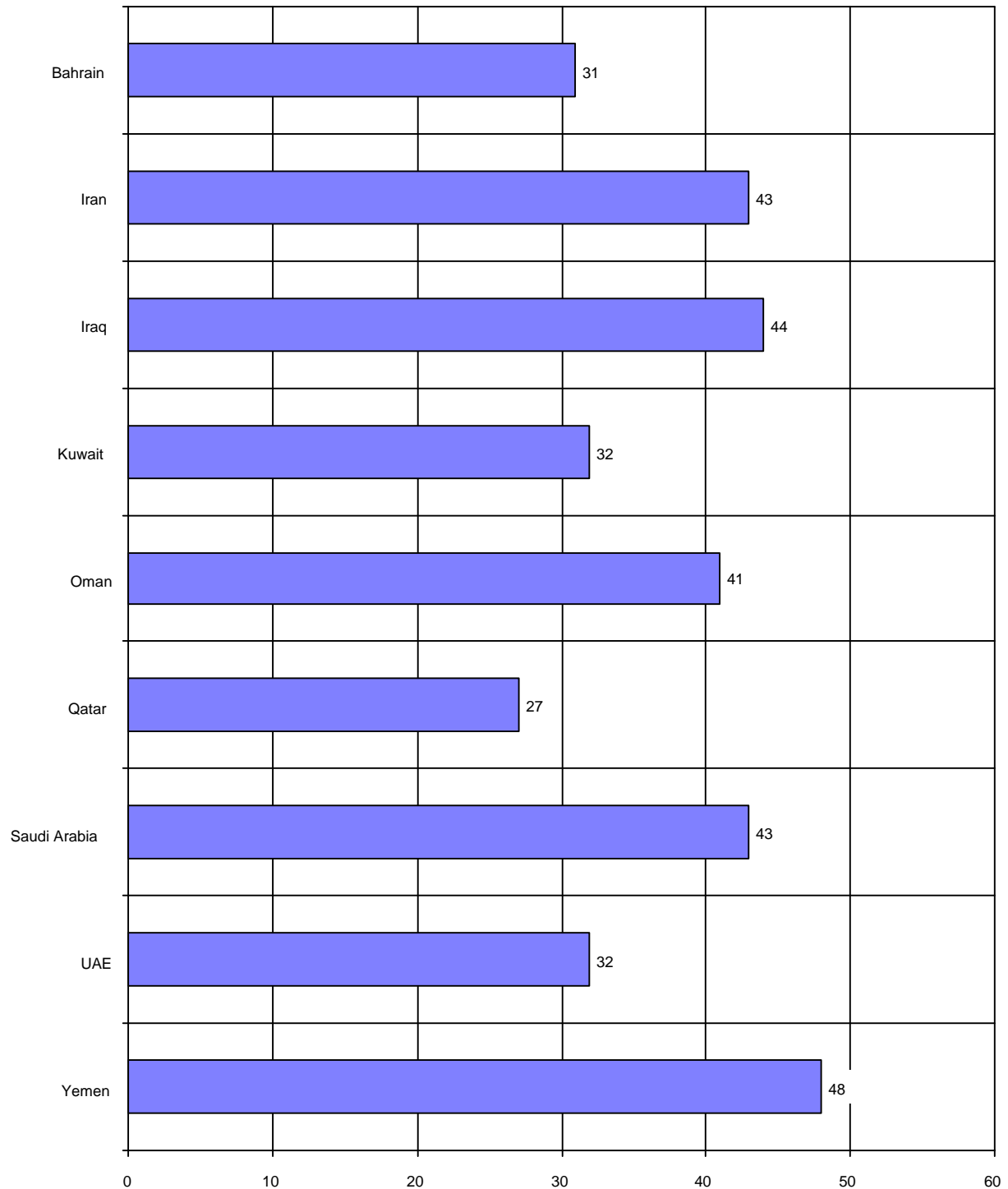


	Iran	Iraq	Oman	Saudi Arabia	UAE	Yemen
1980	39	13	1	9	1	9
1996	63	21	2	19	3	16
2010	81	31	4	31	3	25

Source: Adapted by Anthony H. Cordesman from World Bank, World Development Indicators, 1998, pp. 42-44.

CIA Comparative Estimate of the “Youth Rate”

(Percentage of the Population Aged 14 Years or Less in 1998)

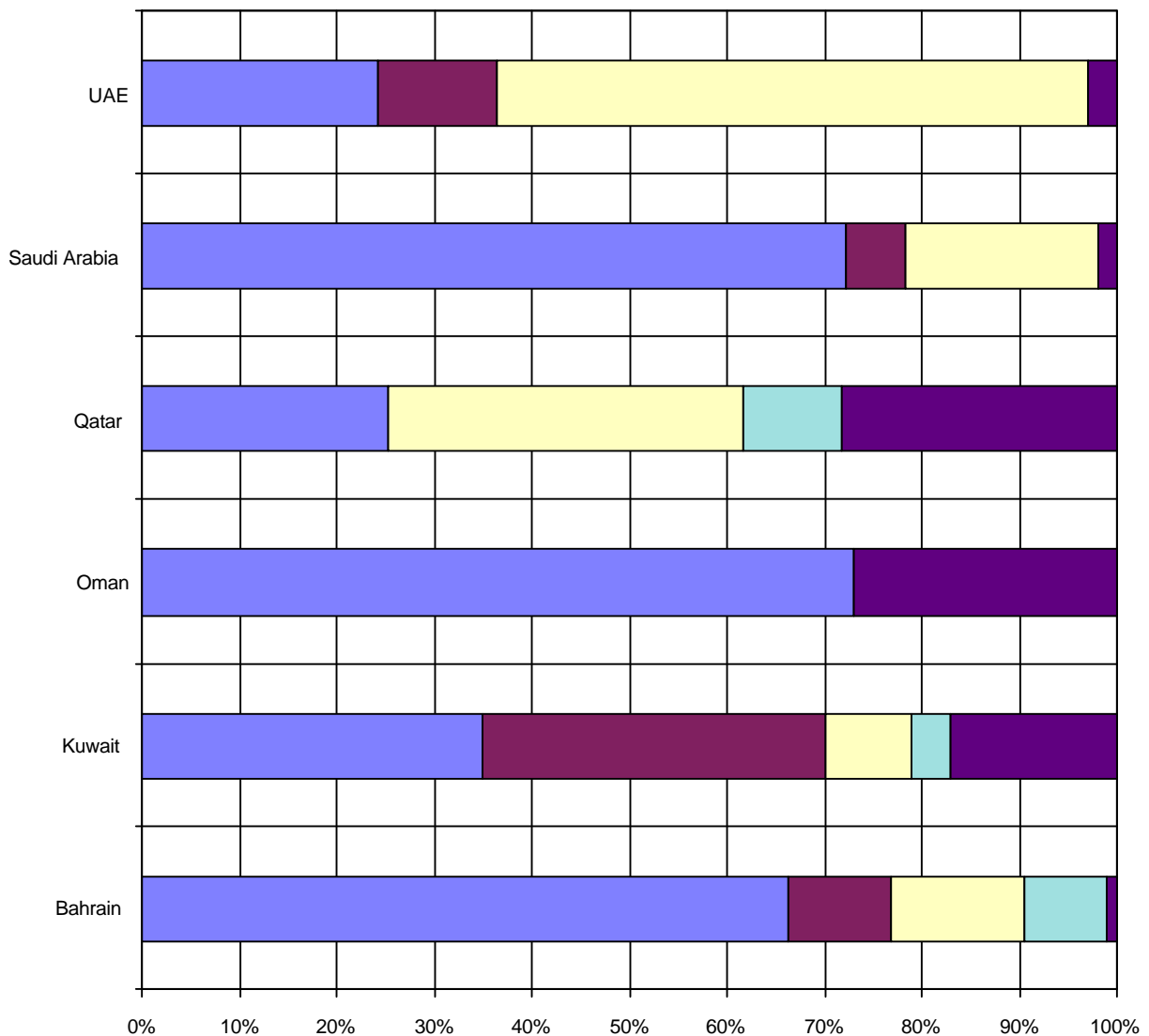


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Foreign Population in Selected Countries the Middle East

(in percentages of total population)

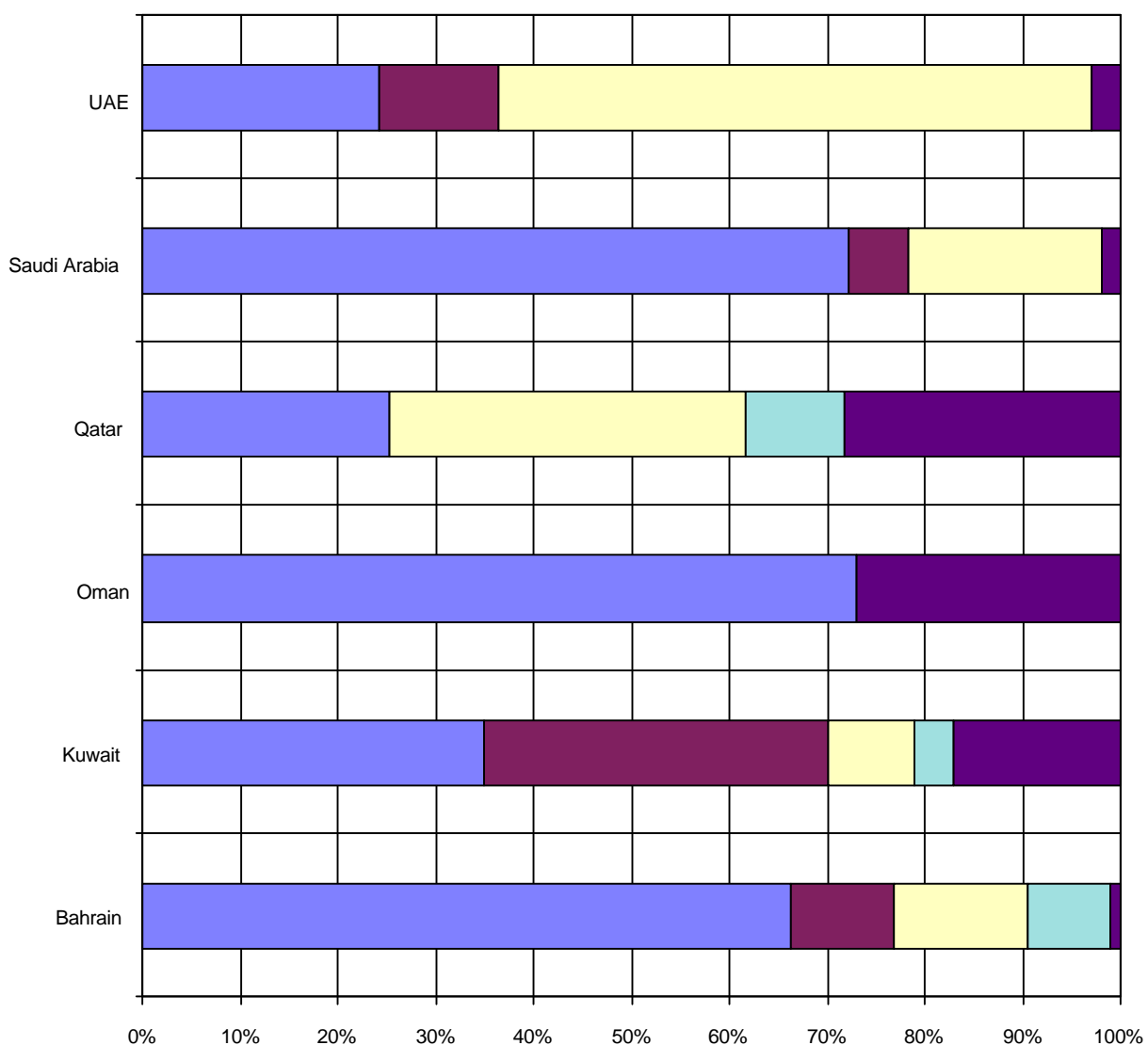


	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	UAE
Other	1	17	27	28	2	3
Iranian	8	4		10		
South Asian	13	9		36	20	60
Foreign Arab	10	35			6	12
Native	63	35	73	25	73	24

Source: Adapted by Anthony H. Cordesman from World Bank, *World Development Indicators*, 1998, pp. 42-44.

Foreign Population in Selected Countries the Middle East

(in percentages of total population)

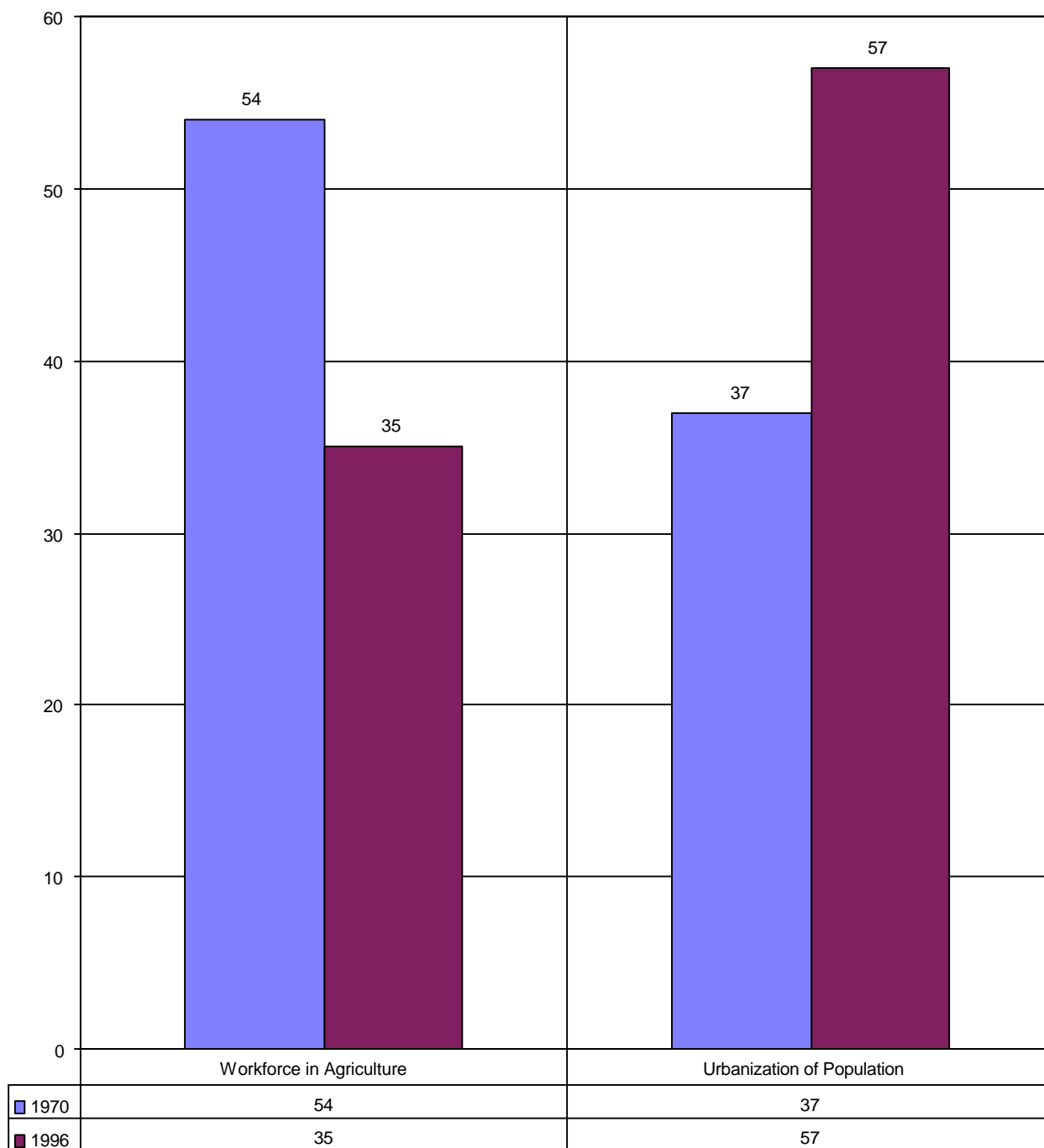


	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	UAE
Other	1	17	27	28	2	3
Iranian	8	4		10		
South Asian	13	9		36	20	60
Foreign Arab	10	35			6	12
Native	63	35	73	25	73	24

Source: Adapted by Anthony H. Cordesman from World Bank, World Development Indicators, 1998, pp. 42-44.

Percent of Urbanization and Percent of Labor Force in Agriculture: The Pace of Social Change

(in percent)

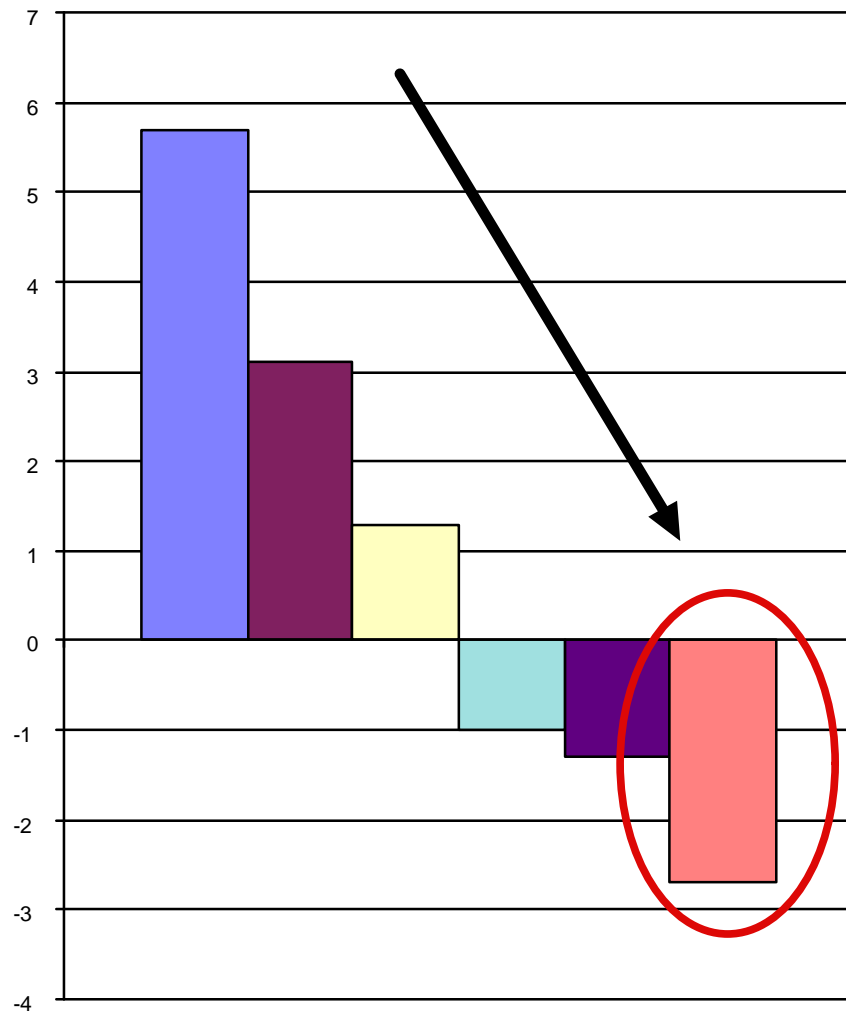


Source: Adapted by Anthony H. Cordesman World Bank, World Development Indicators, 1998, pp. 30-31.

Increases in Real Per Capita Income Lag Badly behind Absolute Growth

- **The Middle East and North Africa lagged the entire world during 1980-1991.**
- **Real per capita income declined by well over 25% during the 1980s.**
- **The situation has improved since 1991, but there is still little real growth.**
- **Many of the oil exporting states still have a real per capita income less than 50% of their peak annual level during the oil boom of the early 1980s.**
- **The real problems in per capita income are further disguised by:**
 - **The “Youth Bulge” that is going to enter the work force and need homes and infrastructure;**
 - **Urbanization and rising expectations due to world media.**
 - **Maldistribution of income.**
 - **Lack of achievement-oriented hiring and promotion.**
 - **Chronic underestimation of problems because of difficulties in analyzing trends in purchasing power parity terms**

Negative Development During the 1980s:
Average Annual Change in Real Per Capita GDP: 1980-1991
 (Change in Average Percent of Growth or Decline)

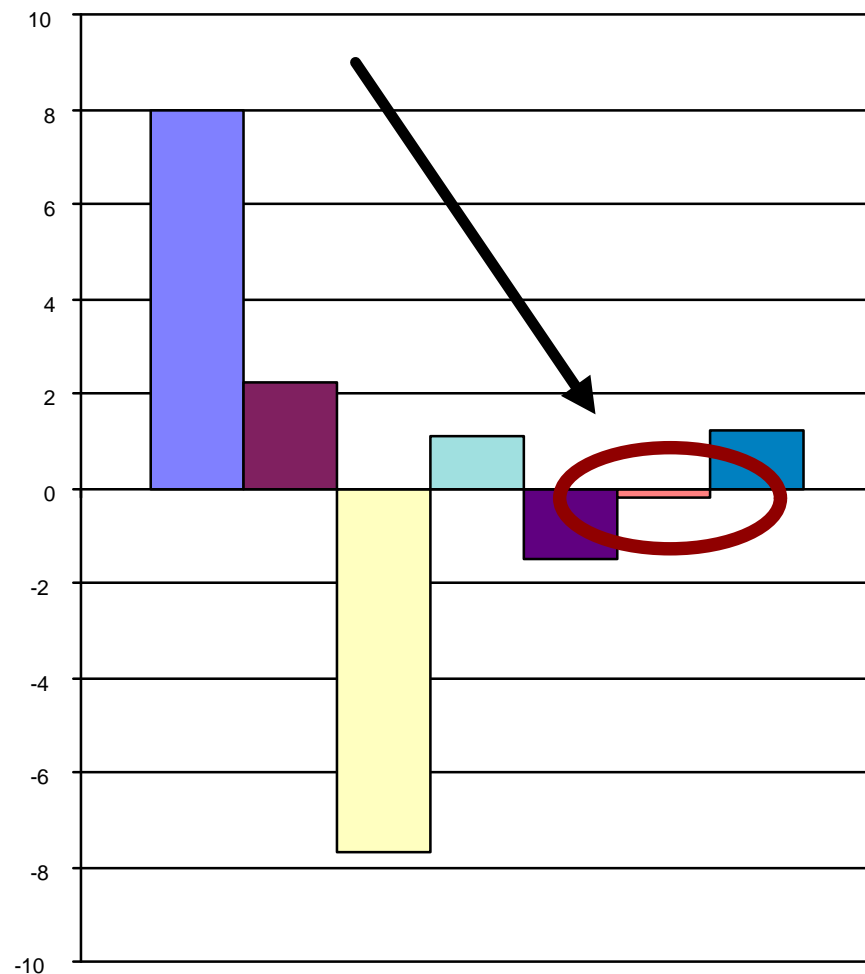


East Asia	5.7
South Asia	3.1
Europe and Central Asia	1.3
Latin America and Caribbean	-1
Africa	-1.3
Middle East and North Africa	-2.7

Source: Adapted by Anthony H. Cordesman from World Bank, Claiming the Future, p. 15

The Growth of Personal Wealth Still Lagged During the Early and Mid-1990s:

(Average Annual Change in Real Per Capita GDP: 1991-1995)

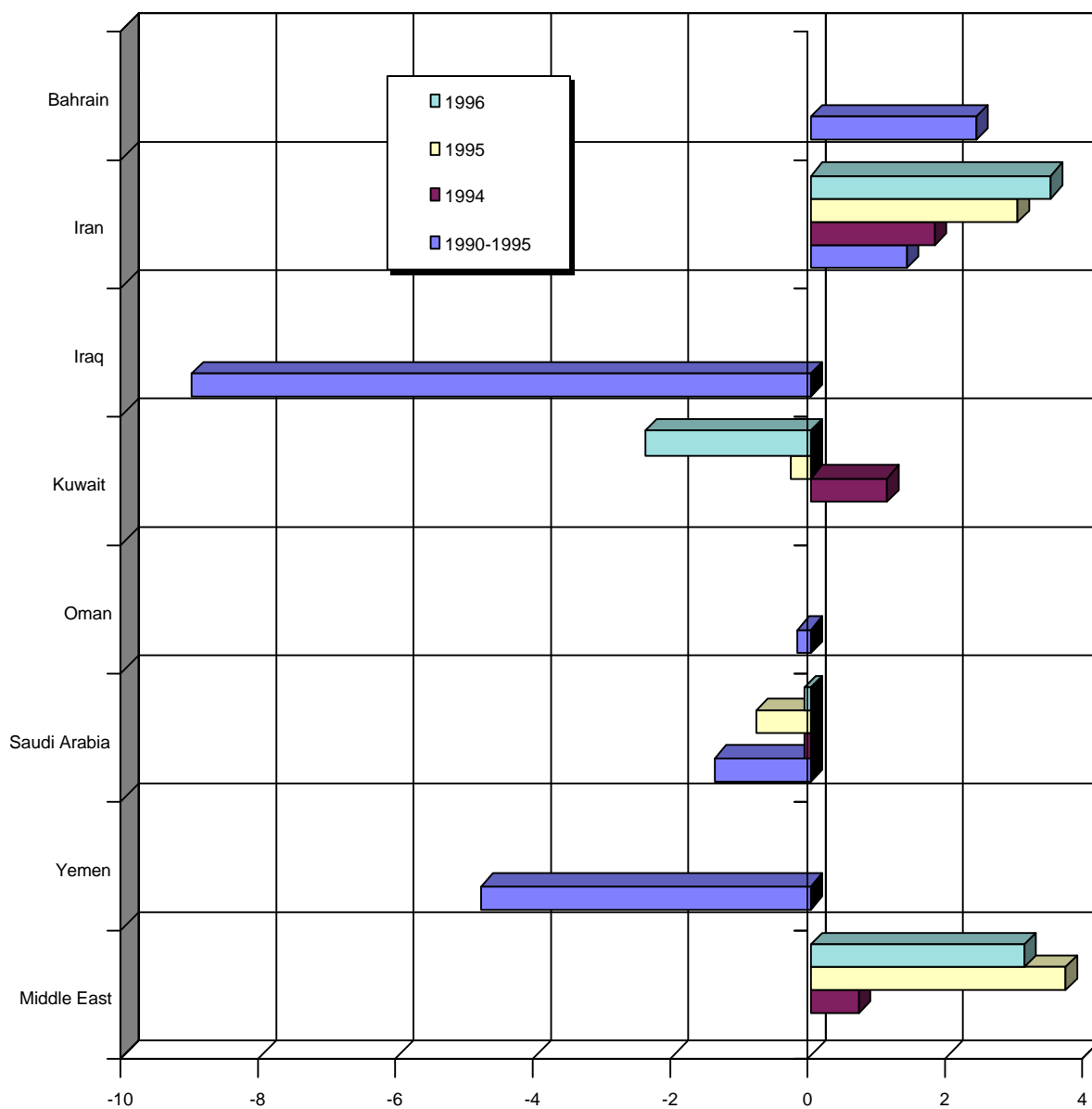


East Asia	8
South Asia	2.2
Europe and Central Asia	-7.7
Latin America and Caribbean	1.1
Sub-Saharan Africa	-1.5
Middle East and North Africa	-0.2
High Income Countries	1.2

Source: Adapted by Anthony H. Cordesman from World Bank, Global Economic Prospects and the Developing Countries, 1996, p. 3.

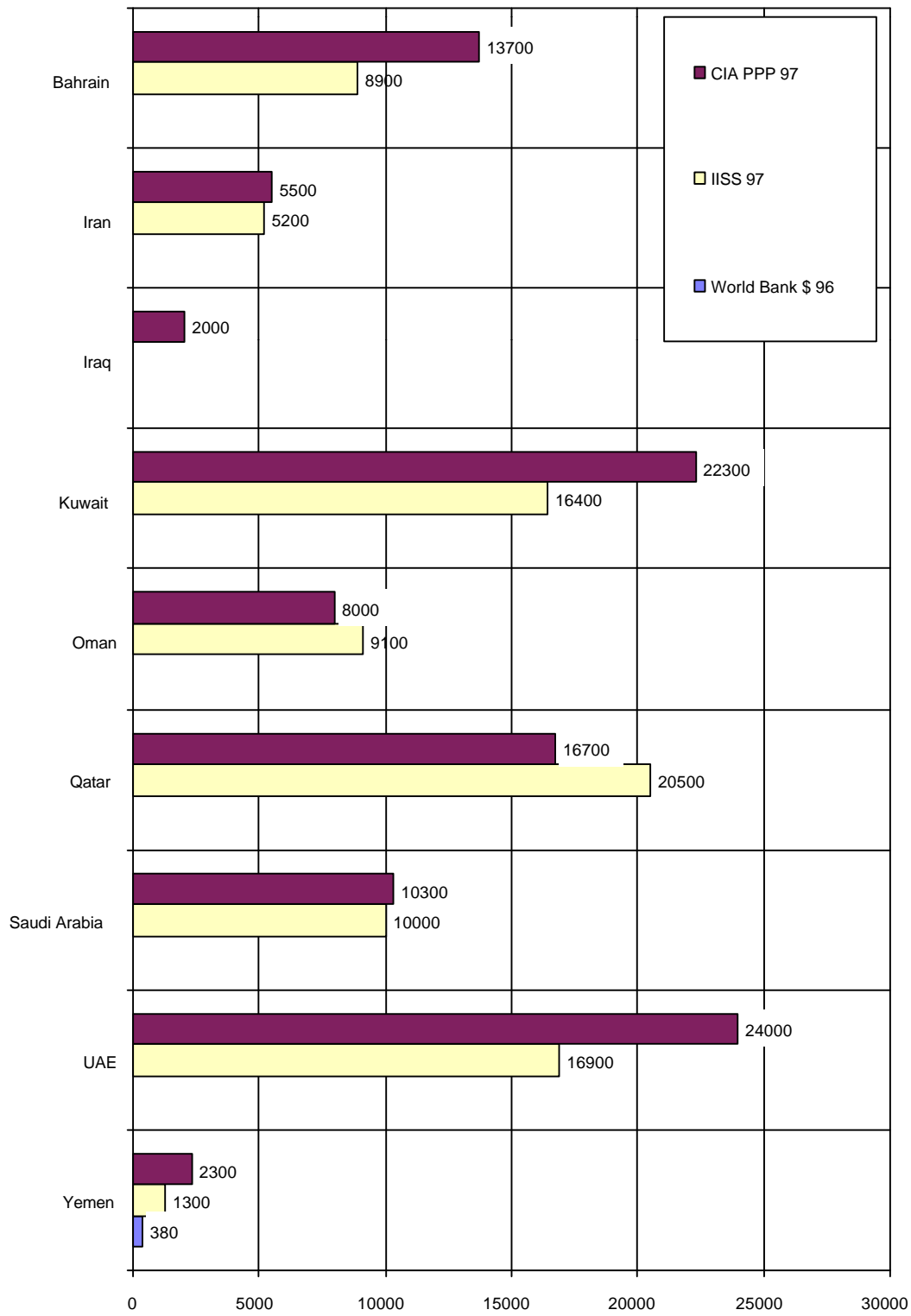
Things Got Better Before the Oil Crash: Recent Trends by Region and Key Country: 1994-1996

(Change in Average Percent of Growth or Decline in Per Capita Income in Constant Dollars)



	Middle East	Yemen	Saudi Arabia	Oman	Kuwait	Iraq	Iran	Bahrain
1996	3.1		-0.1		-2.4		3.5	
1995	3.7		-0.8		-0.3		3	
1994	0.7		-0.1		1.1		1.8	
1990-1995		-4.8	-1.4	-0.2		-9	1.4	2.4

Countries Now Differ Radically in Per Capita Income (\$US Current)



Adapted by Anthony H. Cordesman from World Bank, World Development Indicators, 1998, pp. 172-174.

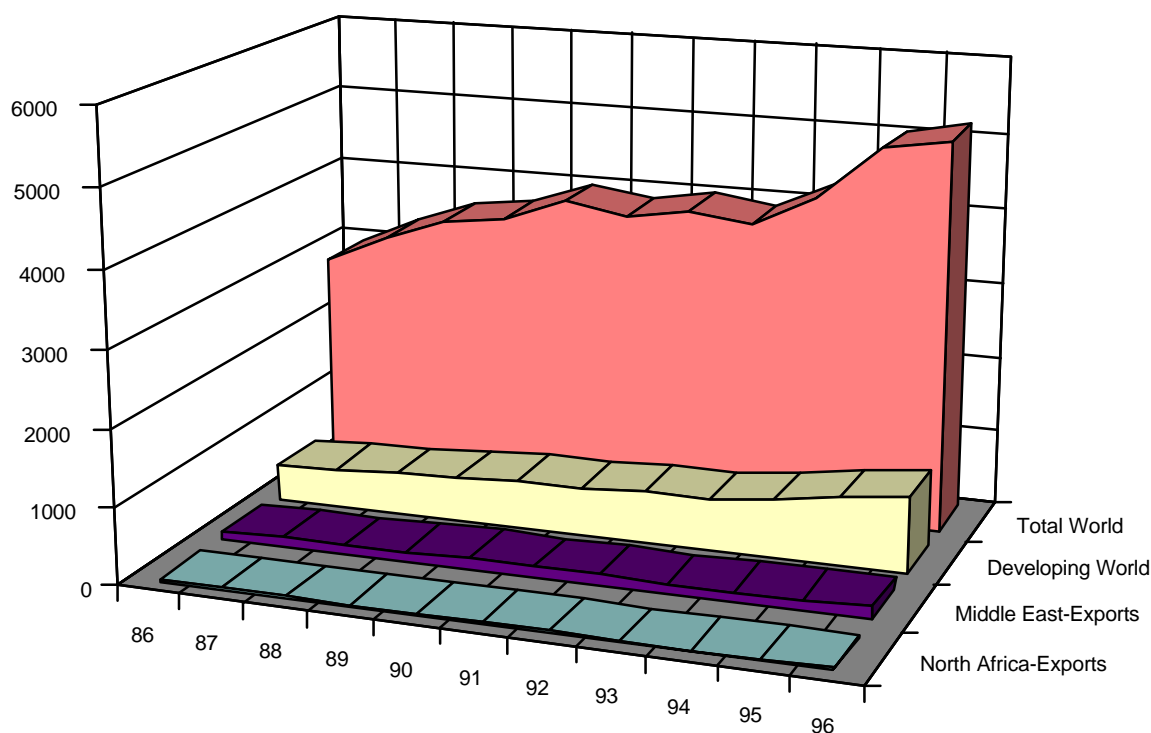
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The Region Failed to Compete in World Trade

- **Trade has “flatlined” compared to world trade and the overall patterns in developing regions.**
- **Trade surpluses have largely vanished, particularly if debt and foreign investment are included.**
- **The petroleum sector drives virtually all trade due to the lack of regional development and comparative advantage.**
- **But, Gulf countries remain a major market and trading partner.**

The Middle East and North Africa Badly Lagged in the Growth of World Trade: 1986-1996

(In Constant \$1996 US Billions)

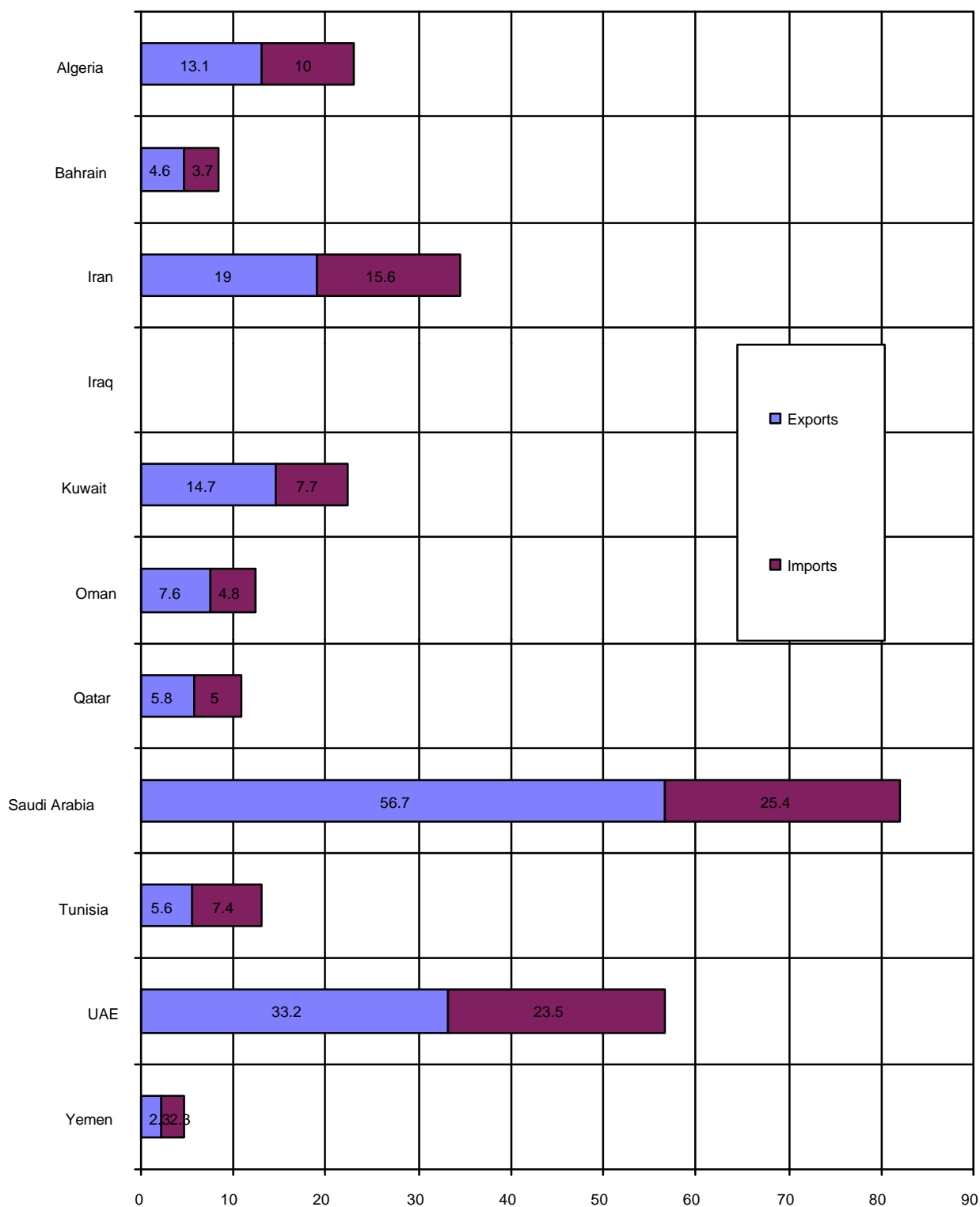


	86	87	88	89	90	91	92	93	94	95	96
North Africa-Exports	26.9	28	26.4	29.1	39.7	35.8	31.8	27.8	25.8	29.3	33.8
Middle East-Exports	109.8	114.9	110.9	134.5	157.1	138.4	149.8	138.5	144	154.1	174
Developing World	465.1	514.7	549	594.4	650.5	623.3	687.9	682.9	770.4	904.3	1001
Total World	2884	3258	3559	3669	3968	3837	3967	3847	4267	4989	5140

Adapted by Anthony H. Cordesman from ACDA, World Military Expenditures and Arms Transfers, various editions. Middle East does not include North African states other than Egypt.

Countries Differ Radically in Volume of Trade

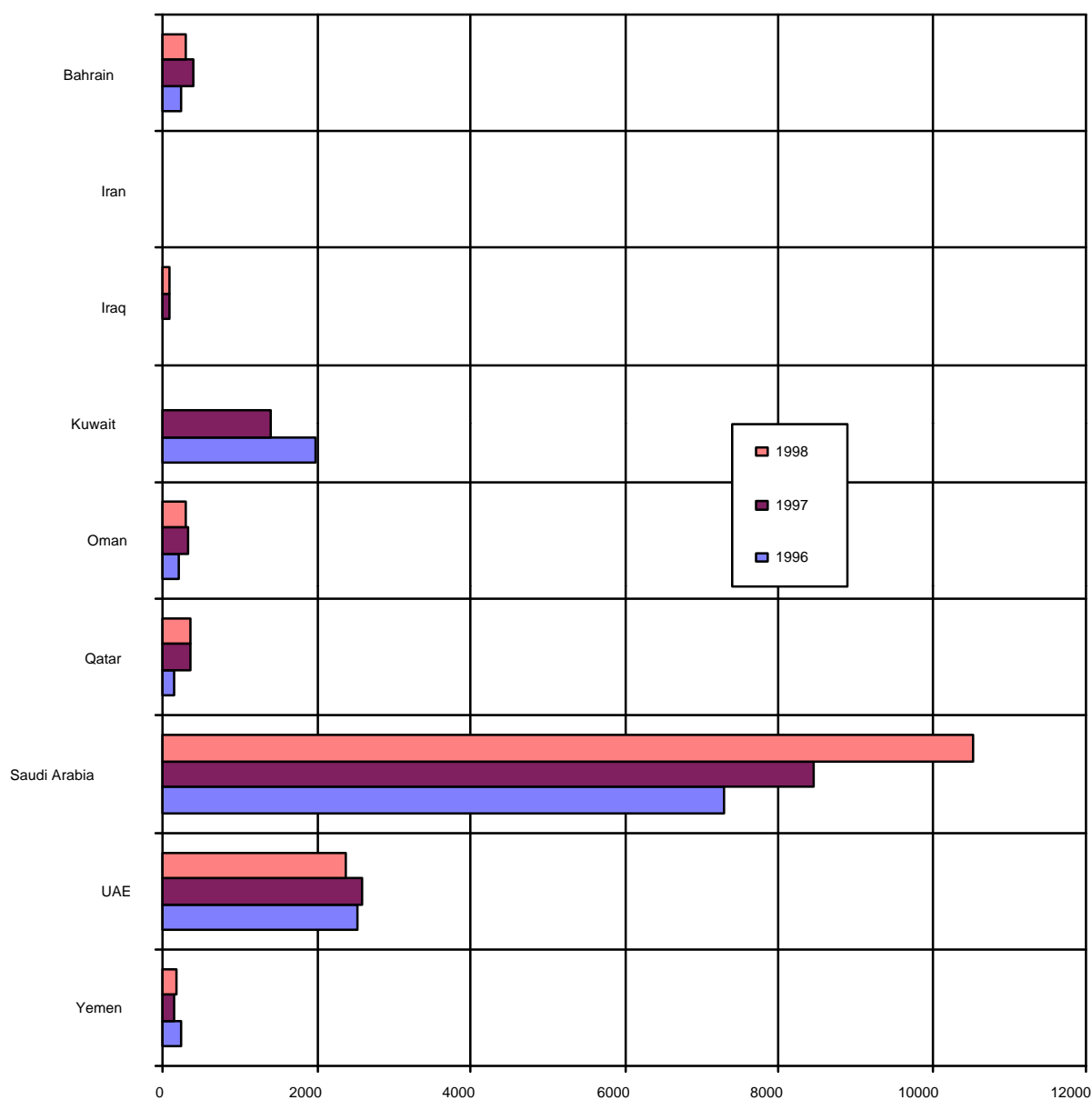
(Exports and Imports in 1997 in \$US Current Billions)



Adapted by Anthony H. Cordesman from CIA, World Factbook, 1998, and IISS, Military Balance, 1998-1999.

US Exports Are Significant in Spite of the Oil Crash

(Cumulative US Exports in 1996-1998 in \$US Current Billions)



	Yemen	UAE	Saudi Arabia	Qatar	Oman	Kuwait	Iraq	Iran	Bahrain
1998	177.4	2369.6	10524.9	354.1	302.7	1479.4	106.5	-	294.9
1997	153.5	2605	8450.8	360	342	1394	81.9	0.3	405.8
1996	255.6	2527	7295.3	163.2	215.3	1799	2.8	0.3	243.6

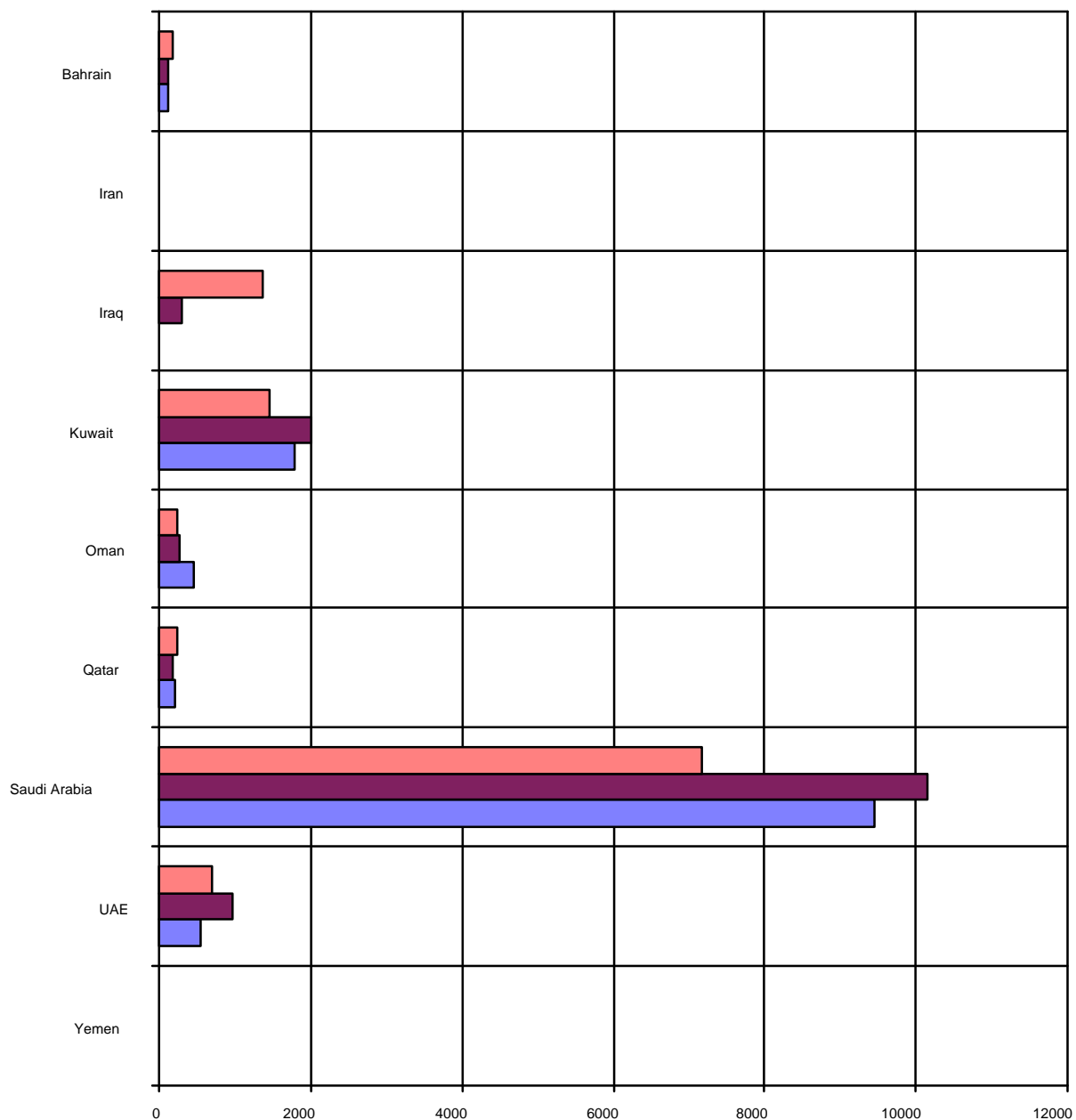
TOTAL EXPORTS BY US: \$24.3B in 1996, \$26.1B in 1997, AND \$28.1B in 1998

PERCENT OF TOTAL US EXPORTS: 3.9% in 1996, 3.8% in 1997, and 4.1% in 1998

Adapted by Anthony H. Cordesman from US Department of Commerce.

US Imports from the Middle East Are Also Significant

(Cumulative US Exports in 1996-1998 in \$US Current Billions)



	Yemen	UAE	Saudi Arabia	Qatar	Oman	Kuwait	Iraq	Iran	Bahrain
1998	43.2	708.5	7168.7	237.1	230.4	1470.7	1360.7		169.8
1997	18.2	964.9	10135.1	167.9	260.9	1998	317.1	1.1	126.3
1996	30	537.9	9442.7	207.1	447.4	1782.1		0.2	124.4

TOTAL IMPORTS BY US: \$22.5B in 1996, \$25.31B in 1997, and \$23.3B in 1998

PERCENT OF TOTAL US IMPORTS: 2.7% in 1996, 2.8% in 1997, and 2.5% in 1998

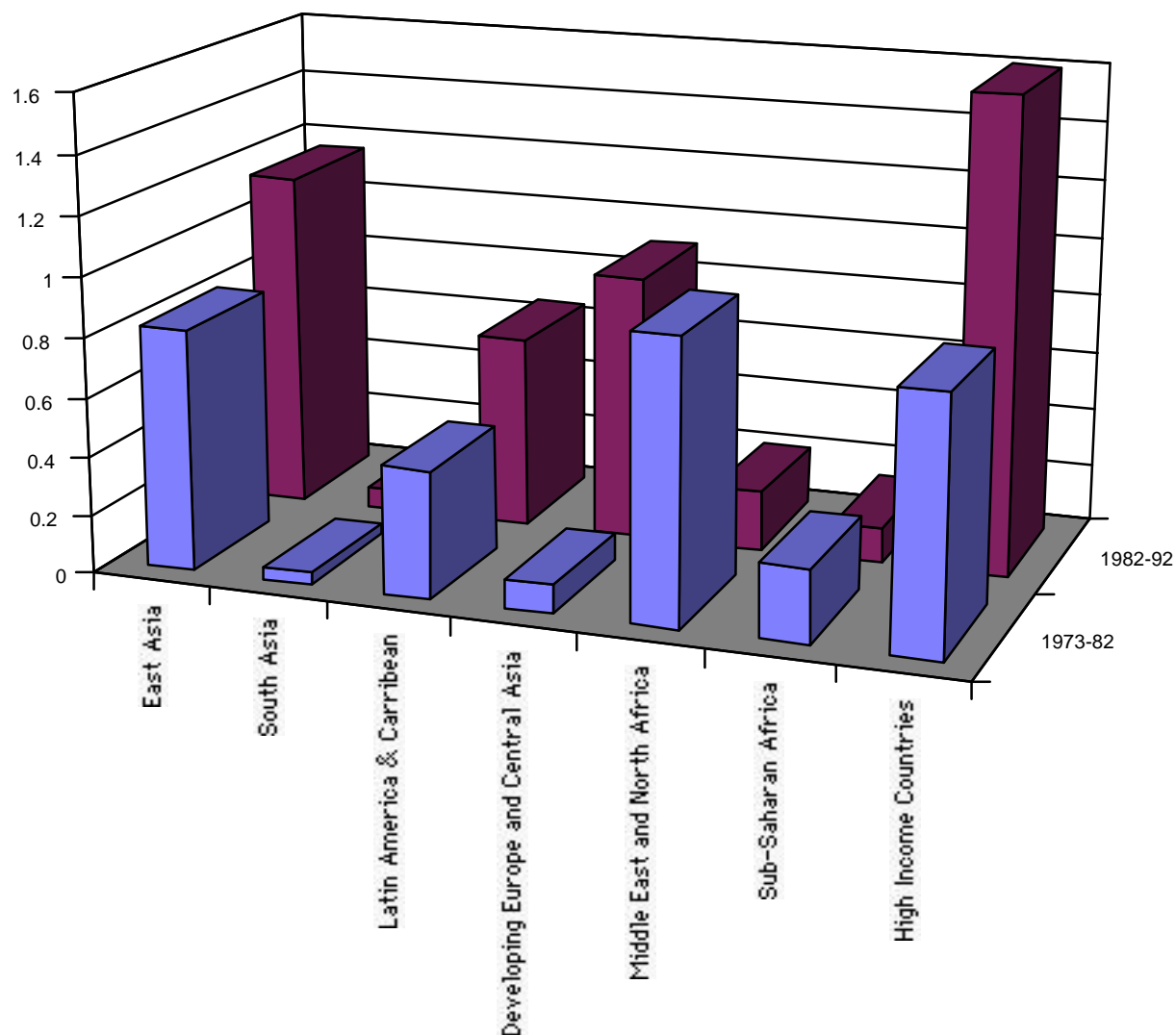
Adapted by Anthony H. Cordesman from US Department of Commerce.

The Region has Failed to Compete in Attracting Investment

- **Investment is very low as a percent of GDP.**
- **Foreign direct investment has not been encouraged and has largely “flatlined.”**
- **Private Capital has also gone to other regions.**
- **The rapid growth of MENA stock markets disguises the fact they are very small relative to other developing regions.**
- **Portfolio performance is also poor.**
- **The region is failing to draw on investment to finance the maintenance and improvement of its infrastructure.**
- **Risk assessment is mixed and often negative.**
- **But, MENA countries with economic reform and investment opportunities do attract equity investment.**

The Positive Trend in Foreign Direct Investment in the Middle East Reversed After the Oil Boom Years

(Foreign Direct Investment Flows as a Percent of GDP)

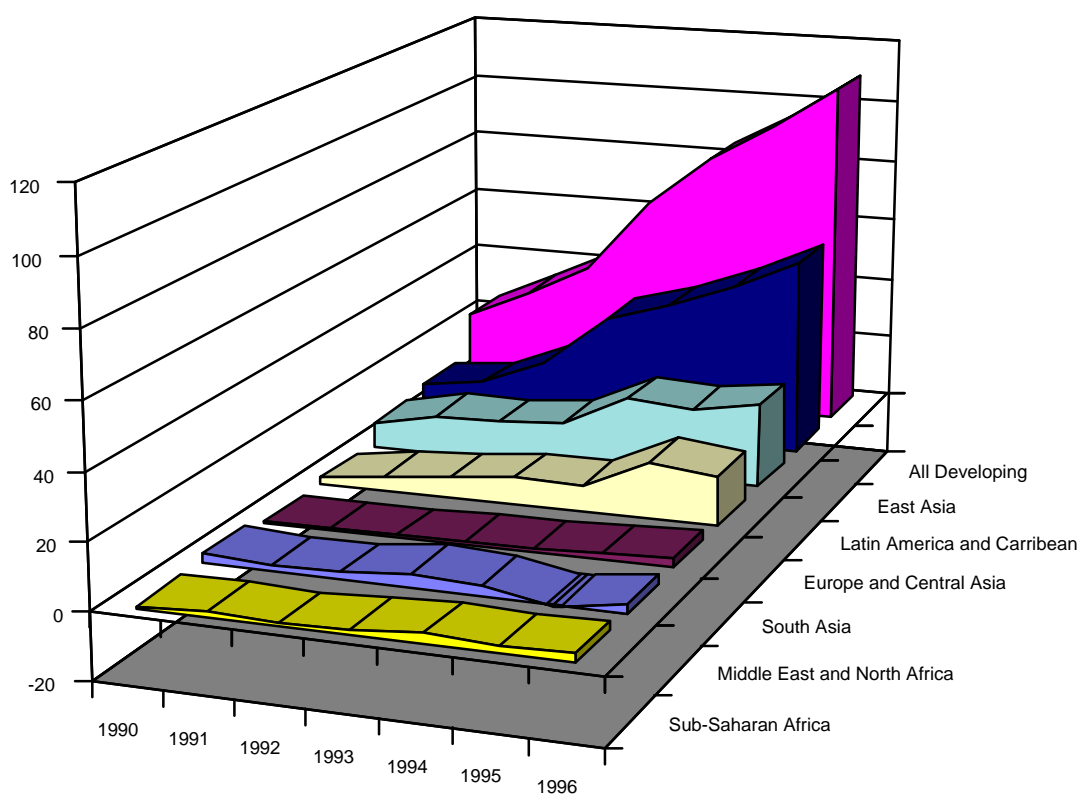


	East Asia	South Asia	Latin America & Caribbean	Developing Europe and Central Asia	Middle East and North Africa	Sub-Saharan Africa	High Income Countries
1973-82	0.82	0.04	0.43	0.1	0.95	0.25	0.85
1982-92	1.15	0.07	0.65	0.9	0.2	0.125	1.6

Source: Adapted by Anthony H. Cordesman from World Bank, Global Economic Prospects and the Developing Countries, 1996, p. 22

The Trend in Total Foreign Direct Investment in the MENA “Flat Lined” During 1990-1996

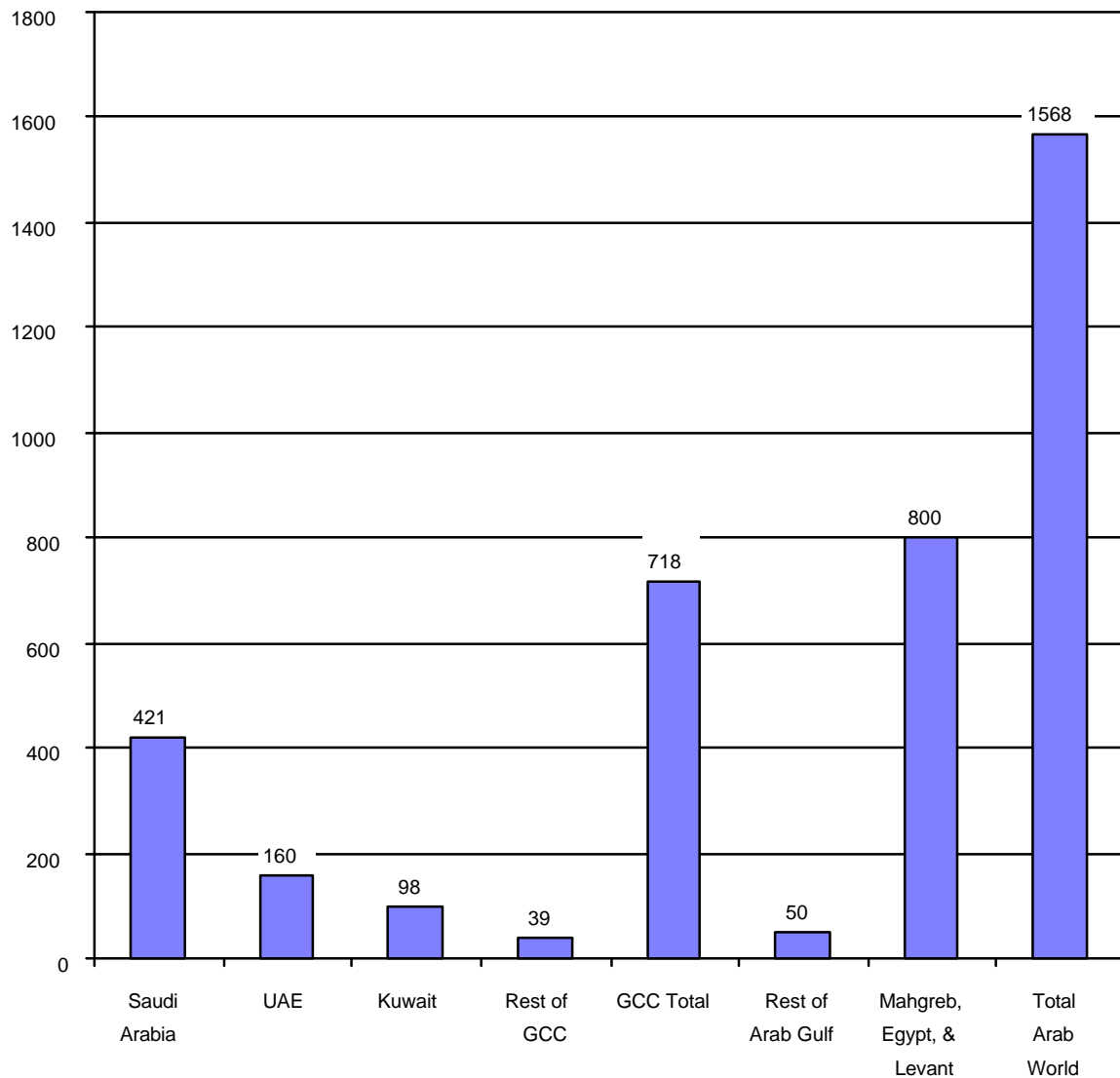
(\$US billions)



	1990	1991	1992	1993	1994	1995	1996
Sub-Saharan Africa	0.9	1.6	0.8	1.6	3.1	2.2	2.6
Middle East and North Africa	2.8	1.8	2.2	4.2	3	-0.3	2.2
South Asia	0.5	0.5	0.6	0.8	1.2	1.8	2.6
Europe and Central Asia	2.1	4.4	6.3	8.4	8.1	17.2	15
Latin America and Caribbean	8.1	12.5	12.7	14.1	24.2	22.9	25.9
East Asia	10.2	12.7	20.9	38.1	44.1	51.8	61.1
All Developing	24.5	33.5	43.6	67.2	83.7	95.5	109.5

Source: Adapted by Anthony H. Cordesman from World Bank, World Debt Tables, 1996, p. 17, and Global Development Performance, 1997, p. 29.

**But, the Arab World Has Considerable Private Wealth of Its Own:
\$1,568 Billion is Held by 200,000 People**
(\$Current Billions)



Individuals
holding
wealth

78,000 59,000 36,000 12,000 185,000 15,000 - -

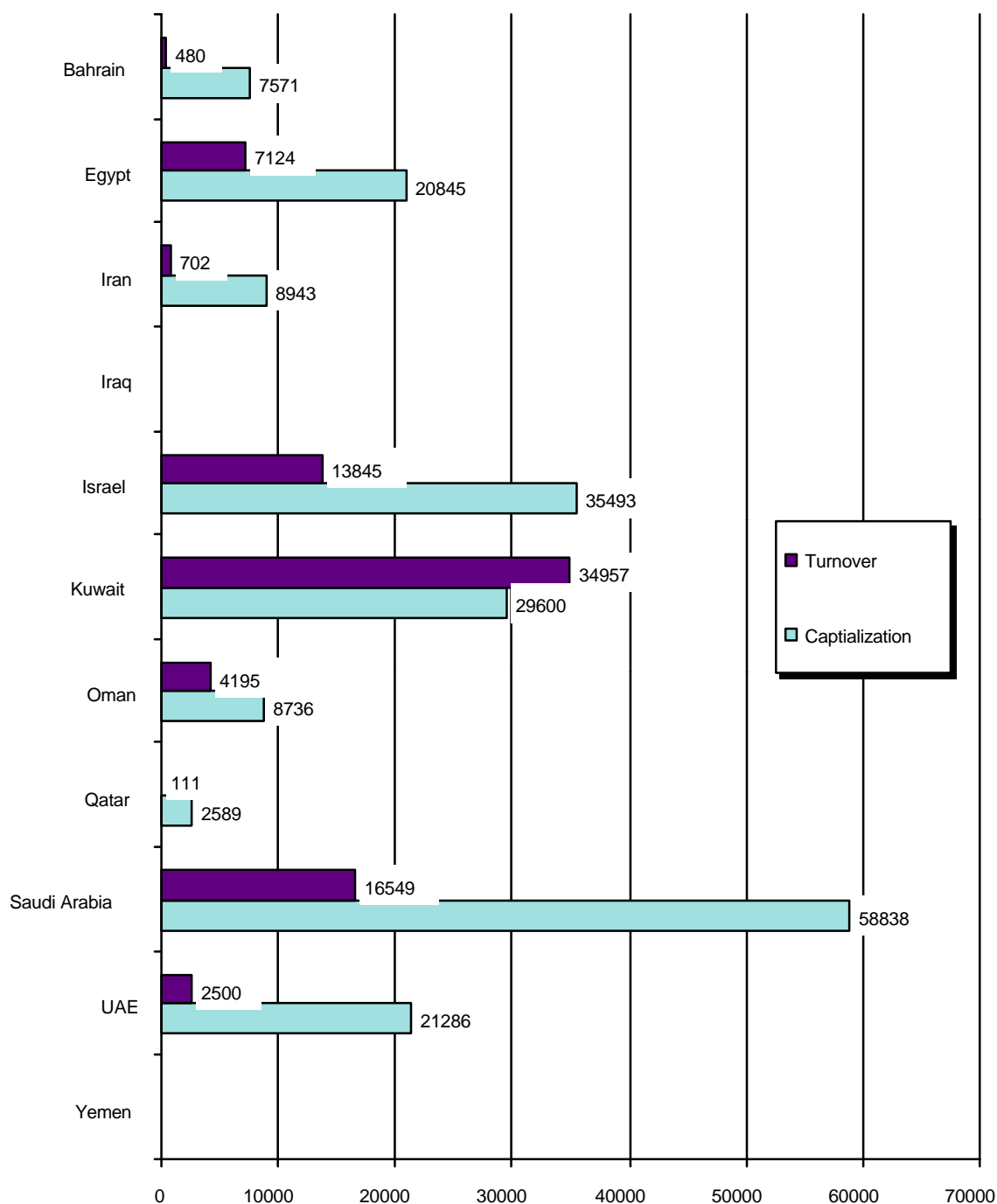
Note: Total region does not include Lebanon and Mahgreb. Merrill Lynch estimates private wealth in these countries at \$800 billion.

Total world private wealth estimated at 16,700 billion. As a result, Saudi Arabia has 2.5% of world total, GCC has 4.2 % of total, Arab world less Mahgreb has 4.6% of total, and Arab world with Mahgreb has 3.4% of total.

Adapted by Anthony H. Cordesman from Merrill Lynch, Gemeni, and Middle East Economic Digest, February 14, 1997, p. 9.

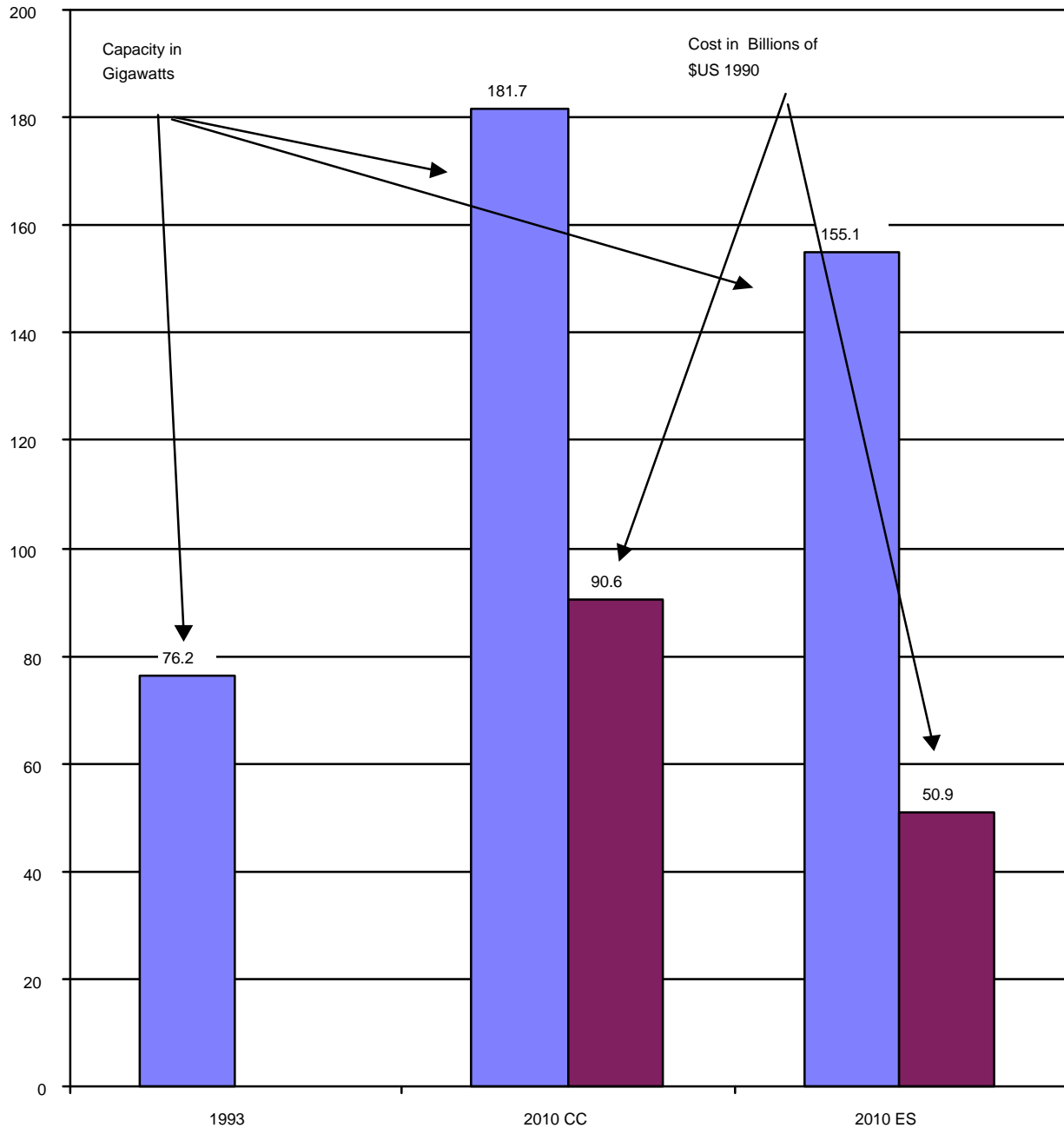
And, Stock Markets Grew Where the Private Sector Was Allowed to Operate

(\$US Millions as of December 31, 1997)



Adapted by Anthony H. Cordesman from Middle East Economic Digest, February 13, 1998, p. 10.

The Region Has Massive New Infrastructure Investment Needs: Electric Power as a Test Case

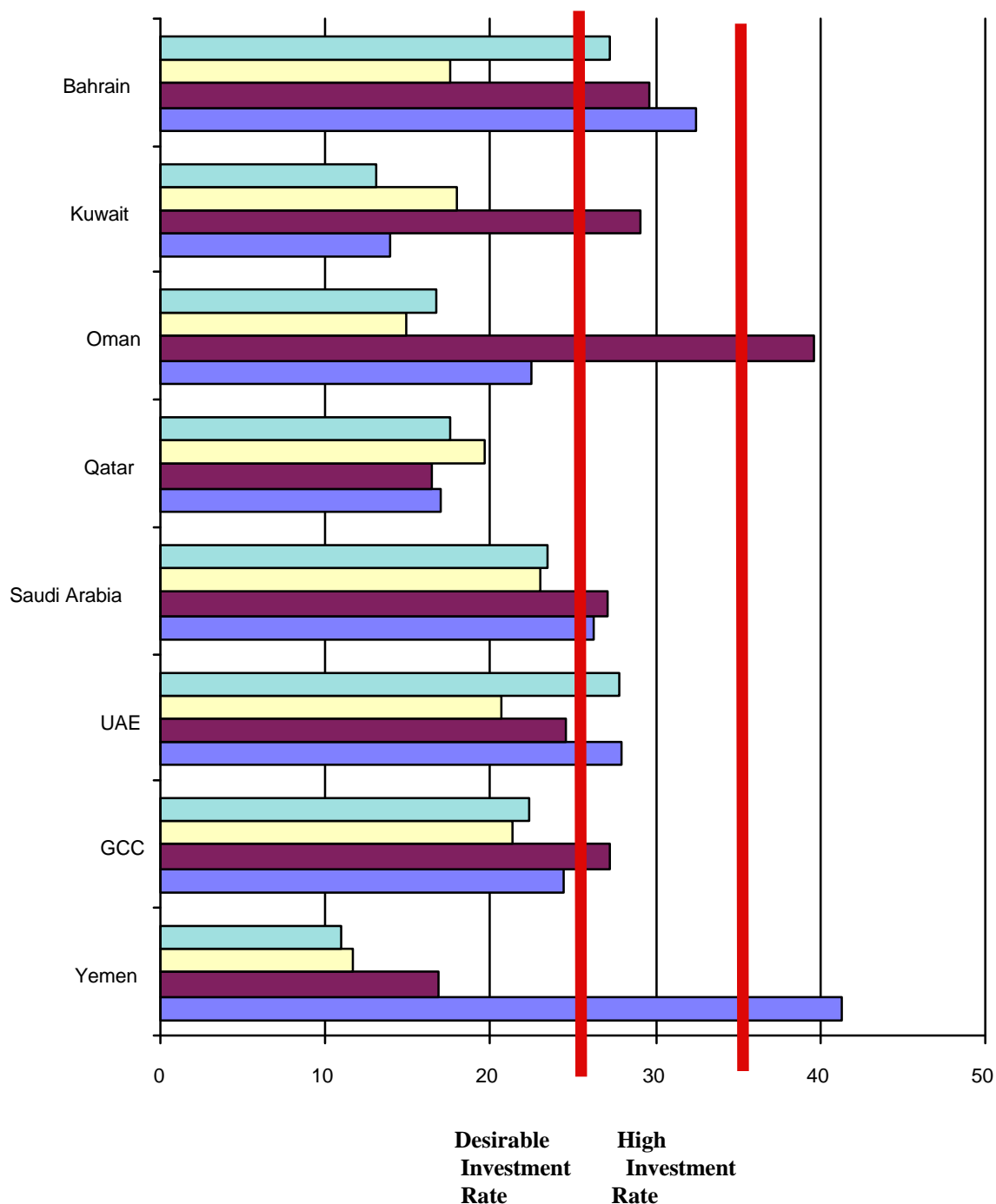


CC = Capacity Constrained or maximum production ES = Energy Savings, or reduced energy use.

Source: Adapted by Anthony H. Cordesman from IEA, World Energy Outlook, 1996, pp. 189-191.

Most Individual MENA Countries Have Low Investment Rates, with No Pattern of Recent Increases

(Investment as percentage of GDP, with GDP measured in constant 1992 prices)

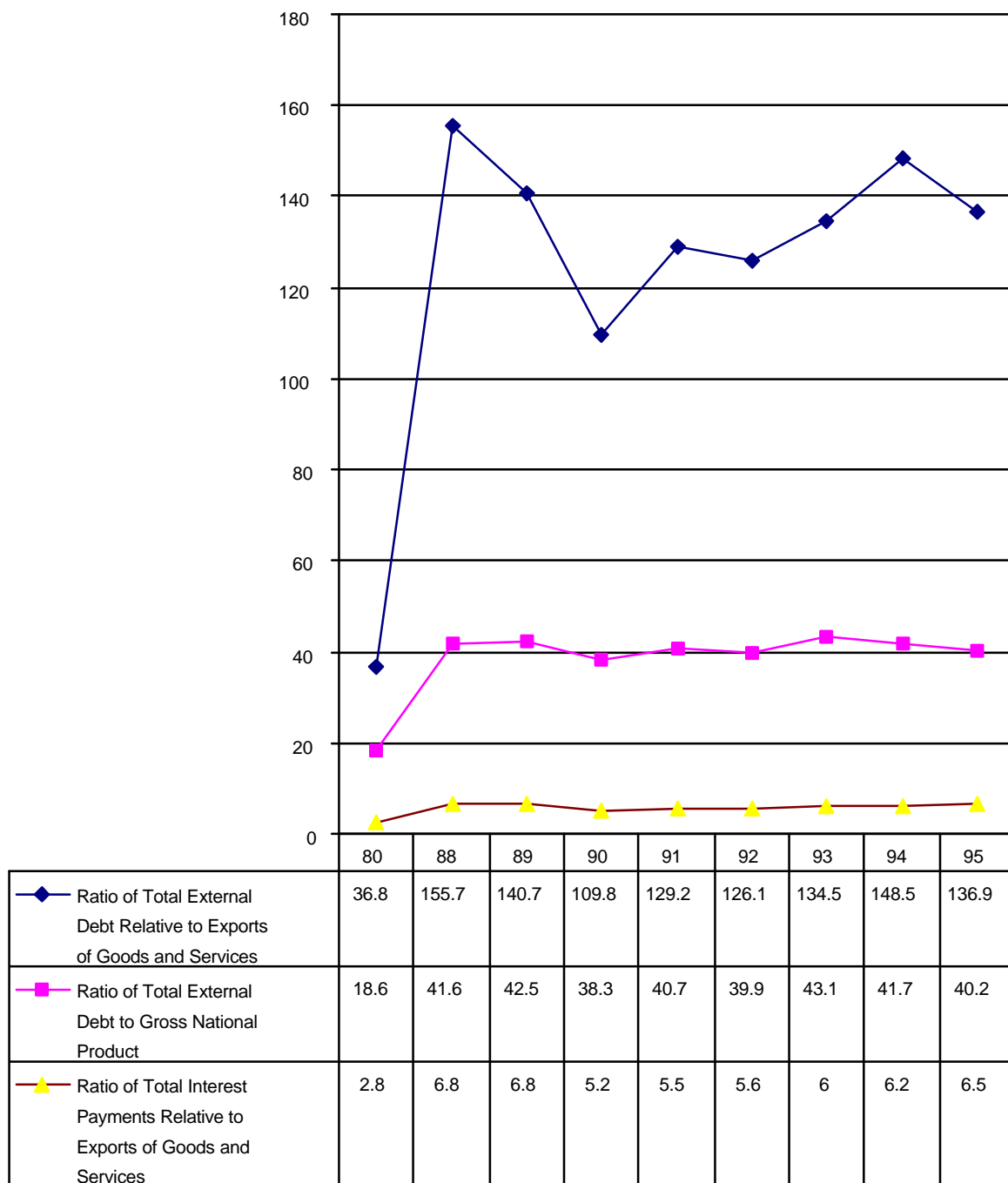


Adapted by Anthony H. Cordesman from Economic and Social Commission for West Asia, and Middle East Economic Digest, February 14, 1997, p. 3.

Debt Performance is Mixed

- **Total debt has risen, but has been controlled.**
- **At the same time, the control of public debt has often come at the expense of policies that discourage investment in the MENA region.**
- **Several countries also have serious debt problems.**

The Debt Burden Trends in the Middle East were Relatively Static Before the “Oil Crash”: 1980-1995



Adapted by Anthony H. Cordesman from World Bank, World Debt Tables, 1995.

However, Debt Performance by Country is Mixed

<u>Country</u>	<u>Relative Wealth</u>	<u>Debt Status</u>
Bahrain	middle income	less indebted
Iran	middle income	severely indebted
Iraq	middle income	severely indebted
Kuwait	---	---
Oman	middle income	less indebted
Qatar	---	---
Saudi Arabia	middle income	less indebted
UAE	---	---
Yemen	low income	severely indebted

Note: Low income = \$725 annually or less; lower-middle = \$725-2,895; upper middle = \$2,896-8,955. Kuwait, Qatar, and the UAE are high income countries with \$8,956 or more.

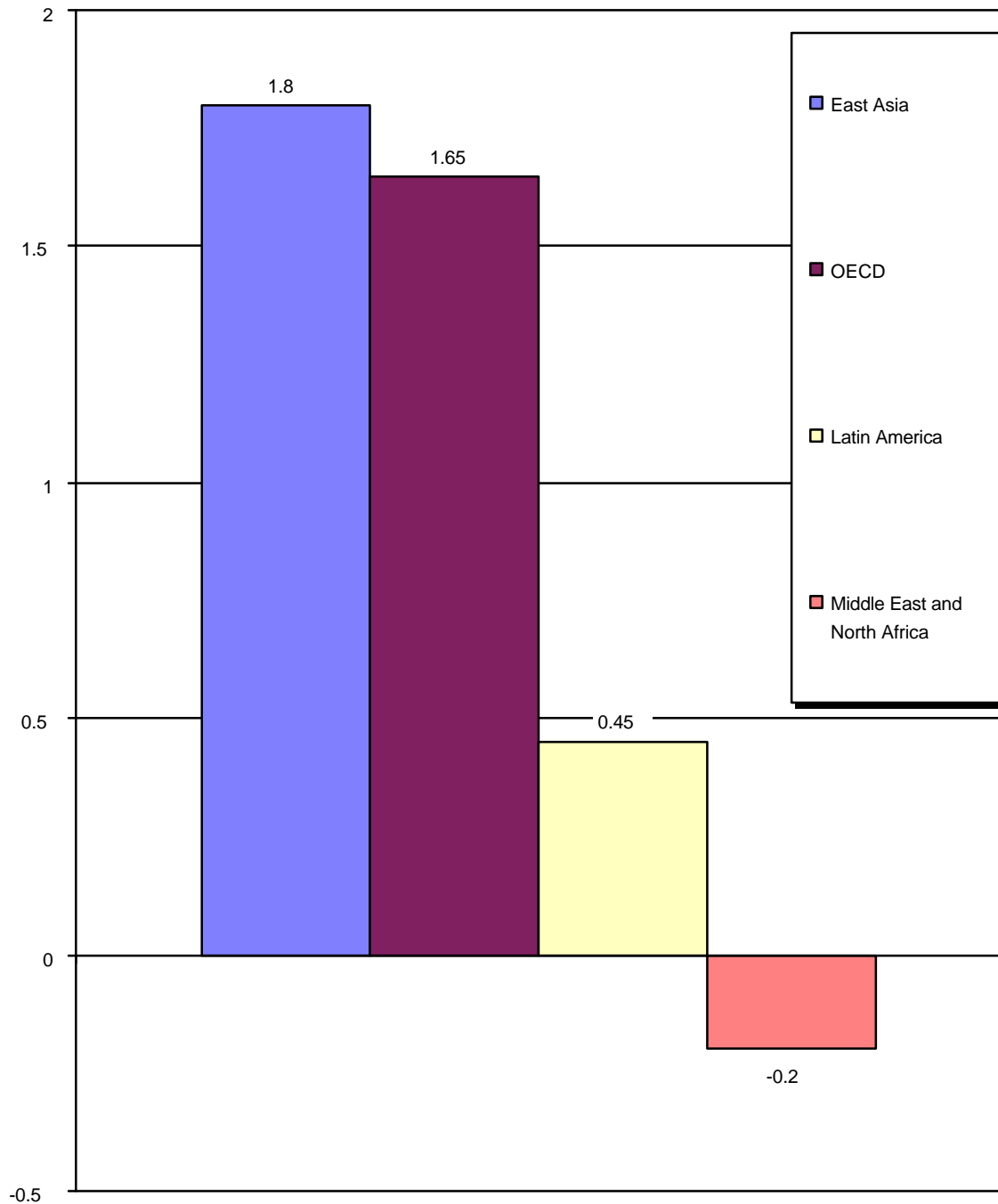
The ranking for indebtedness is determined by the present value of debt services relative to exports of goods and services or relative to GNP.

Source: World Bank, World Debt Tables, 1998, pp. 43-44.

The Middle East Failed to Compete in Productivity

- **The Middle East was the only region in the world to exhibit a net drop in productivity from 1960-1990.**
 - **Middle East productivity dropped by around 6%, East Asian productivity rose by 54%.**
- **The situation has improved in the last decade, but the Middle East still have only about 20% of the growth of East Asia and lags far behind South Asia.**
- **Several factors have been critical:**
 - **The failure to create a strong competitive private sector.**
 - **Lack of productivity gain from women in the work force.**
 - **Impractical, unfocused education.**
 - **Hiring in large government and state industry sector.**
 - **Problems in regulation, commercial code, rule of law.**
 - **War and military build up**
 - **Over-dependence on oil sector, lack of diversification.**
 - **Rentier states; use of foreign labor**

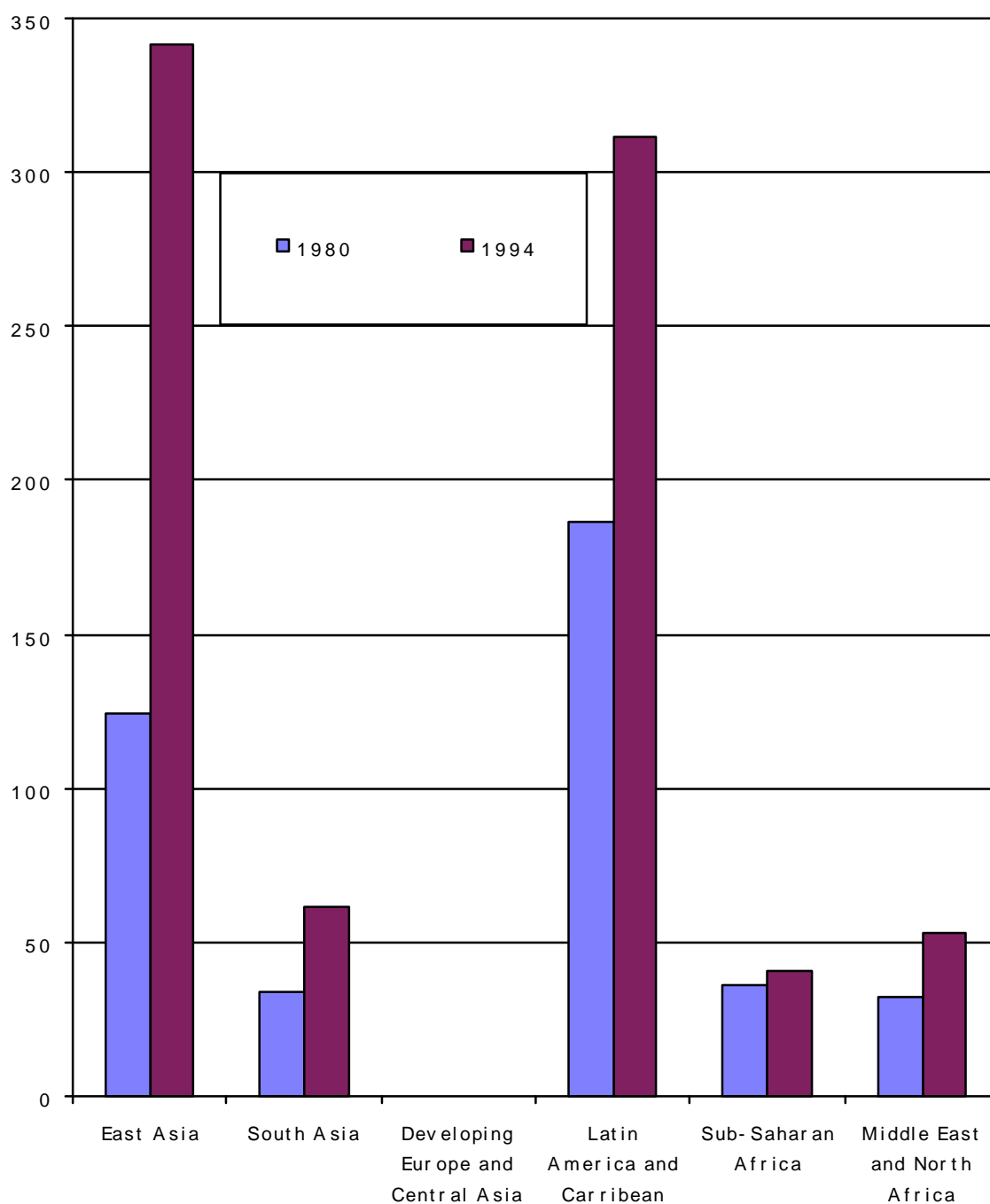
Productivity Dropped While Rising in Other Regions: Average Annual Change in Total Factor Productivity: 1960-1990



Source: Adapted by Anthony H. Cordesman from World Bank, Claiming the Future, p. 15

The Middle East Lagged in Value Added to Manufacturing

(Value in \$US billions of sum of gross output, less the value of intermediate goods consumed in production)



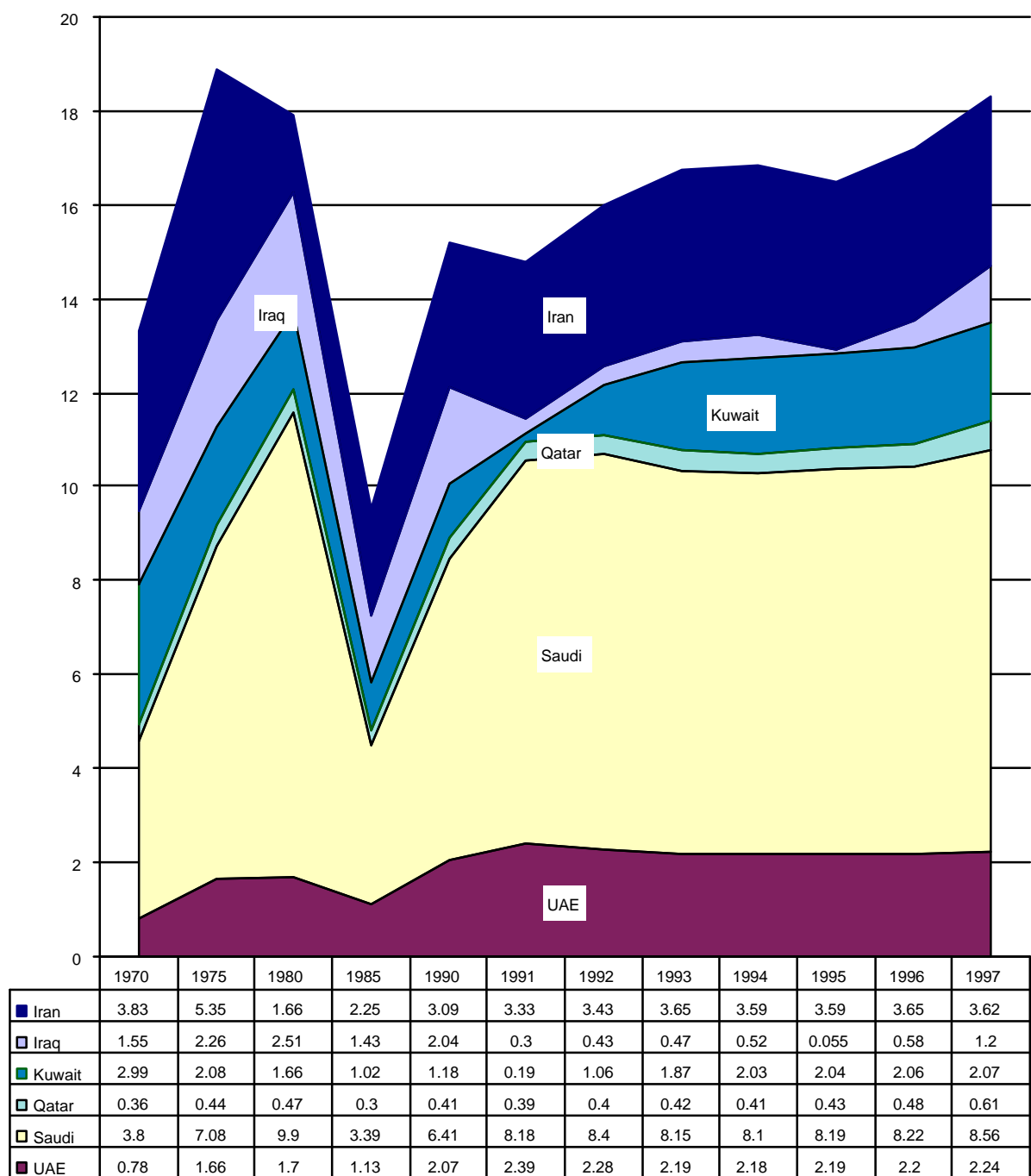
Source: Adapted by Anthony H. Cordesman from World Bank, *World Development Indicators*, 1998, p. 178

The Economics of the “Oil Shock”

- The “Oil Shock” of 1997 to the present has not created an economic crisis, a structural crisis has been building up since 1986.
- Oil economies have under-performed the rest of the Middle East – largely through:
 - A lack of diversification;
 - Welfare orientation;
 - Population growth;
 - Over-dependence on foreign labor
 - Growth of state employment, restrictions on private sector, lack of competitive pressure, and;
 - War and military build-ups.
- Most oil-state budgets have serious structural deficits and open or concealed debt.
- Oil-states talk reform under pressure and forget when revenues rise.
- Today’s ultra-low prices may not last long, but few forecasts give oil-states enough revenue to escape the growing impact of structural problems.
- The major change is that oil-states no longer can afford to develop their own oil and gas sectors, and many lack funds for other civil and military investment.

CEA Estimate of Historical Trends in Gulf Oil Production: 1970-1997

(\$Current Billions)



Total ME

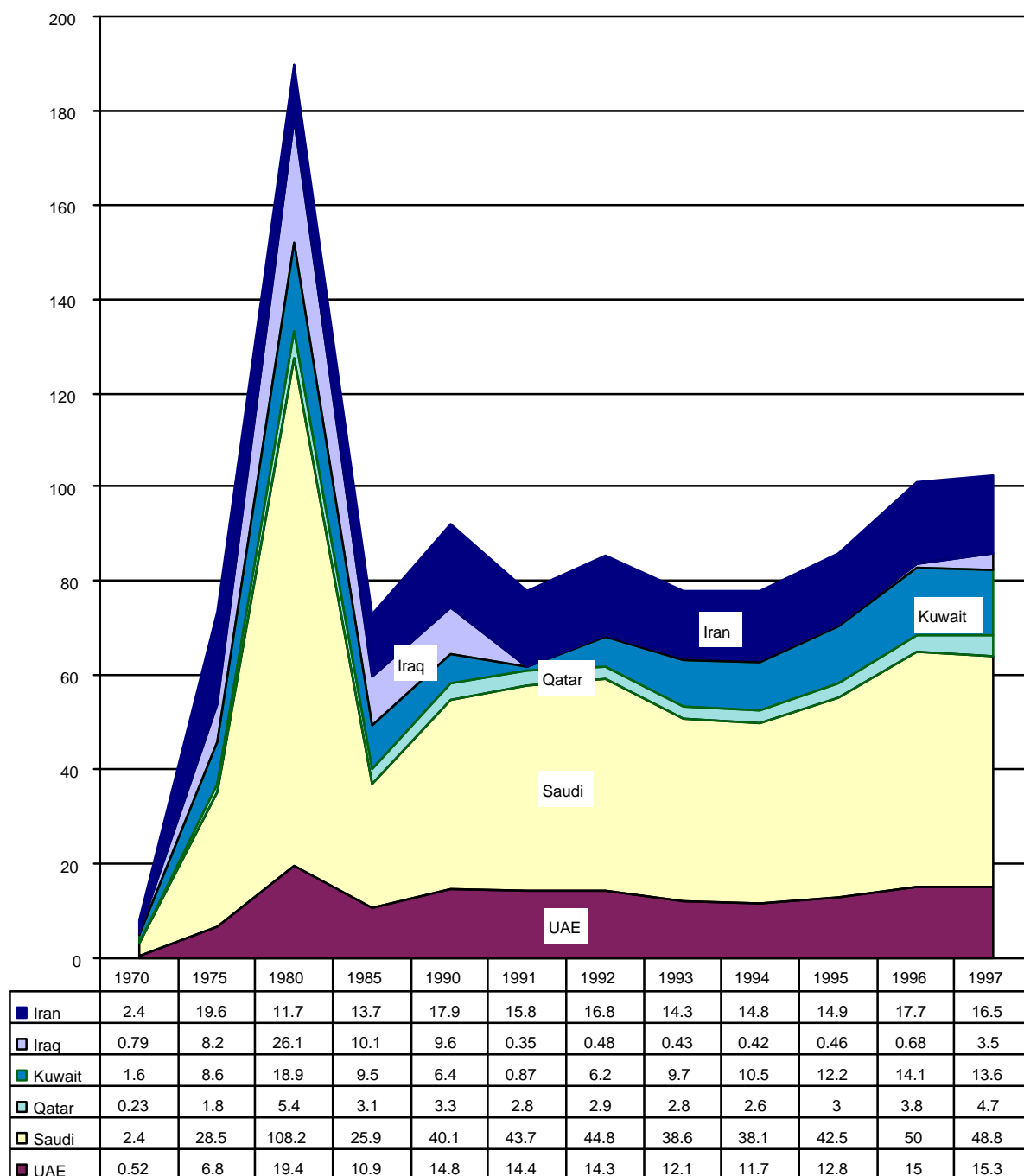
OPEC 13/31 18/87 17/91 9/53 15/19 14.77 15.99 16.75 16.84 16.99 17.18 18.30

Total ME 13.95 19.57 18.40 10.25 16.49 16.19 17.43 18.34 18.59 18.84 19.08 20.16

Adapted by Anthony H. Cordesman from Cambridge Energy Associates, World Oil Trends, 1998, Cambridge, Mass., 1998, pp. 26-27.

Historical Trends in Oil Revenues: 1970-1997

(\$Current Billions)

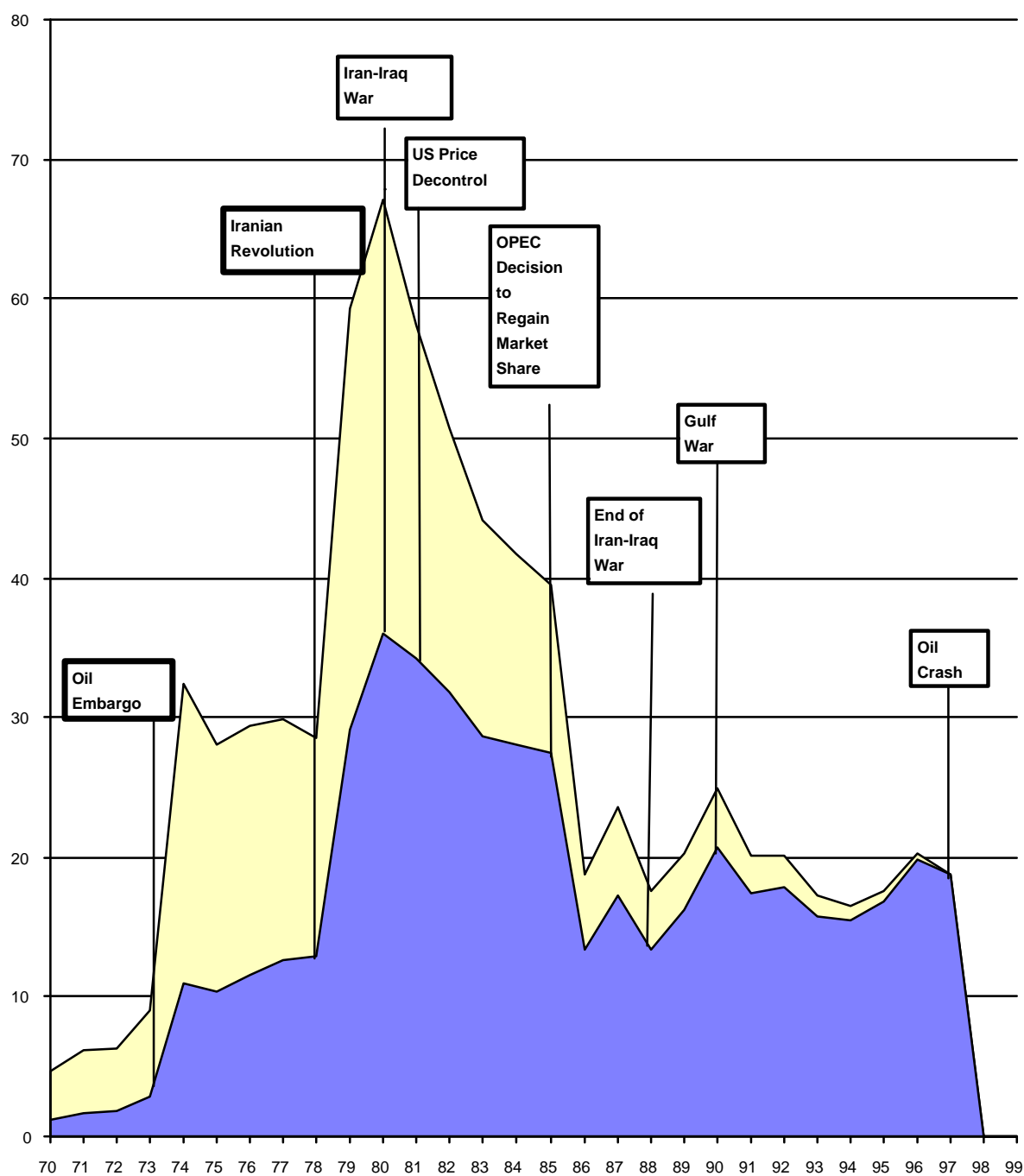


Total ME OPEC	7.9	74.5	189.7	73.2	92.1	77.9	85.4	77.9	78.2	85.9	101.3	102.5
Total MENA OPEC	11.0	84.7	224.7	95.0	112.4	96.2	102.5	92.2	93.7	100.6	120.0	120.1

Adapted by Anthony H. Cordesman from Cambridge Energy Associates, World Oil Trends, 1998, Cambridge, Mass., 1998, pp. 26-27.

Politics and the Trends in the Price of Saudi Arabia Light Crude: 1970-1999

(\$US Current and \$US 1997 Constant)



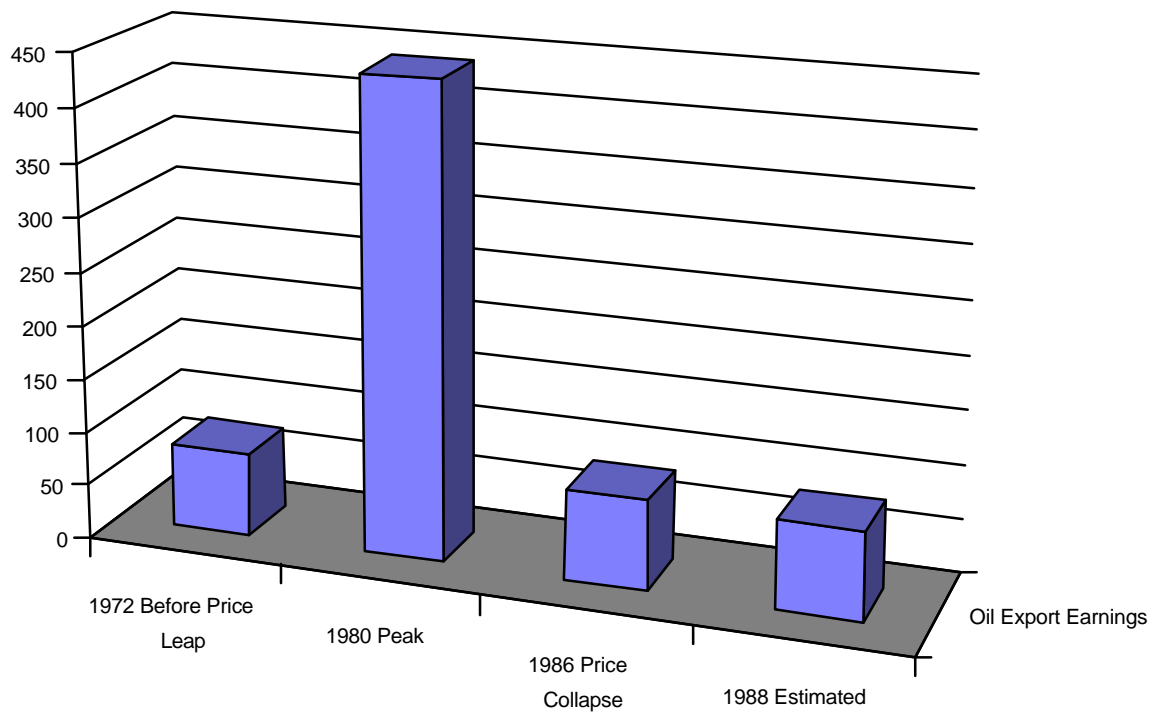
Total ME

OPEC 13/31 18/87 17/91 9/53 15/19 14.77 15.99 16.75 16.84 16.99 17.18 18.30

Total ME 13.95 19.57 18.40 10.25 16.49 16.19 17.43 18.34 18.59 18.84 19.08 20.16

Adapted by Anthony H. Cordesman from Cambridge Energy Associates, World Oil Trends, 1998, Cambridge, Mass., 1998, pp. 26-27.

The “Oil Shock in Reverse:” Shifts in Total OPEC Earnings (\$1990 Billions)

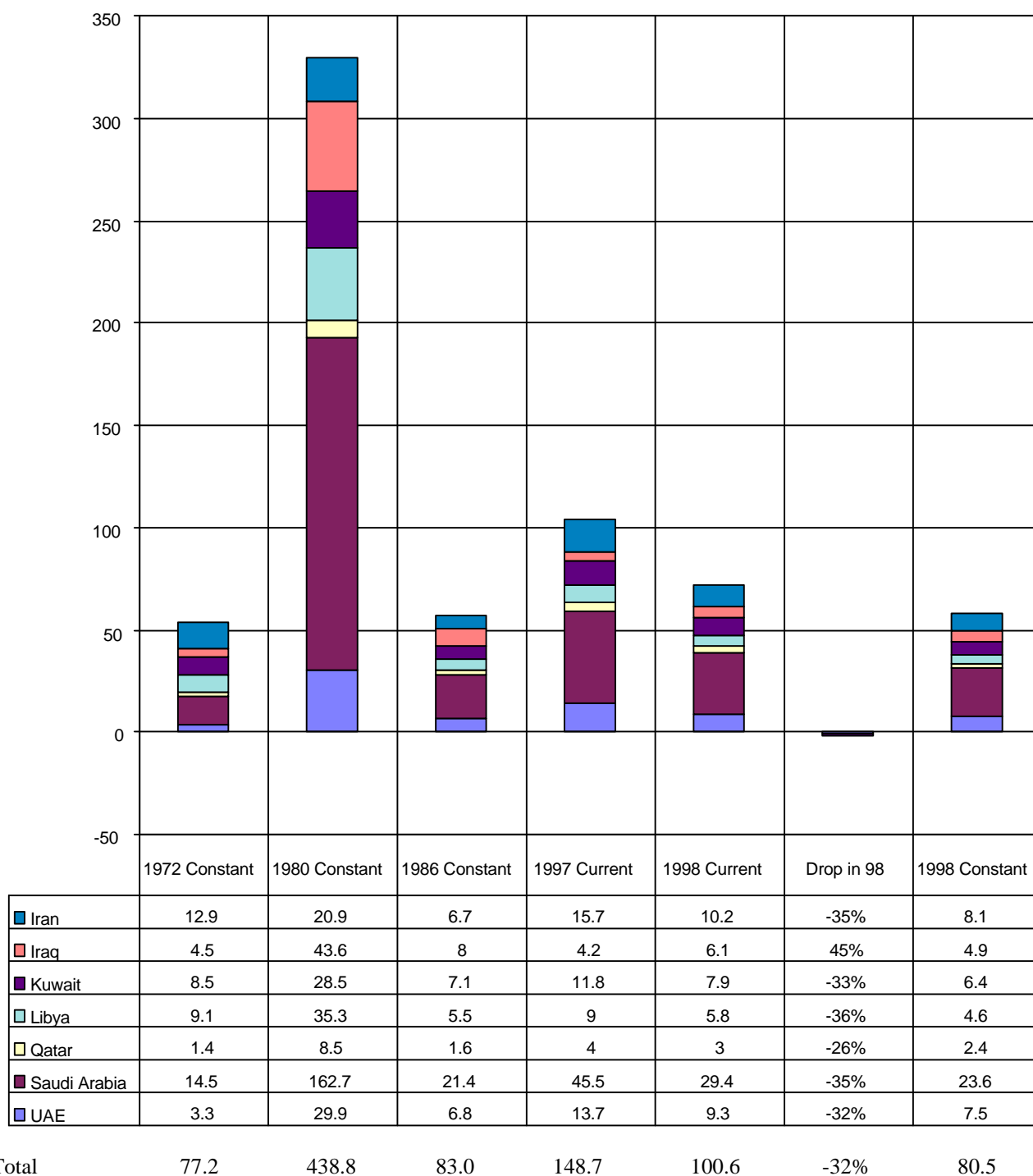


	1972 Before Price Leap	1980 Peak	1986 Price Collapse	1988 Estimated
Oil Export Earnings	77	439	83	81

Adapted by Anthony H. Cordesman from data provided by DOE/EIA. November, 1998.

The “Oil Shock in Reverse:” Shifts in OPEC Earnings by Major Country: 1972-1998

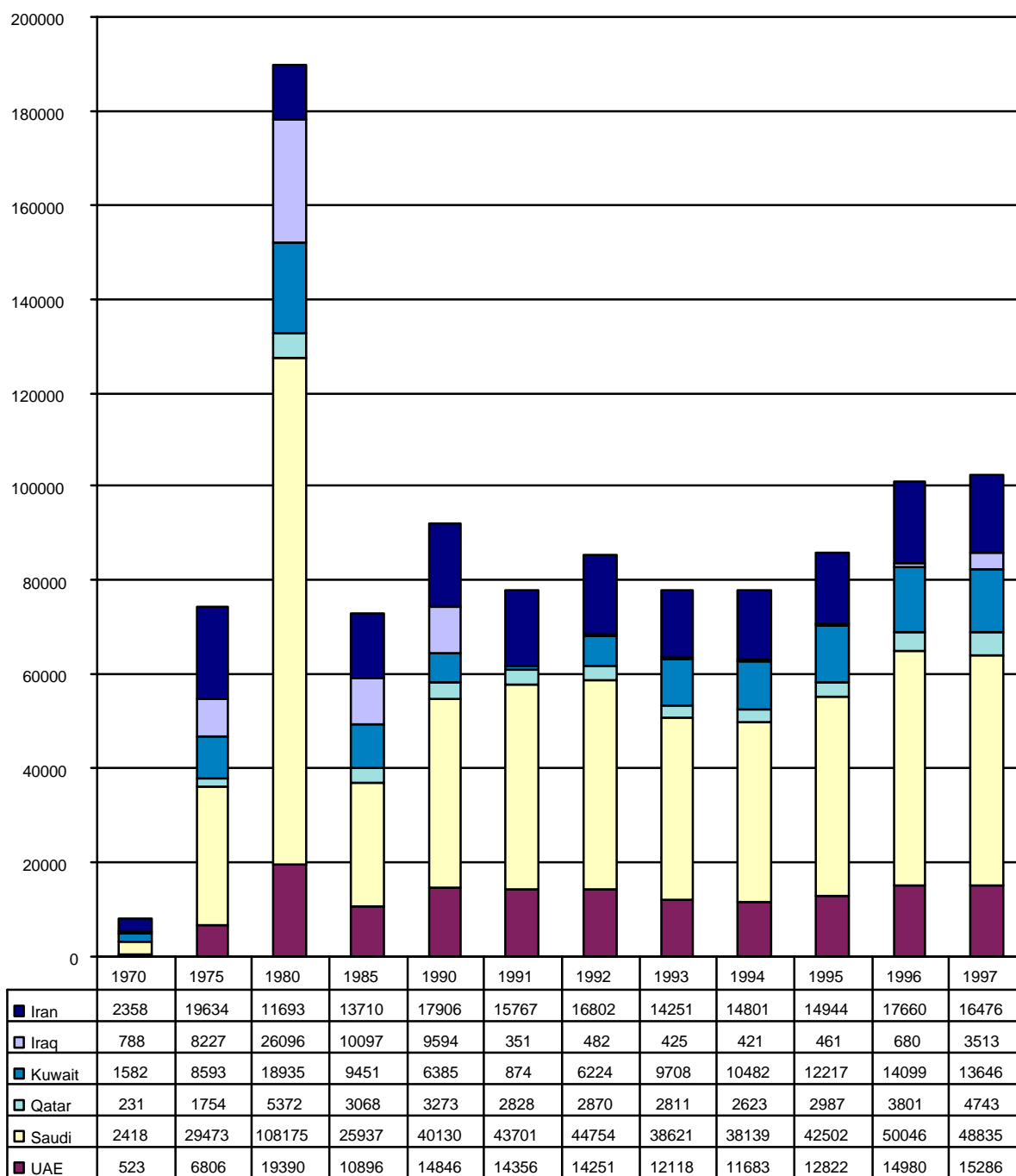
(in \$US Current and 1990 Constant Billions)



Source: Adapted by Anthony H. Cordesman from data provided by the EIA as of September 4, 1998.

The Boom in 1980 versus the Mid-1980s and 1990s: Shifts in Oil Export Earnings By Country

(\$Current Billions)



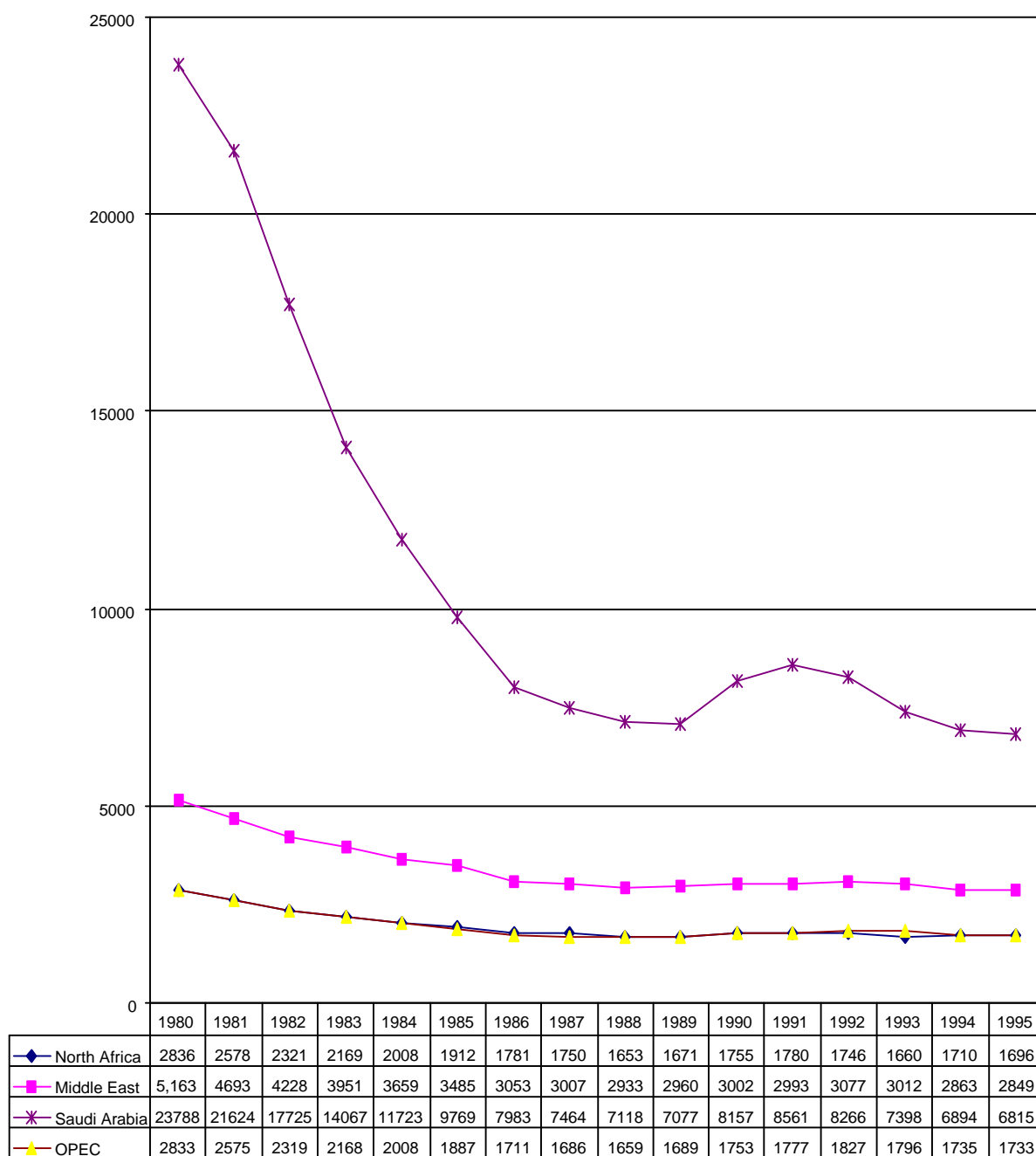
Total ME

OPEC 7900 74487 189661 73159 92134 77877 85383 77934 78149 85933 191266 192499

Adapted by Anthony H. Cordesman from Cambridge Energy Associates, World Oil Trends, 1998, Cambridge, Mass., 1998, pp. 60-61.

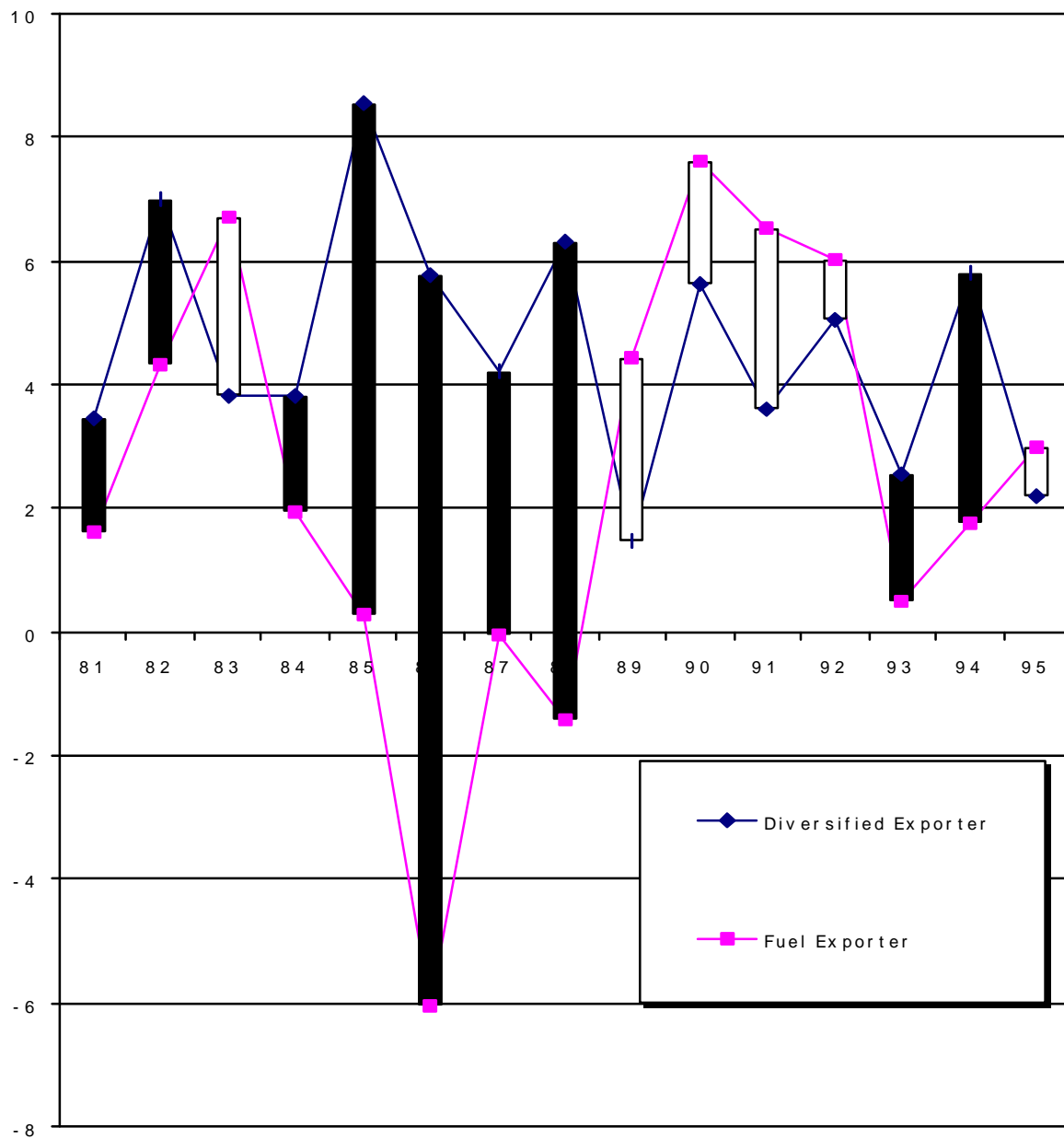
The Decline in Real Per Capita Income in the Middle East, North Africa, OPEC and Saudi Arabia: 1980-1995

(\$US Constant 1995 Dollars)



Adapted by Anthony H. Cordesman from Arms Control and Disarmament Agency (ACDA), World Military Expenditures and Arms Transfers, Washington, GPO, Table I, various editions..

Diversified Exporters and Was Far More Vulnerable to Oil Prices (Percent of GDP Growth)



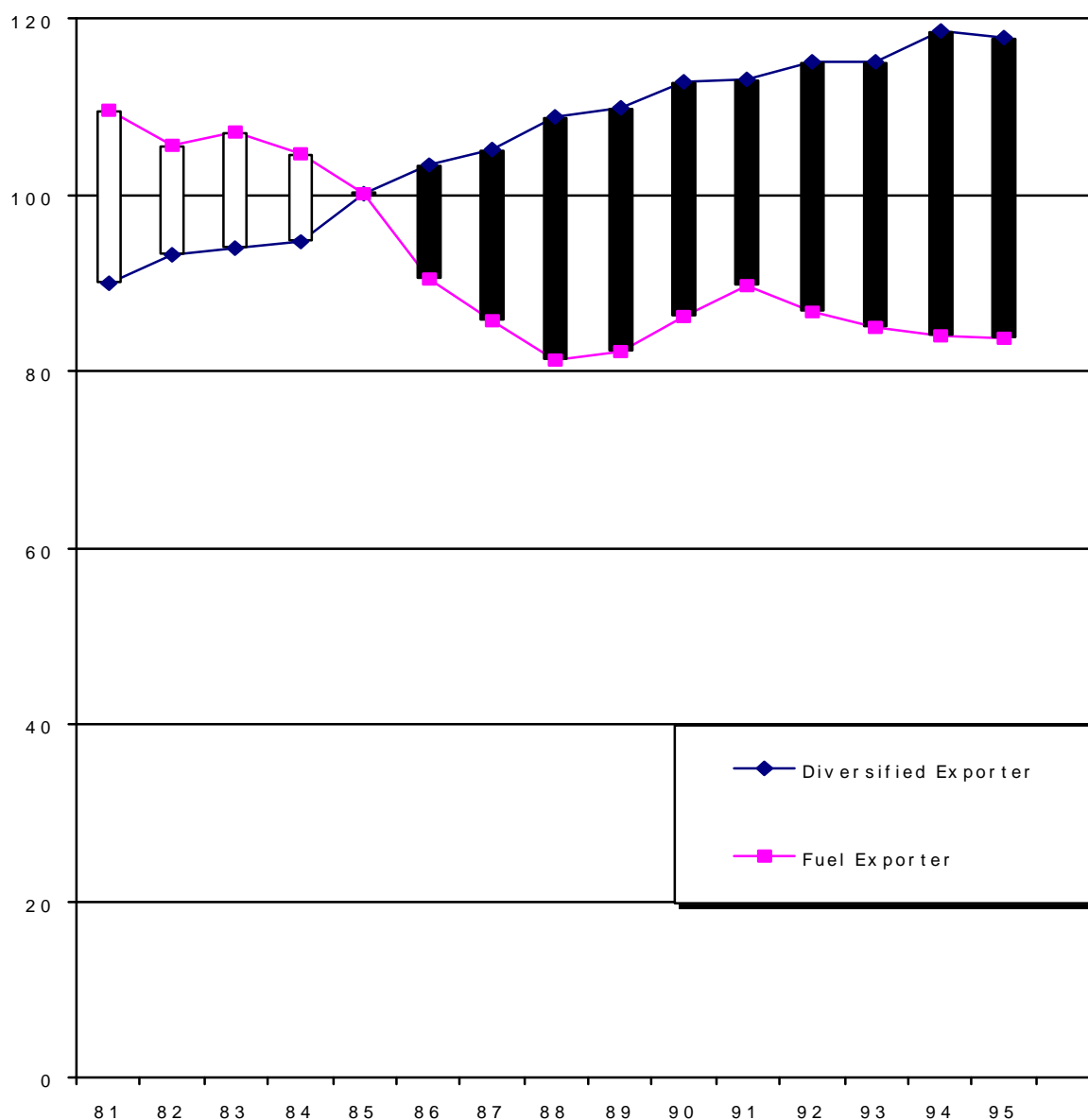
Diversified exporter = Egypt, Israel, Jordan, Morocco, Syria, and Tunisia.

Fuel exporter = Algeria, Bahrain, Iran, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE.

Adapted by Anthony H. Cordesman from IMF, World Economic Outlook, Washington, IMF, May, 1996, pp. 98-105.

The Per Capita Income Growth of MENA Fuel Exporters Lagged Behind That of Diversified Exporters and Was Far More Vulnerable to Oil Prices

(Percent of Change in Per Capita Income; 1985 = 100)



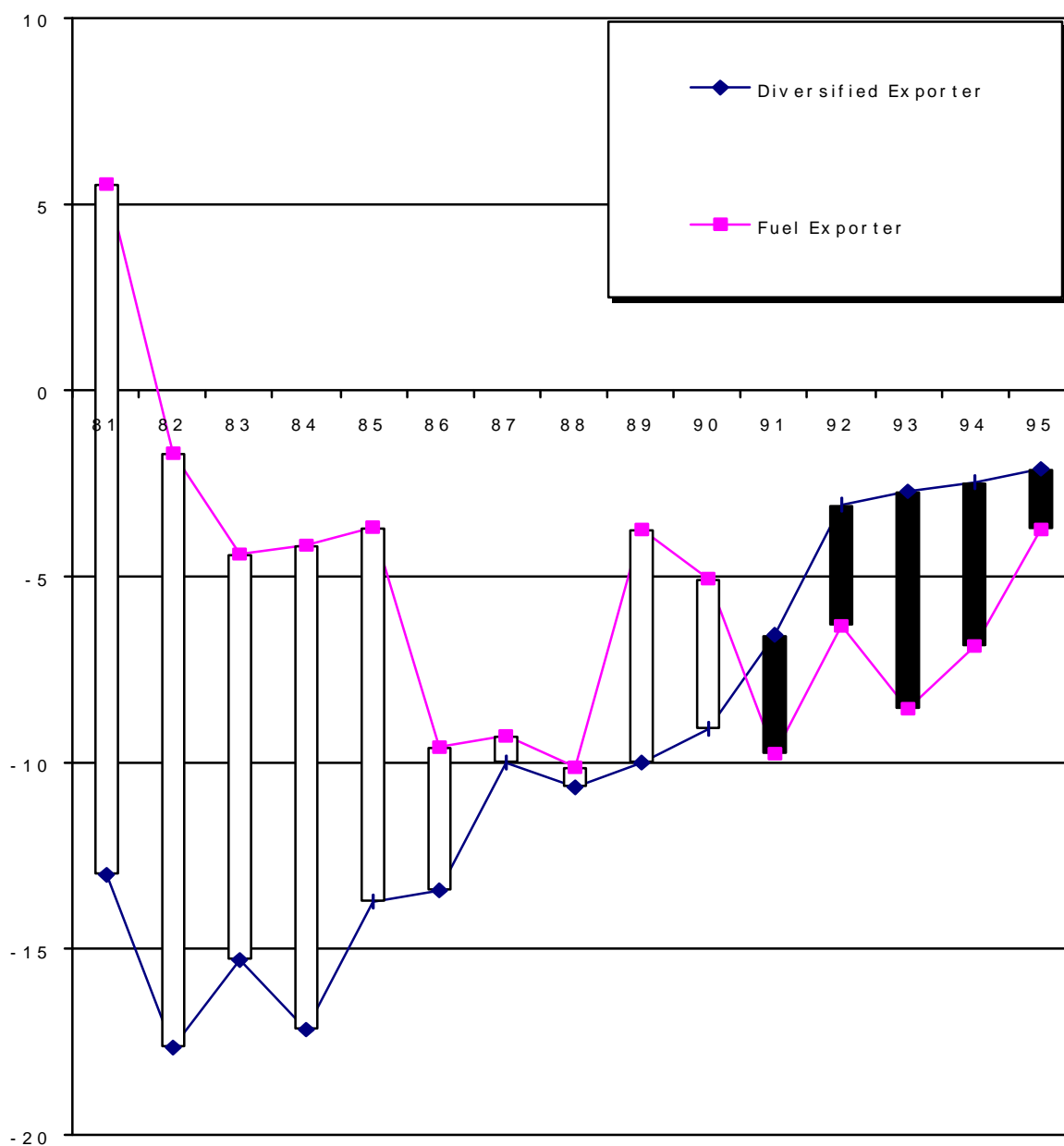
Diversified exporter = Egypt, Israel, Jordan, Morocco, Syria, and Tunisia.

Fuel exporter = Algeria, Bahrain, Iran, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE.

Adapted by Anthony H. Cordesman from IMF, *World Economic Outlook*, Washington, IMF, May, 1996, pp. 98-105.

The Fiscal Balances of MENA Fuel Exporters Deteriorated Relative to Those of Diversified Exporters

(Budget Deficits as a Percent of GNP)



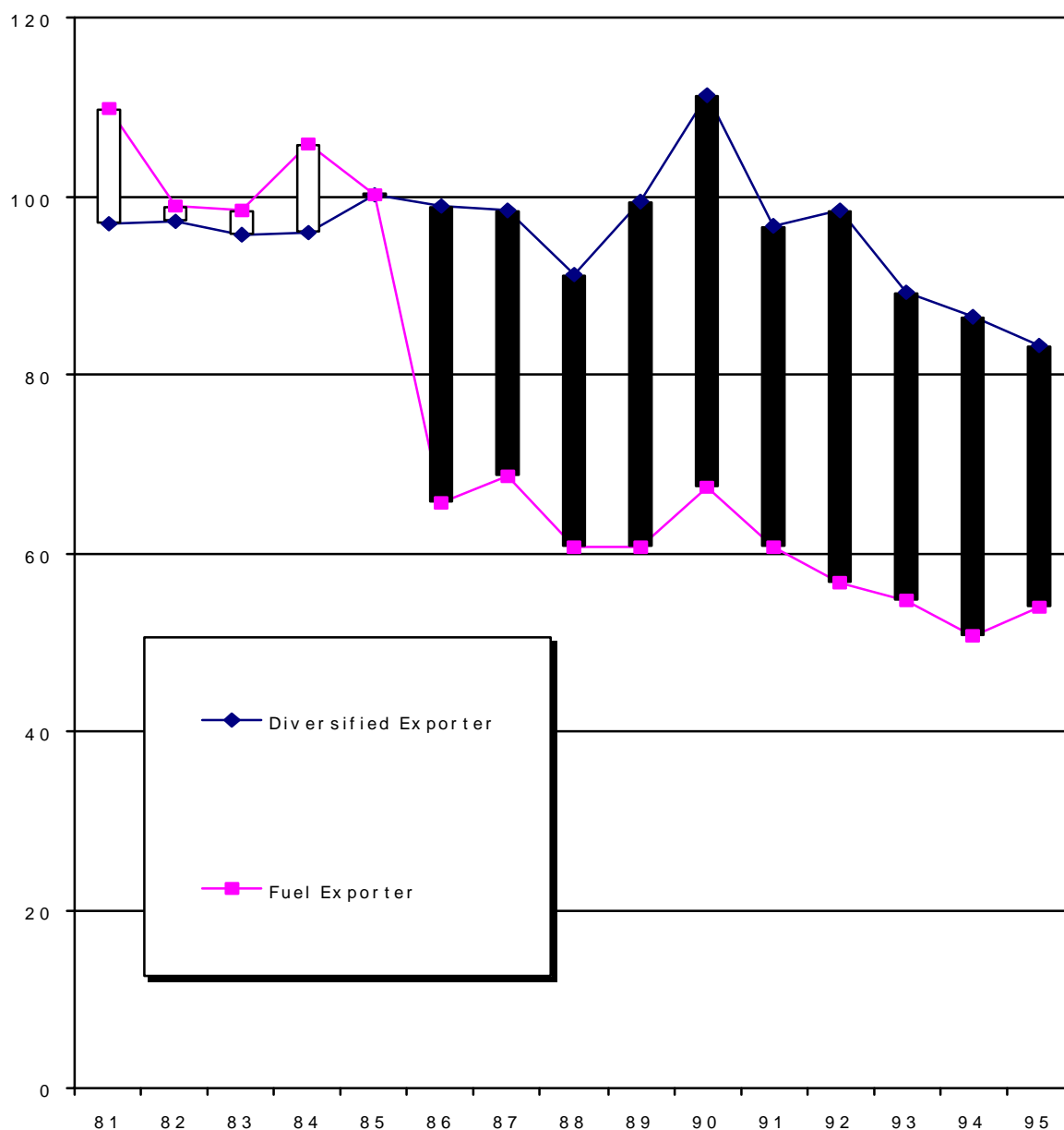
Diversified exporter = Egypt, Israel, Jordan, Morocco, Syria, and Tunisia.

Fuel exporter = Algeria, Bahrain, Iran, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE.

Adapted by Anthony H. Cordesman from IMF, World Economic Outlook, Washington, IMF, May, 1996, pp. 98-105.

The Terms of Trade of MENA Fuel Exporters Deteriorated Relative to Those of Diversified Exporters

(1985=100)

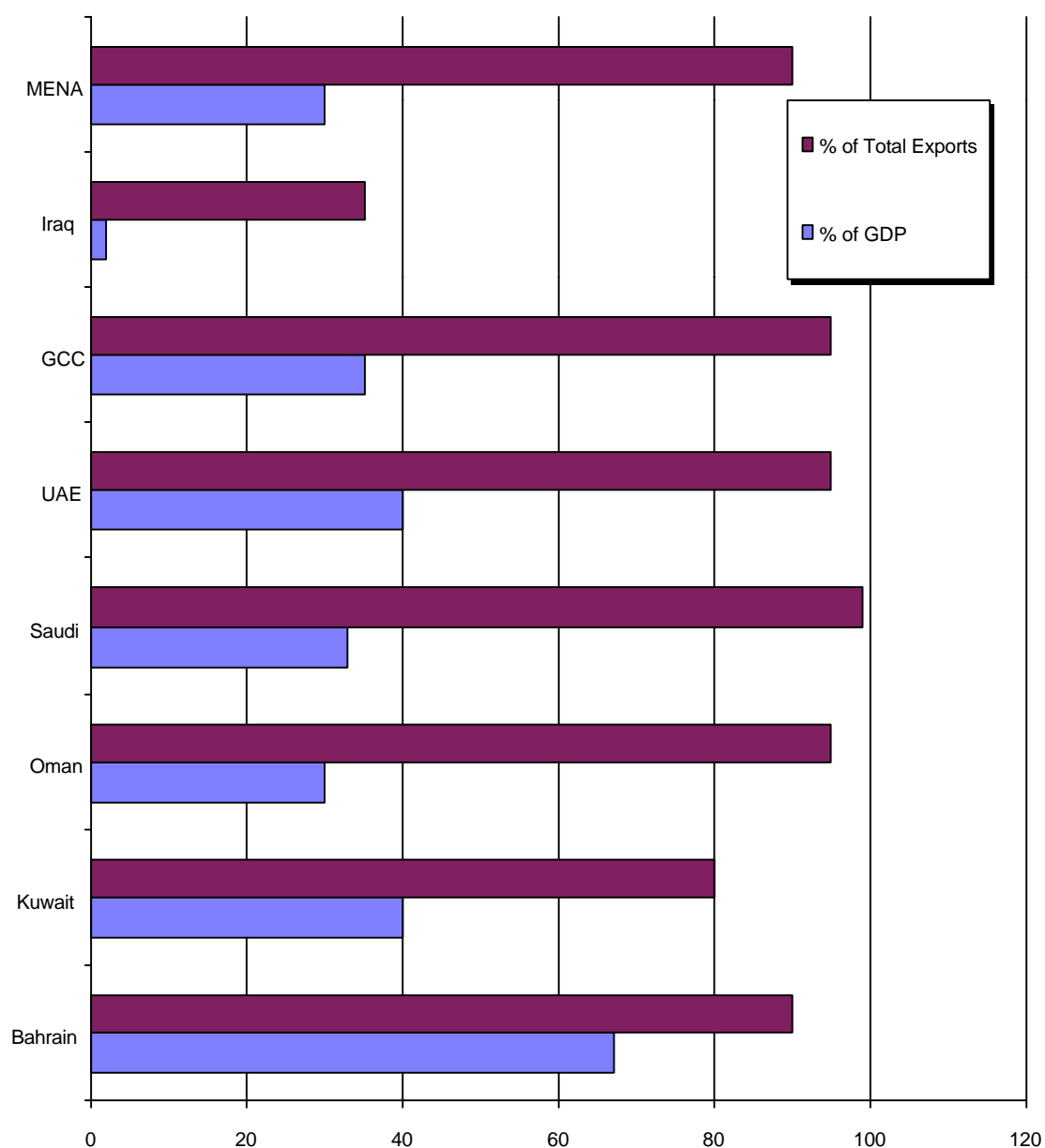


Diversified exporter = Egypt, Israel, Jordan, Morocco, Syria, and Tunisia.

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Adapted by Anthony H. Cordesman from IMF, *World Economic Outlook*, Washington, IMF, May, 1996, pp. 98-105.

Economies Failed to Diversify and Remained Over-Dependent on Oil: Oil and Petroleum Exports as a Share of Gulf Economies

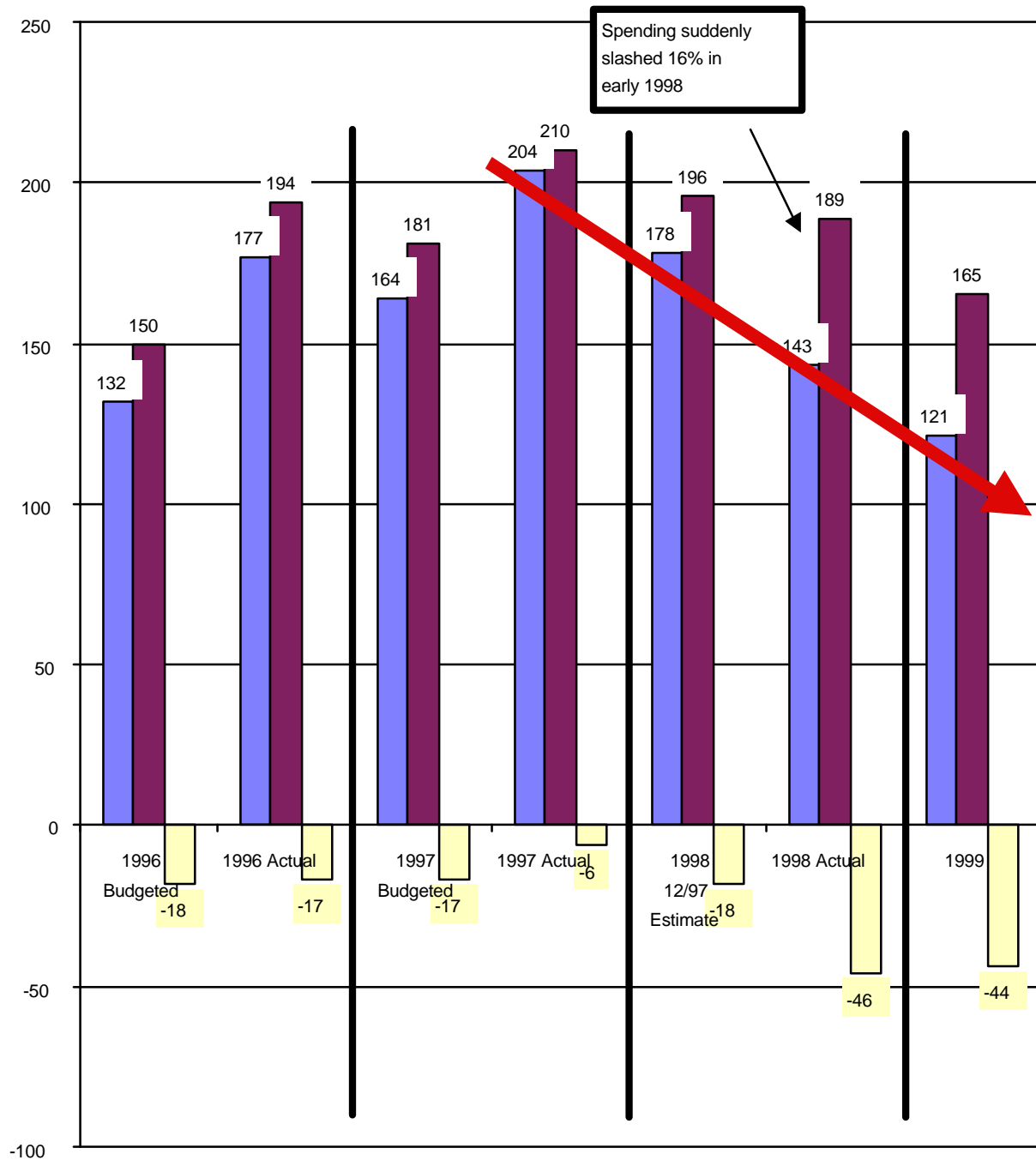


	Bahrain	Kuwait	Oman	Saudi	UAE	GCC	Iraq	MENA
■ % of Total Exports	90	80	95	99	95	95	35	90
■ % of GDP	67	40	30	33	40	35	2	30

Source: Adapted by Anthony H. Cordesman from World Bank, *Claiming the Future*, pp. 16-18.

Pressures on the Saudi Budget: The Problem of Predicting the Future of a One Commodity, State-Driven Economy

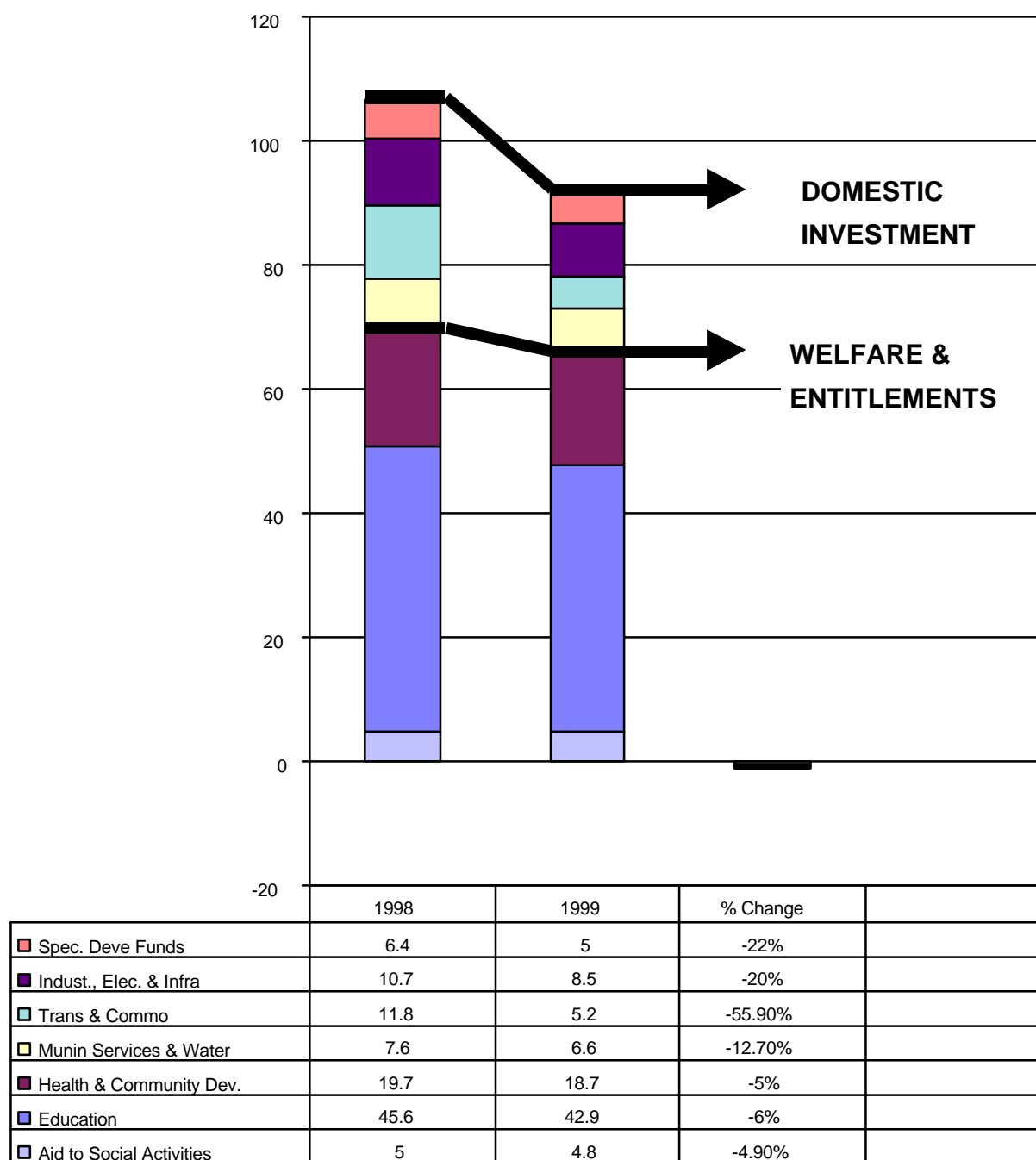
(in billions of Saudi Rials)



Source: Adapted by Anthony H. Cordesman from US-Saudi Business Brief, Winter, 1998, p. 1, and Reuters, December 28, 1998, 1728.

Pressures on the Saudi Budget: The Entitlements Problem

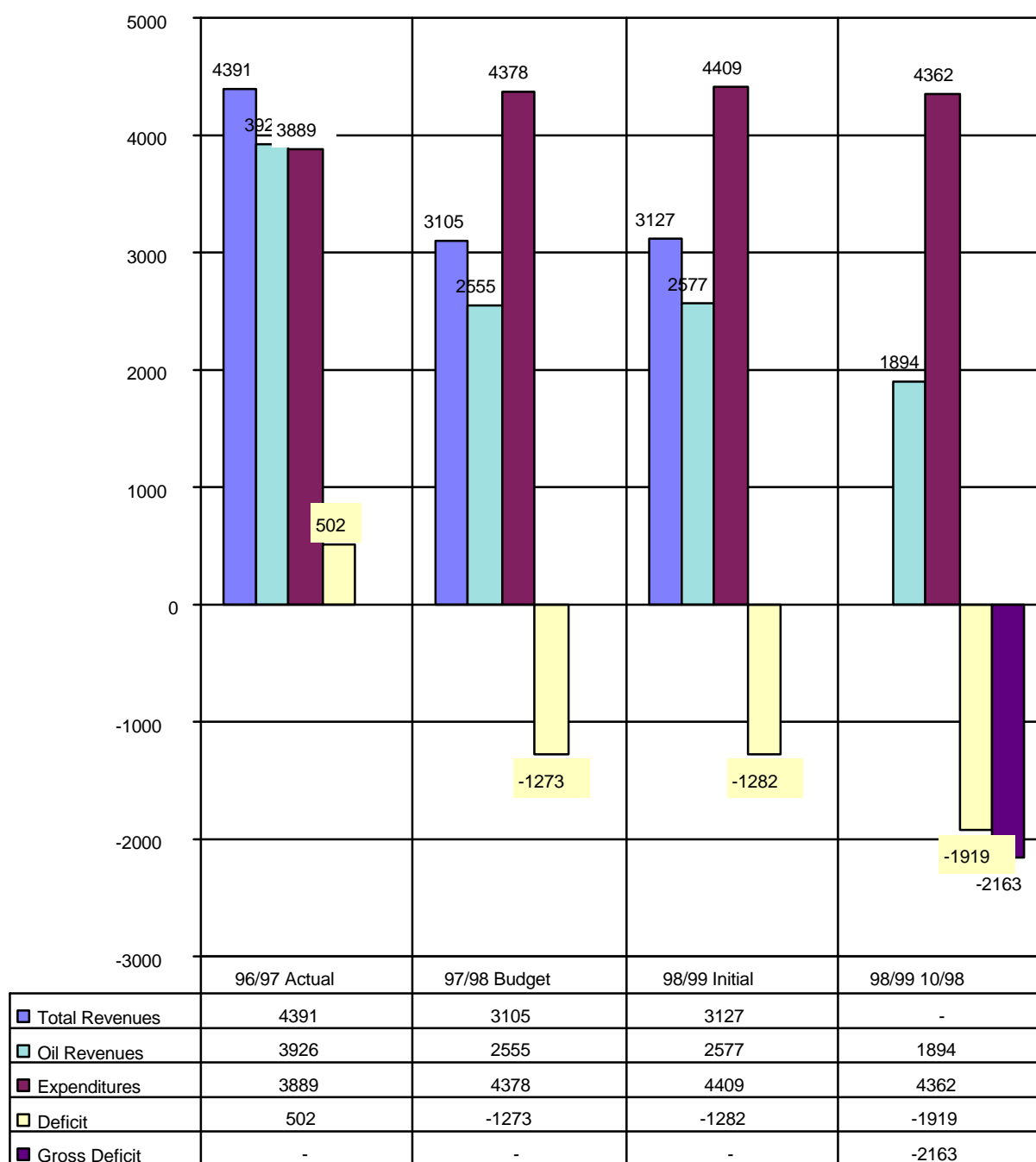
(in billions of Saudi Rials)



Source: Adapted by Anthony H. Cordesman from US-Saudi Business Brief, Winter, 1998, p. 1, and Reuters, December 28, 1998, 1728.

Pressures on the Kuwaiti Budget

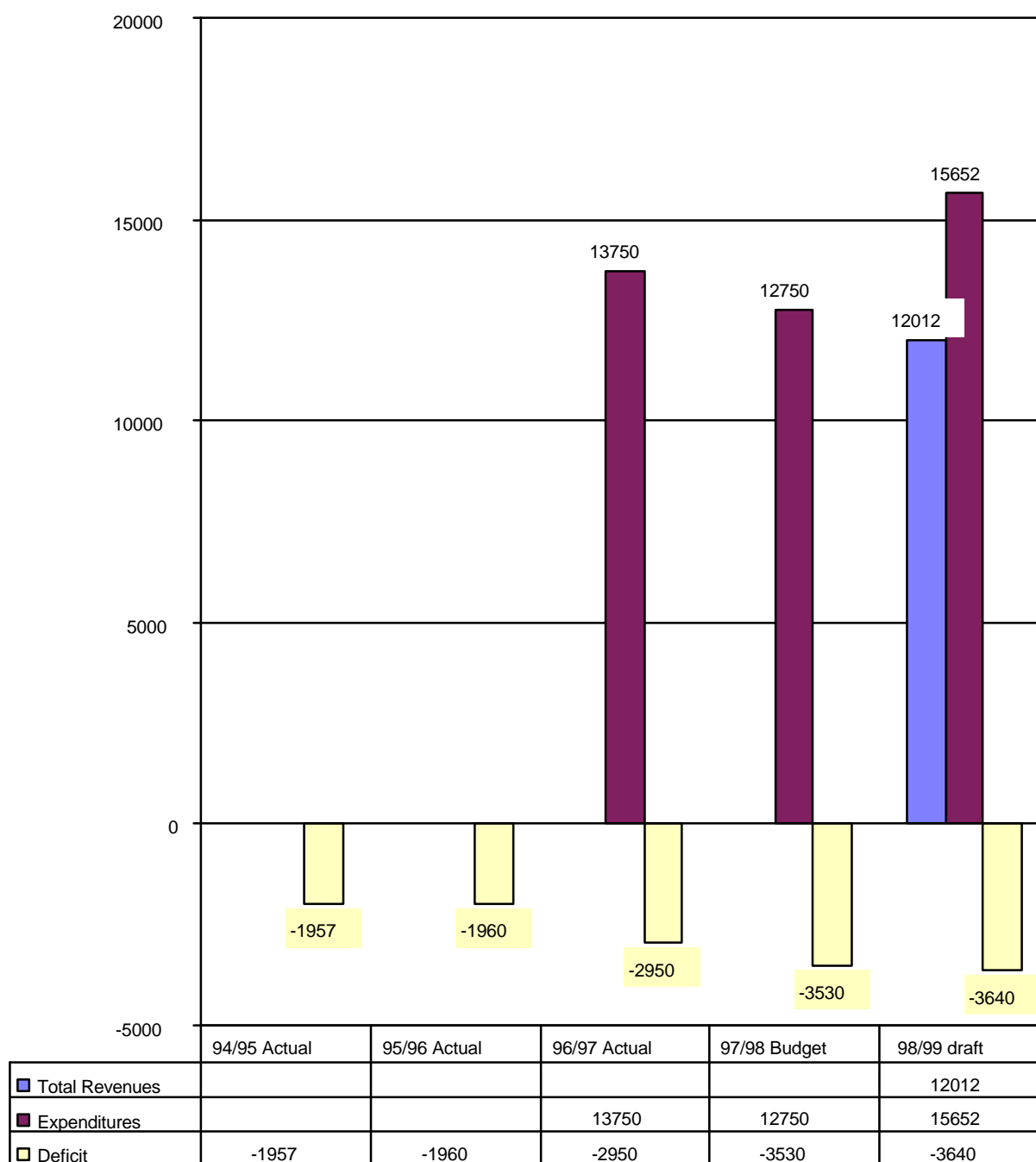
(in millions of Kuwaiti Dinars)



Source: Adapted by Anthony H. Cordesman from data provided by the Kuwait National Bank.

Pressures on the Qatari Budget

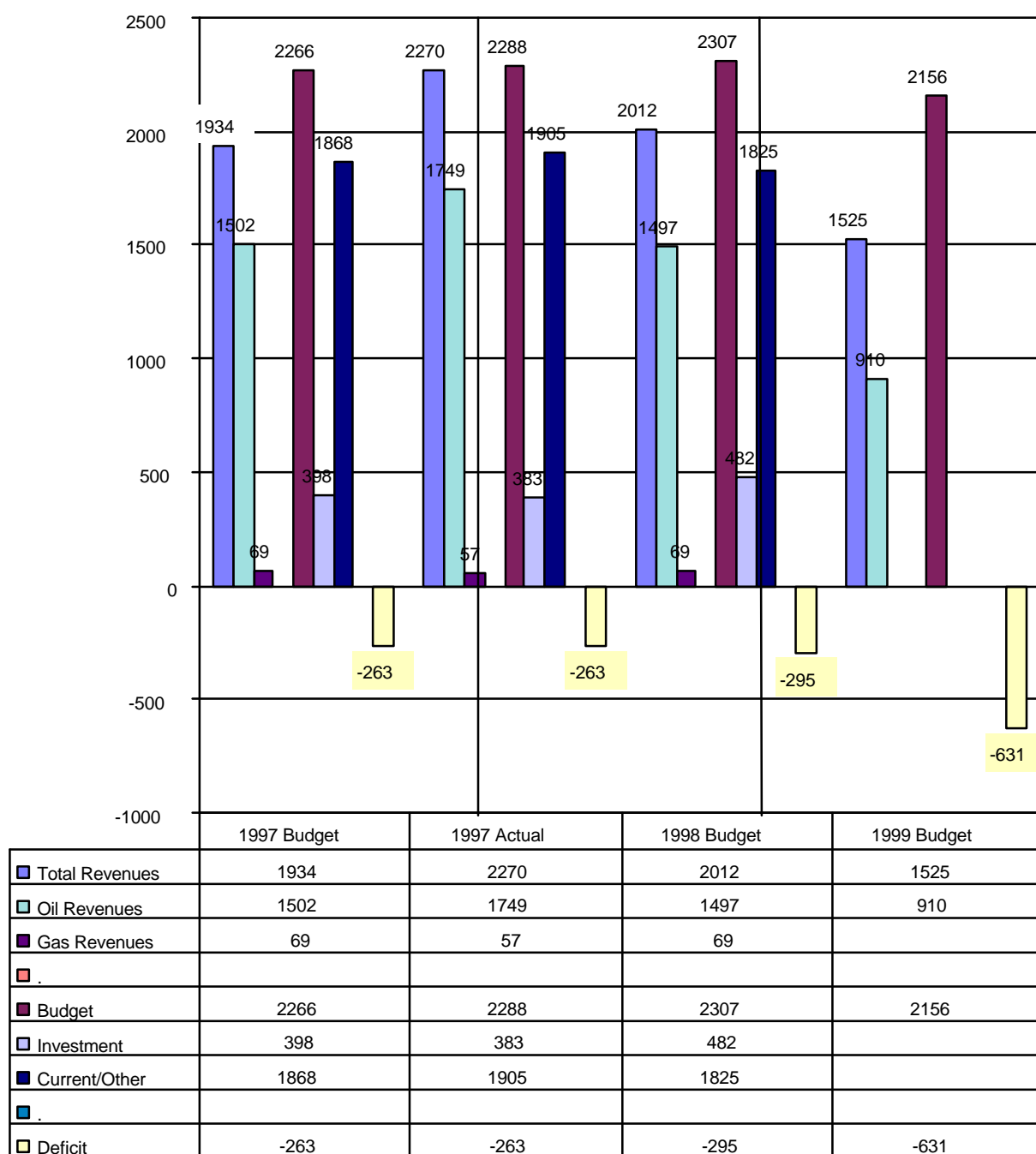
(in millions of Qatari Rials)



Source: Adapted by Anthony H. Cordesman from data provided by the Kuwait National Bank.

Pressures on the Omani Budget

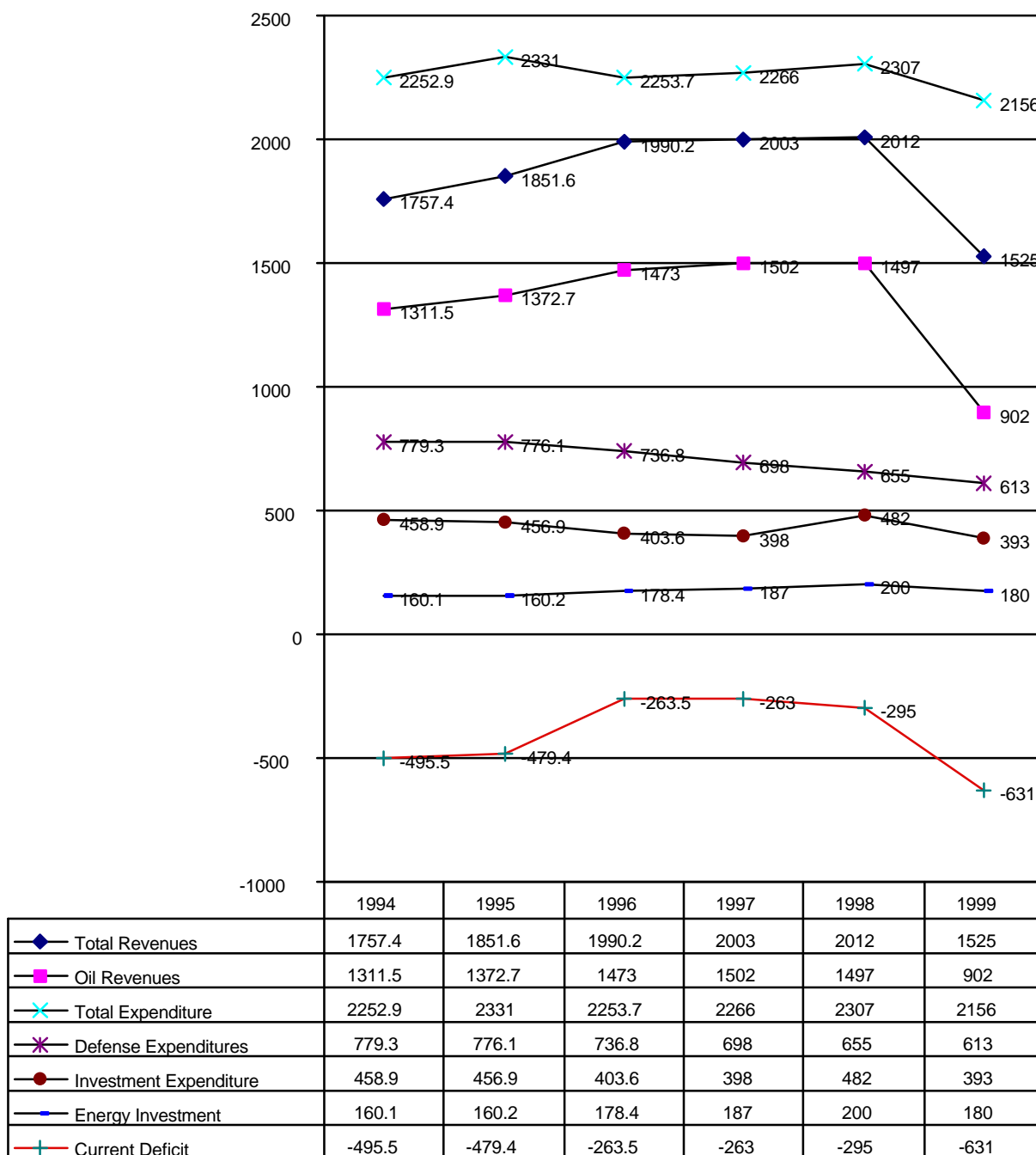
(in millions of Omani Rials)



Source: Adapted by Anthony H. Cordesman from data provided by the Central Bank of Oman and Middle East Economic Digest, November 20, 1998, p. 26, and January 15, 1999, pp. 2-3.

Key Trends in the Omani Budget

(in millions of Omani Rials)



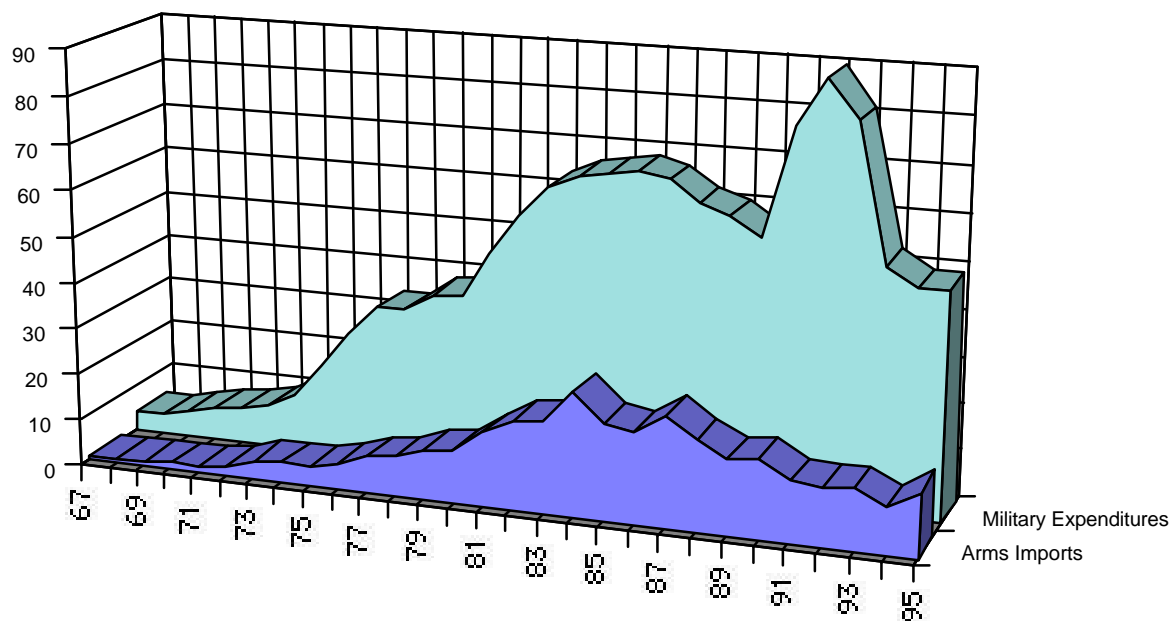
Source: Adapted by Anthony H. Cordesman from data provided by the Omani Times and Middle East Economic Survey, January 18, 1999, pp. B-2.

Regional Trends in Military Effort: “The Most Militarized Area in the World”

- **The Middle East Remains the Most Militarized Region in the World by Virtually Every Measure of Effort.**
- **This statement, however, disguises important downward trends in regional military spending and the burden of military expenditures and arms efforts.**
- **Military expenditures only place about half the burden on the GNP they did during the Cold War-Gulf War era.**
- **Military expenditures have steadily dropped as a percent of total government expenditures since the Gulf War.**
- **Arms imports are way down as a percent of total imports.**
- **Trends, however, are cyclical. Wars lead to major increases and then decreases. Major acquisitions often lead to short-term increases in arms orders followed by cuts as nations pay for previous orders.**
- **A steady drop has taken place in the percent of the total population under arms.**
- **“Statism”: Government domination of regional economies and the massive mismanagement of civil spending is the key problem.**

The Trend in Middle Eastern Military Expenditures and Arms Transfers Since the October War

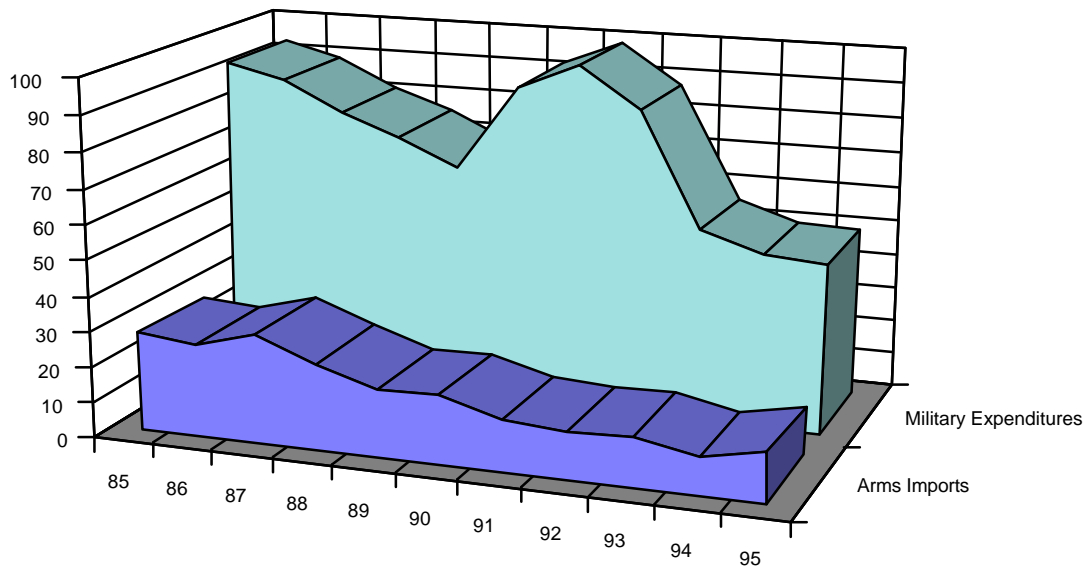
(1967-1995 in \$Current Billions)



Adapted by Anthony H. Cordesman from ACDA, World Military Expenditures and Arms Transfers, various editions. Middle East does not include North African states other than Egypt.

The Declining Trend in Middle Eastern Military Expenditures and Arms Transfers in Constant Dollars

(1967-1995 in \$1995 Billions)

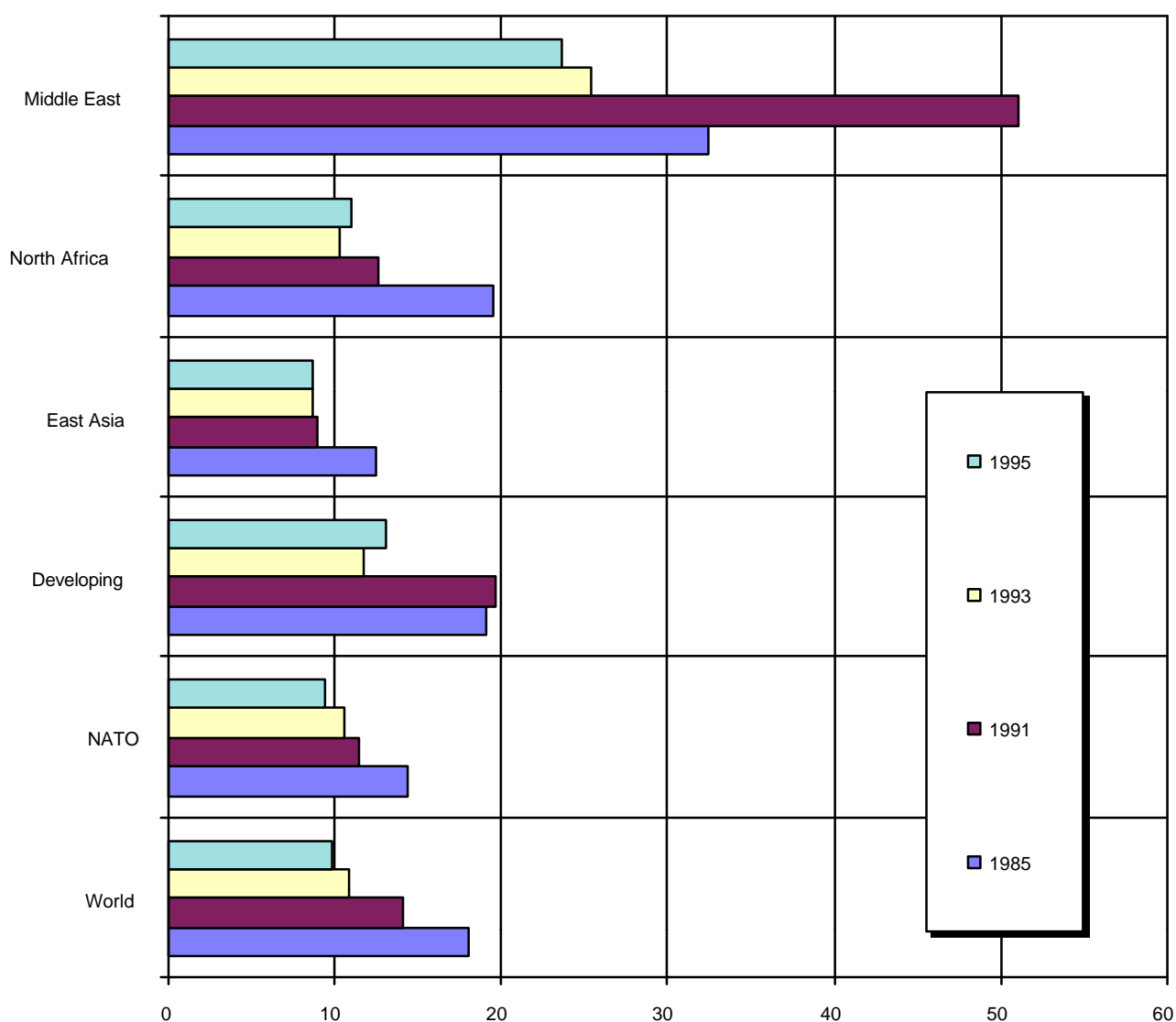


	85	86	87	88	89	91	92	93	94	95
Arms Imports	27.95	25.96	30.9	24.5	19.2	14.5	13.5	13.8	10.2	13.8
Military Expenditures	93	88.7	80.6	74.8	66.9	98.7	87.4	55	49.7	48.6

Adapted by Anthony H. Cordesman from ACDA, World Military Expenditures and Arms Transfers, various editions. Middle East does not include North African states other than Egypt.

Military Expenditures Place a Lower Burden on Government Spending

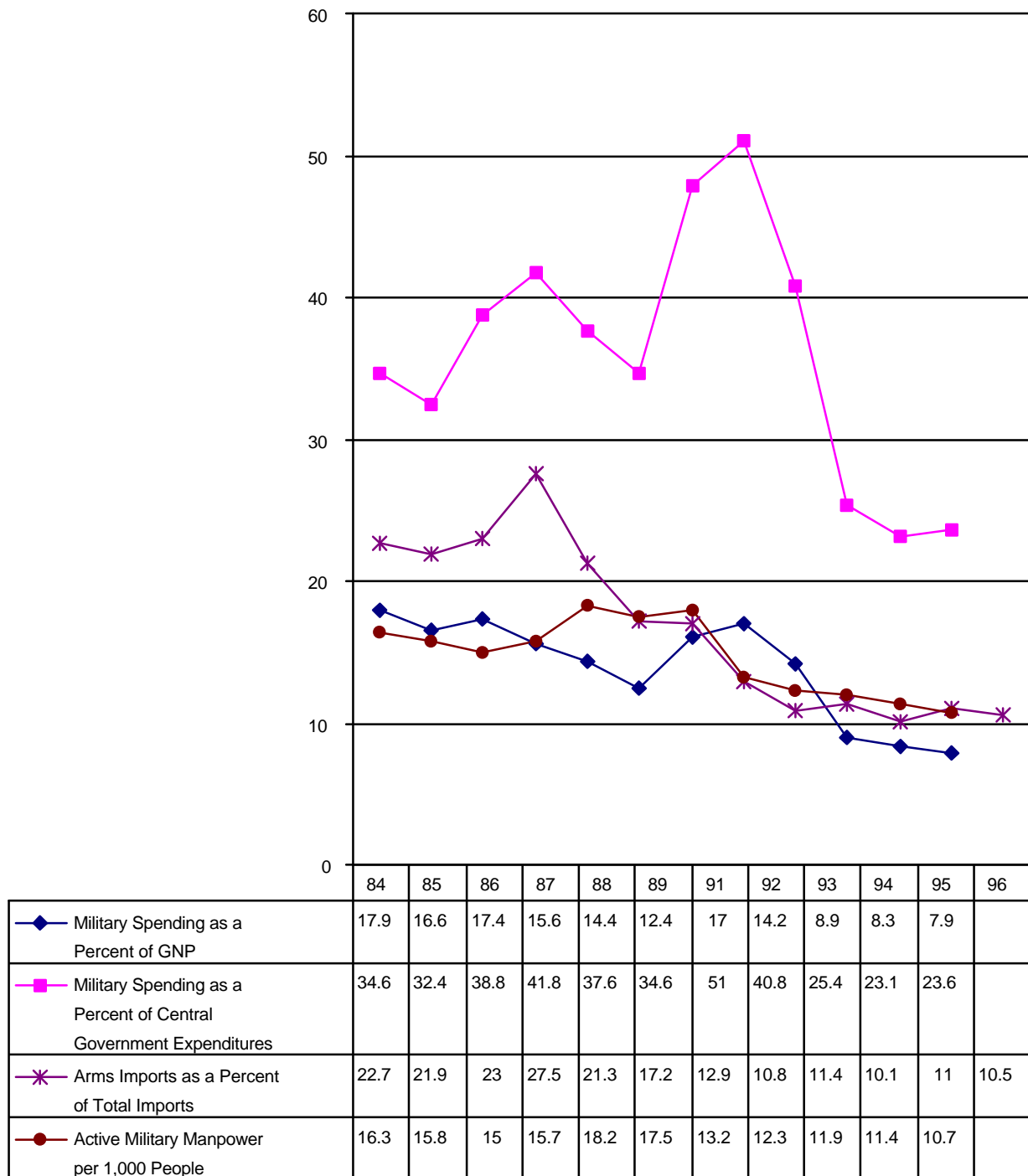
(Military Expenditures Relative to Central Government Expenditures: 1985-1995: Military Expenditures as a % of CGE)



	World	NATO	Developing	East Asia	North Africa	Middle East
1995	9.9	9.4	13	8.6	11	23.6
1993	10.9	10.6	11.7	8.7	10.3	25.4
1991	14.1	11.5	19.7	8.9	12.6	51
1985	18.1	14.4	19	12.5	19.5	32.4

Source: Adapted by Anthony H. Cordesman from ACDA, World Military Expenditures and Arms Transfers, 1996, Washington, GPO, 1997

Middle Eastern Military Efforts Have Also Dropped Sharply as a Percent of GNP, Government Expenditures, Total Population, and Arms Imports: 1984-1996



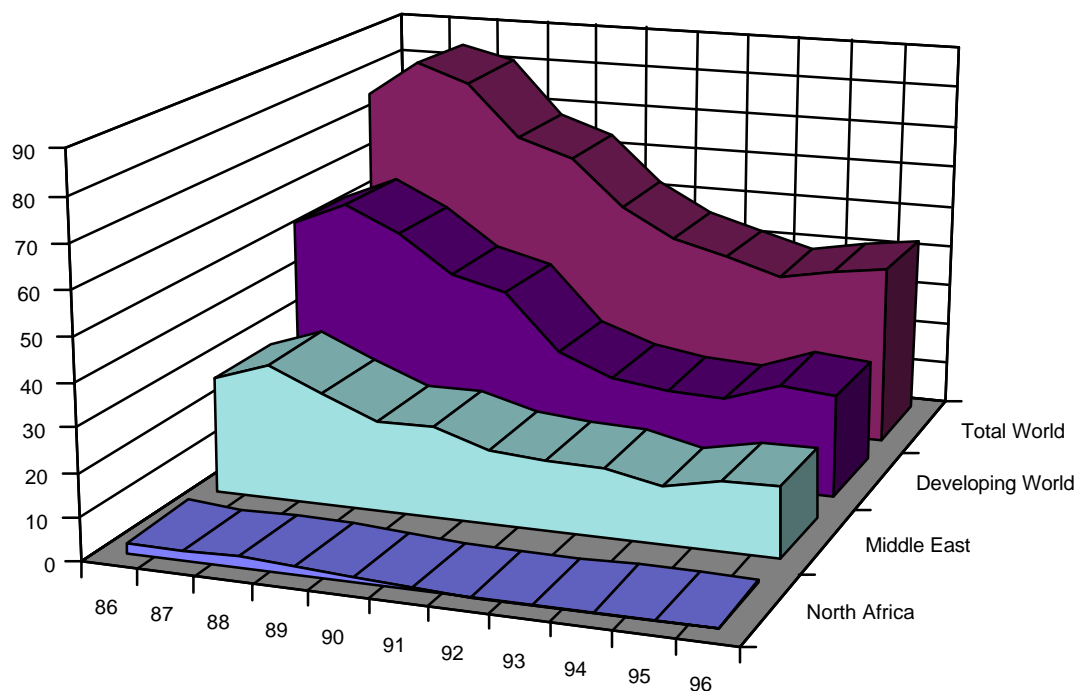
Adapted by Anthony H. Cordesman from ACDA, World Military Expenditures and Arms Transfers, various editions. Middle East does not include North African states other than Egypt.

The De-Radicalization of Arms Transfers

- **The Arab-Israeli peace process, end of the Iran-Iraq War, end of the Cold War, and Gulf War have reduced the threat far more than orders of battle would indicate.**
- **Mismanagement of the economy, lower oil prices, and regional recession have also affected sales.**
- **New agreements states with recent conflicts, or which are outside the peace process, are down to token share of past levels.**
- **States committed to peace have signed 93% of all recent new arms import agreements versus 67% before Gulf War.**
- **Southern Gulf states have recently signed 96% of all new arms import agreements versus 53% before Gulf War.**
- **The most dangerous single threat country -- Iraq -- has had only token imports since 1990.**
- **Iran did not choose to renew the arms race after its defeat in 1988, and made major further cuts in 1992, after the Coalition weakened Iraq.**
- **Syria has no sponsor.**
- **Libya faces economic problems and is sanctioned.**
- ***Warning: Data Do Not Take Proliferation Into Account***

The Continuing Importance of the Middle East Arms Imports as a Share of the World Defense Market

(Value of Arms Deliveries During 1986-1996 in \$1996 Billions)

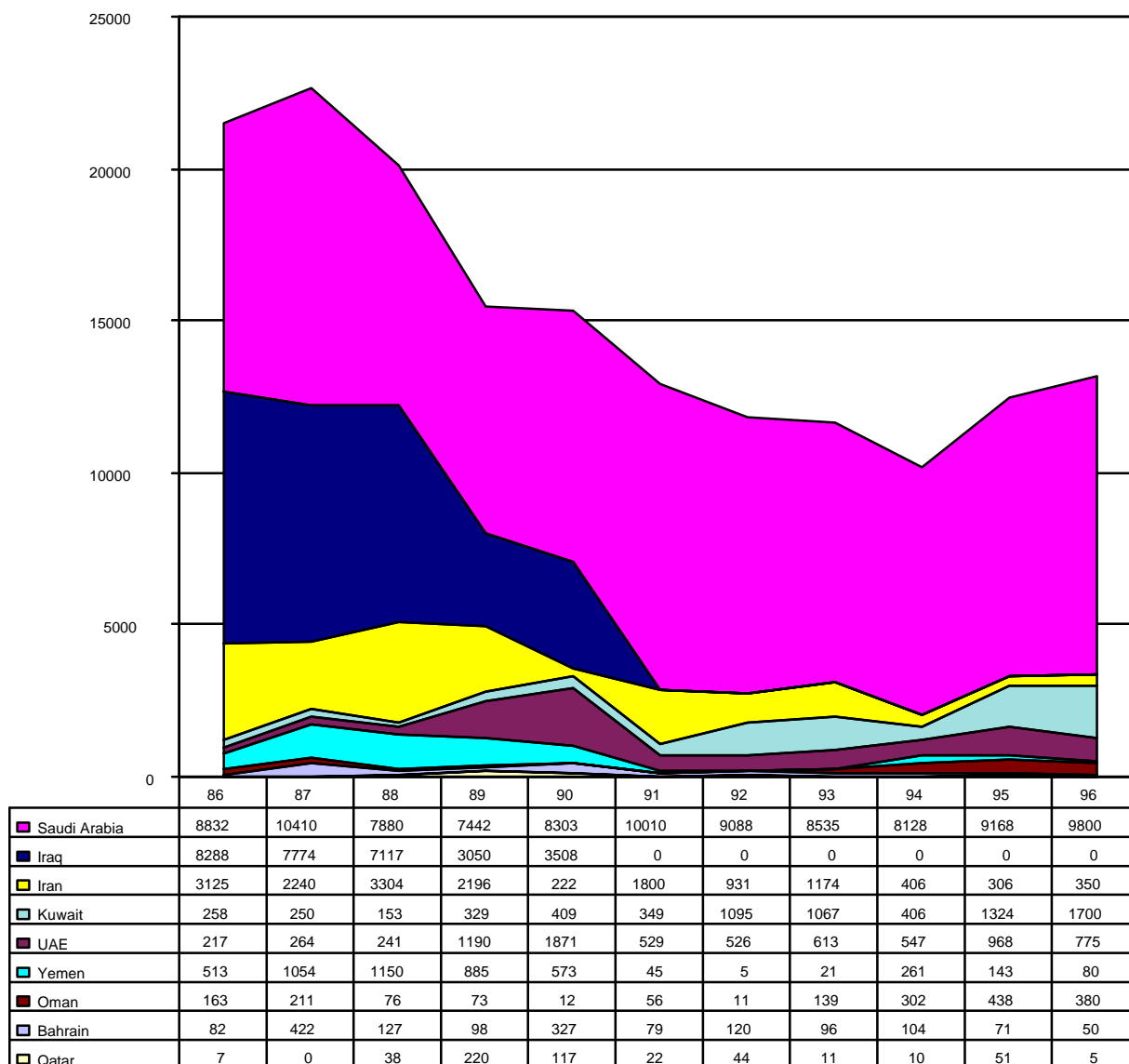


	86	87	88	89	90	91	92	93	94	95	96
■ North Africa	2.7	2.3	2.6	2.3	1.1	0.7	0.23	0.13	0.37	0.35	0.25
■ Middle East	27.4	31.6	26.1	20.8	21.3	17.3	16.2	15.8	13.4	15.9	16.2
■ Developing World	53.1	58.3	52.7	44.1	40.5	27.4	23	21.2	20.3	24.9	23.7
■ Total World	75.9	84.4	80.6	67.8	63.4	52.5	45.7	42.1	38.5	40.6	42.6

Adapted by Anthony H. Cordesman from ACDA, World Military Expenditures and Arms Transfers, various editions. Middle East does not include North African states other than Egypt.

Cumulative Arms Imports of the Gulf States - 1984-1995

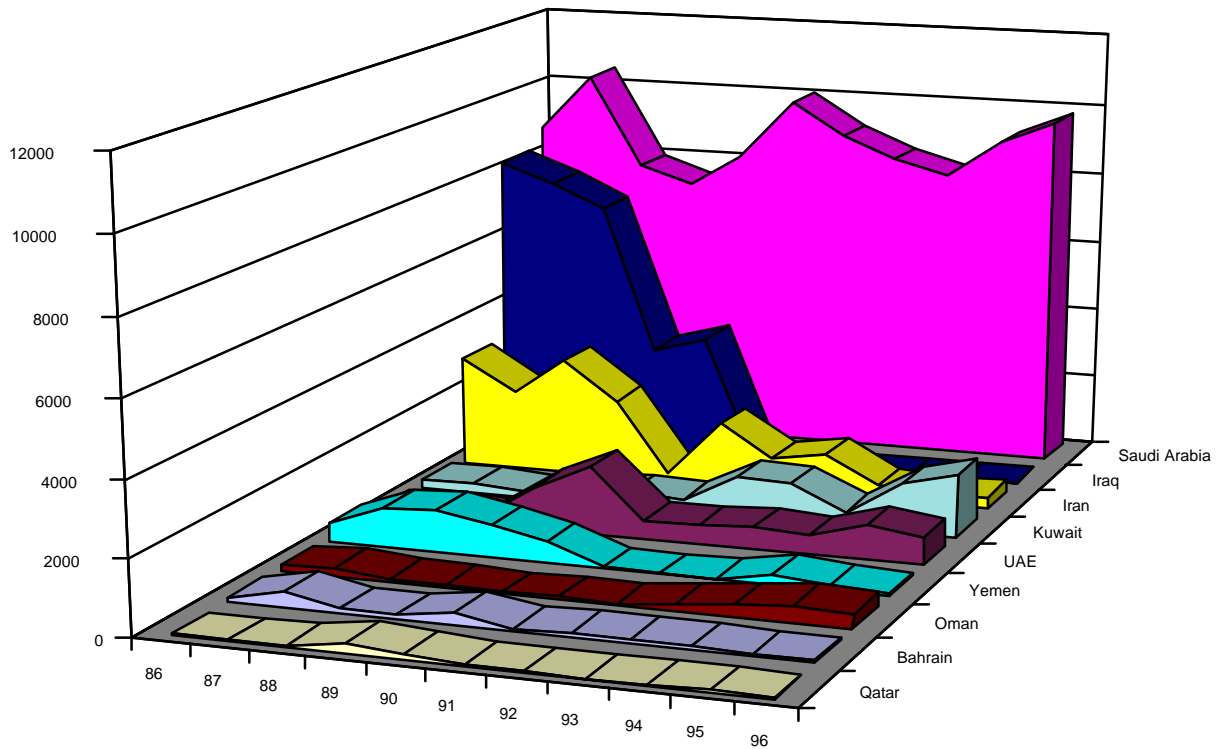
(Constant \$1996 Millions)



Source: Adapted by Anthony H. Cordesman from US Arms Control and Disarmament Agency, World Military Expenditures and Arms Transfers, GPO, Washington, various editions.

Comparative Arms Imports of the Gulf States – 1986-1996

(Constant \$1995 Millions)
(\$96 Constant Millions)

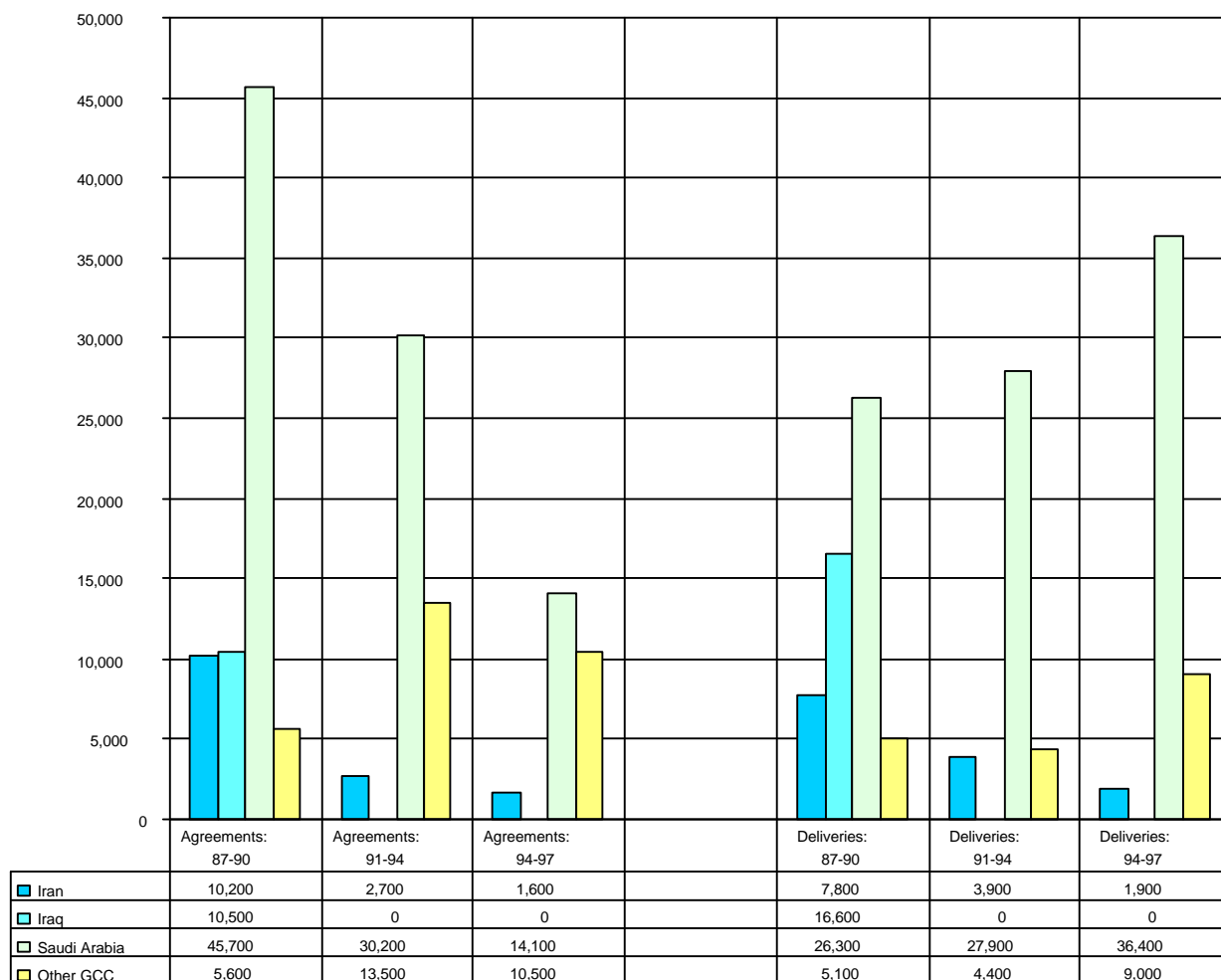


	86	87	88	89	90	91	92	93	94	95	96
Qatar	7	0	38	220	117	22	44	11	10	51	5
Bahrain	82	422	127	98	327	79	120	96	104	71	50
Oman	163	211	76	73	12	56	11	139	302	438	380
Yemen	513	1054	1150	885	573	45	5	21	261	143	80
UAE	217	264	241	1190	1871	529	526	613	547	968	775
Kuwait	258	250	153	329	409	349	1095	1067	406	1324	1700
Iran	3125	2240	3304	2196	222	1800	931	1174	406	306	350
Iraq	8288	7774	7117	3050	3508	0	0	0	0	0	0
Saudi Arabia	8832	10410	7880	7442	8303	10010	9088	8535	8128	9168	9800

Source: Adapted by Anthony H. Cordesman from US Arms Control and Disarmament Agency, World Military Expenditures and Arms Transfers, GPO, Washington, various editions.

Gulf Arms Agreements and Deliveries: 1987-1997

(\$Current Millions)



Iran	10,200	2,700	1,600	7,800	3,900	1,900
Iraq	10,500	0	0	16,600	0	0
Northern Gulf	20,700	2,700	1,600	24,400	3,900	1,900
Total GCC	51,300	43,700	24,600	31,400	32,300	45,400
Bahrain	600	200	300	800	300	200
Kuwait	3,500	5,700	2,300	1,300	2,500	4,500
Oman	400	600	600	200	300	1,200
Qatar	100	2,000	2,200	300	0	700
Saudi Arabia	45,700	30,200	14,100	26,300	27,900	36,400
UAE	1,000	5,000	5,100	2,500	1,300	2,400
(GCC less Saudi)	5,600	13,500	10,500	5,100	4,400	9,000
Yemen	300	1,200	700	2,800	300	500

0 = less than \$50 million or nil, and all data rounded to the nearest \$100 million

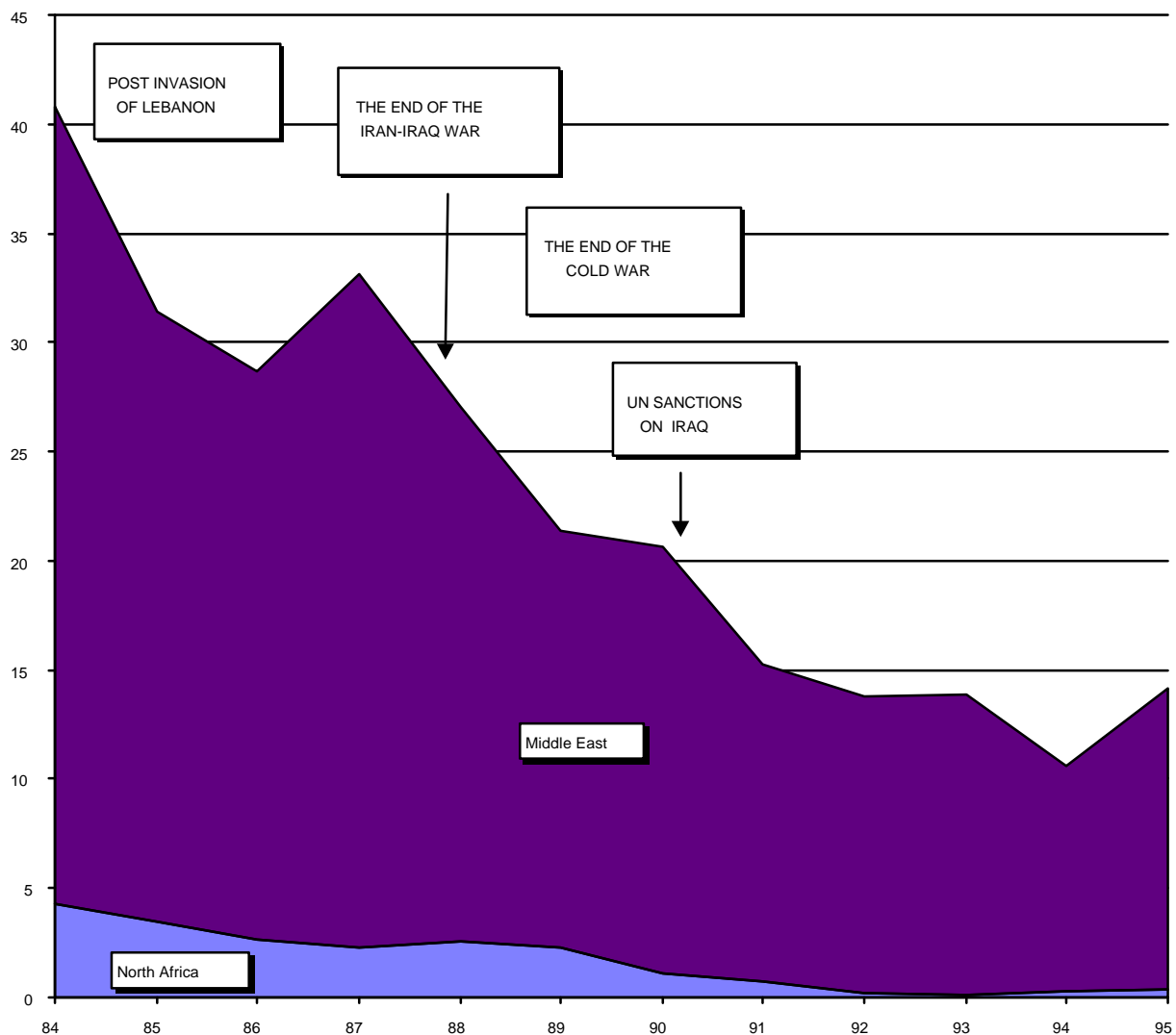
Source: Richard F. Grimmett, Conventional Arms Transfers to the Developing Nations, Congressional Research Service, various editions.

Key States Affecting the Regional Balance

- **Iraq: More than enough arms for self-defense, aggressor state, proliferator**
- **Iran: Regime moderating, but still possible threat to lower Gulf, still a revolutionary state, proliferator**
- **Libya: Radical and unstable regime, already world's largest military parking lot, sometime aggressor and sponsor of terrorism, proliferator.**
- **Syria: Uncertain commitment to peace process, occupier of Lebanon, threat to Israel and Turkey, proliferator**

The Cumulative Impact of the Arab-Israeli Peace Accords, Sanctioning of Libya, End of the Iran-Iraq War, End of the Cold War, Gulf War, and Economic Recession

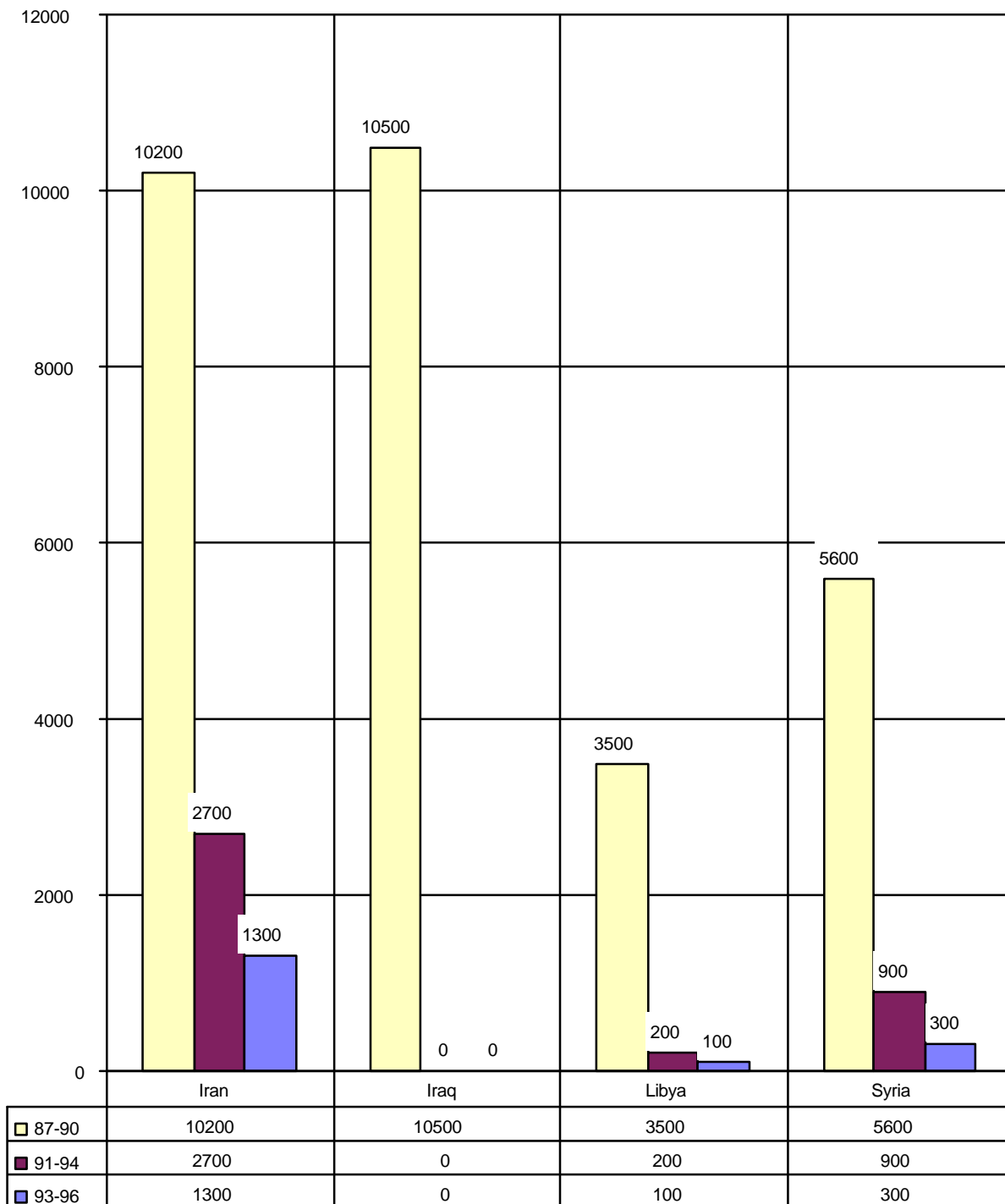
(Arms Deliveries in Constant \$95 Billions)



Adapted by Anthony H. Cordesman from ACDA, World Military Expenditures and Arms Transfers, various editions. Middle East does not include North African states other than Egypt.

The Impact of the End of the Cold War and the Gulf War on New Arms Sales to Selected Major Buyers

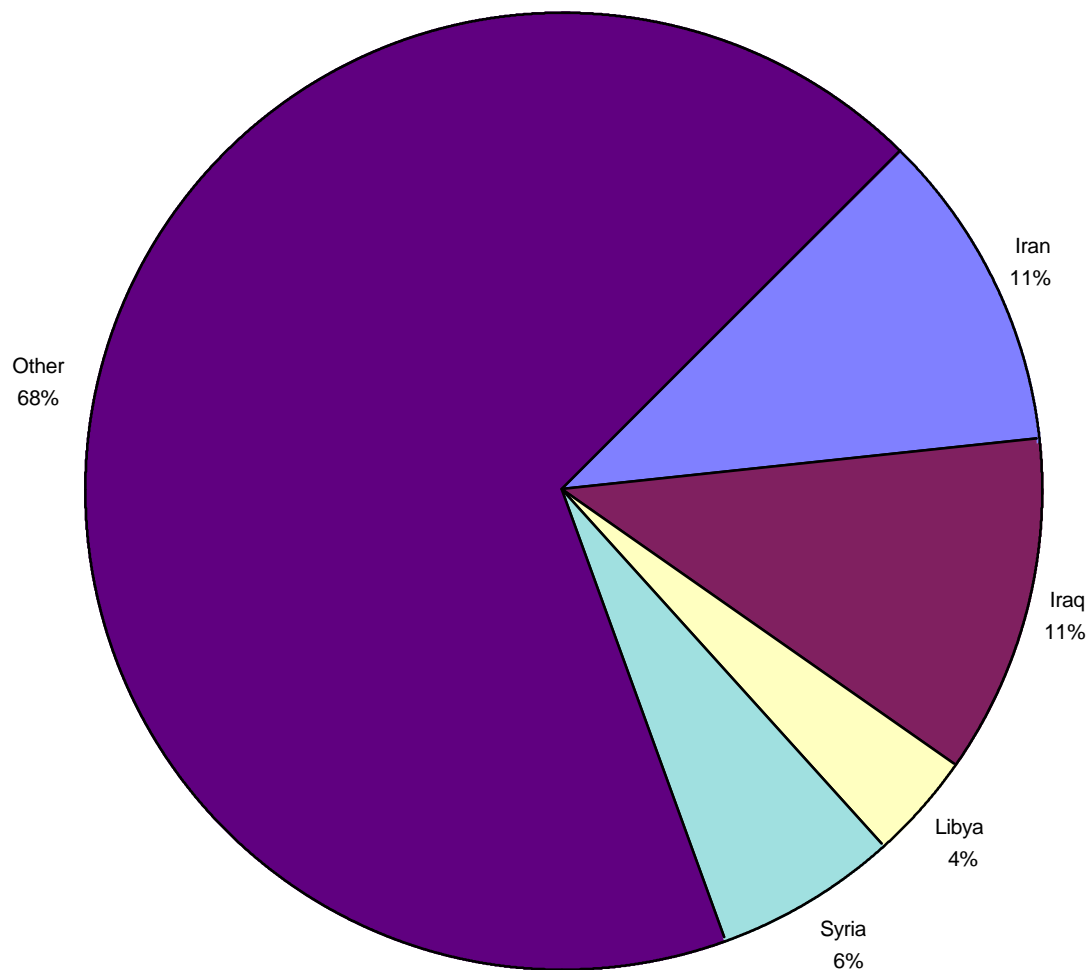
(New Agreements in \$Current Millions)



Source: Richard F. Grimmett, Conventional Arms Transfers to the Developing Nations, Congressional Research Service, various editions.

New Arms Purchases by Major Buyers in the Middle East and North Africa before the End of the Cold War: 1987-1990

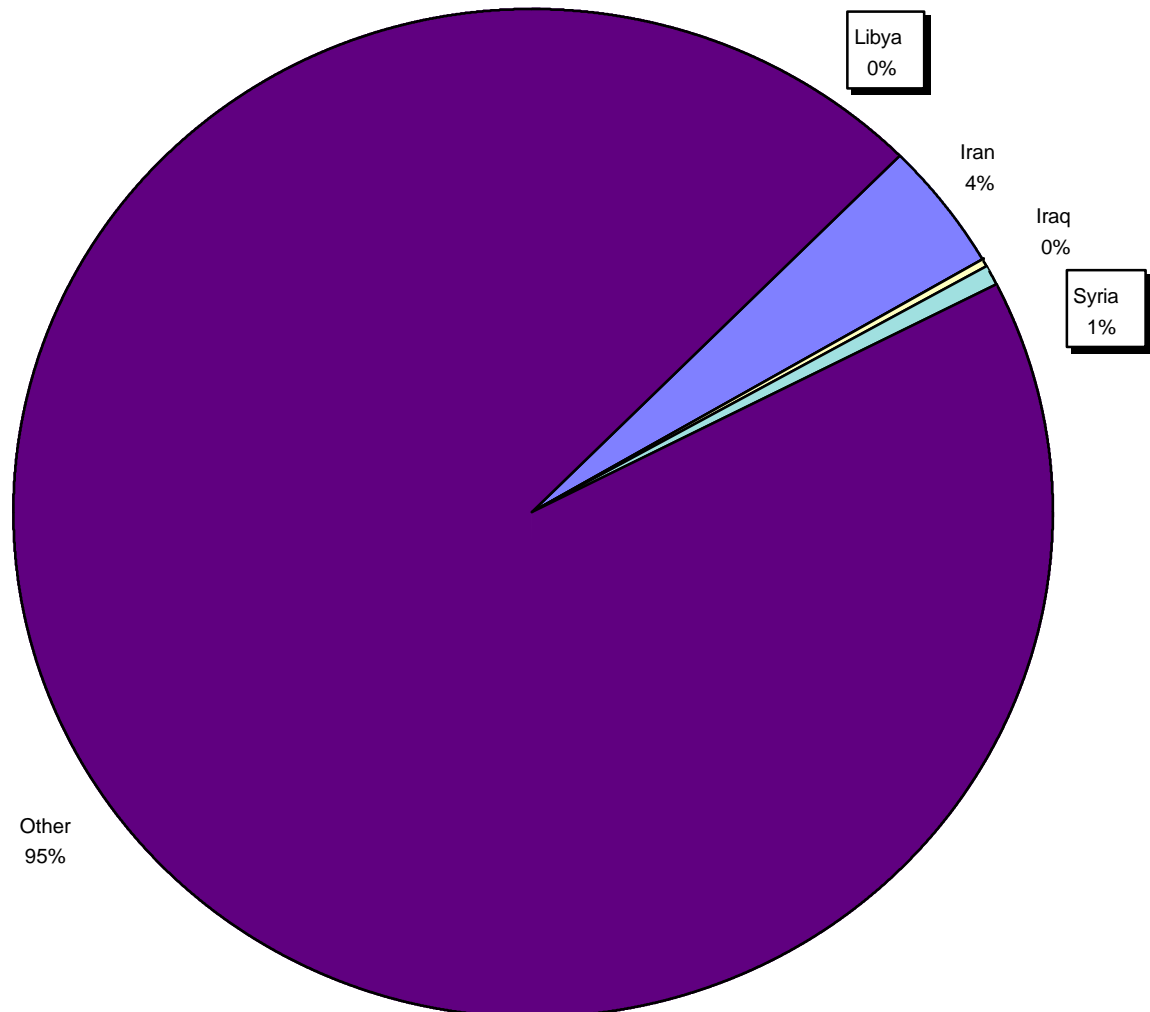
(New Agreements in \$Current Millions)



Source: Richard F. Grimmett, Conventional Arms Transfers to the Developing Nations, Congressional Research Service, various editions.

Shifts in Arms Buys of Major Buyers in the Middle East and North Africa after the Cold War: 1994-1997

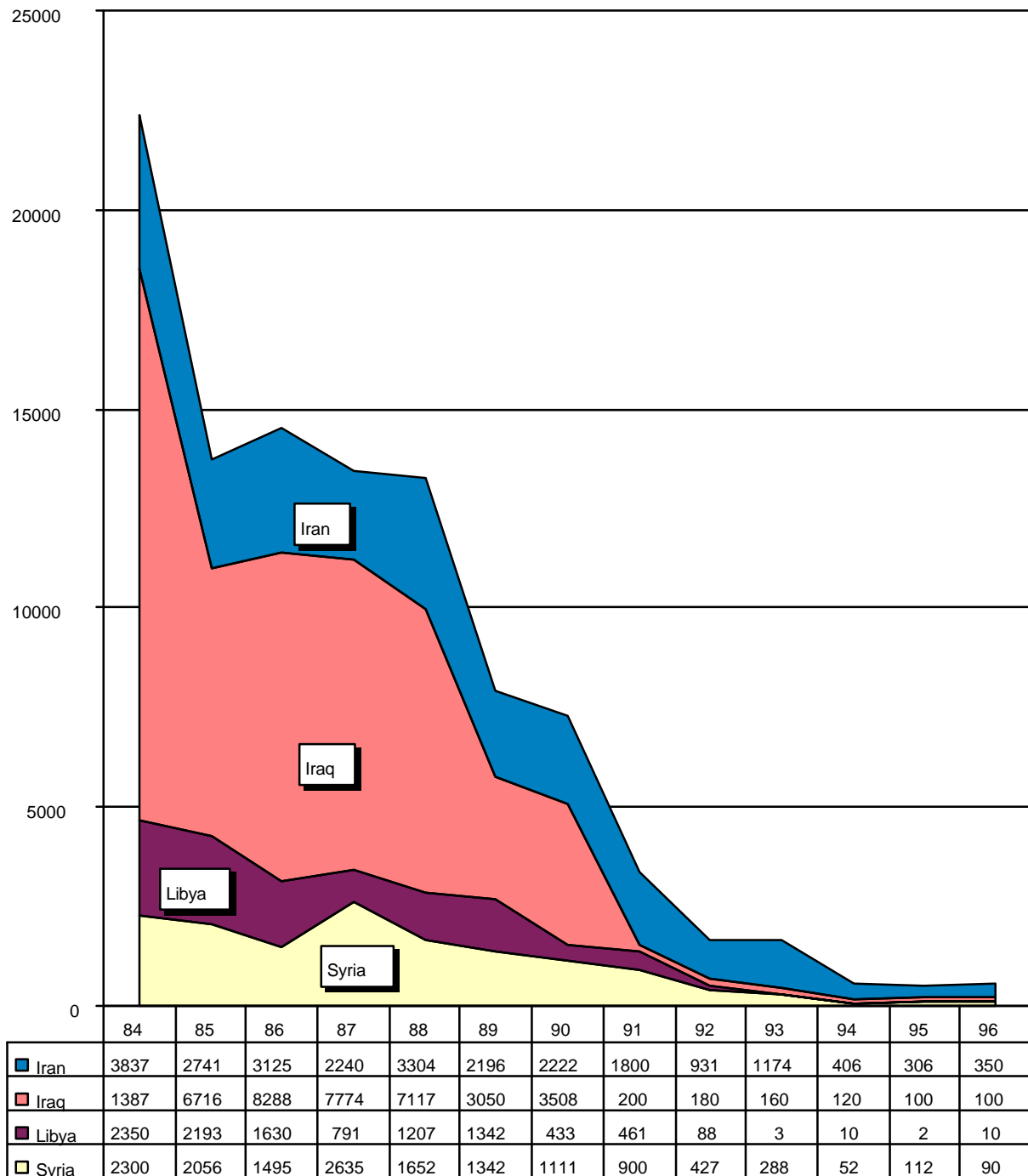
(New Agreements in \$Current Millions)



Source: Richard F. Grimmett, Conventional Arms Transfers to the Developing Nations, Congressional Research Service, various editions.

The Cumulative Decline in Military Spending by Selected Major Buyers in Constant Dollars: 1984-1996

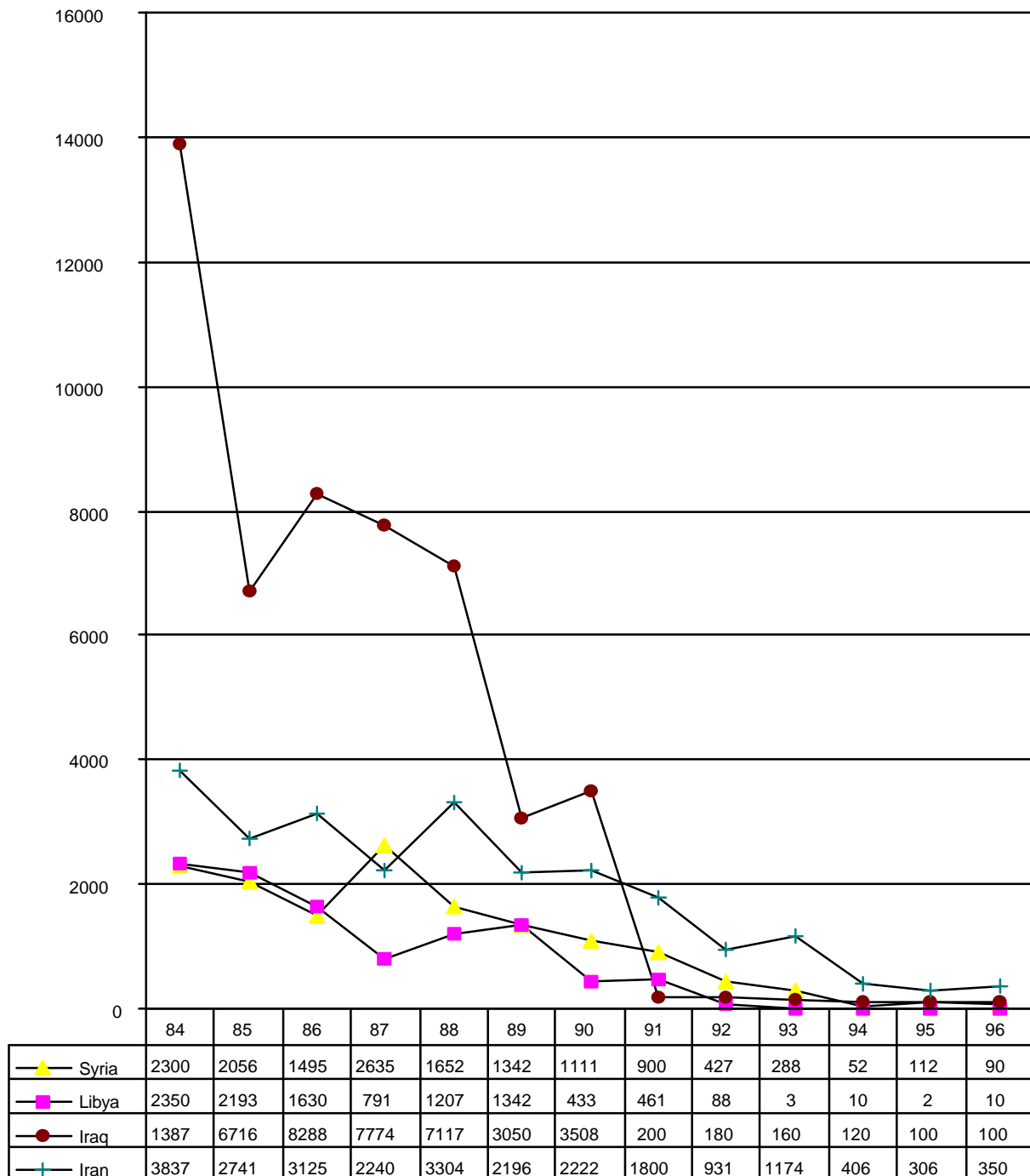
(\$96 Constant Millions)



Source: Adapted by Anthony H. Cordesman from US Arms Control and Disarmament Agency, World Military Expenditures and Arms Transfers, GPO, Washington, various editions.

The Decline in Spending by Selected Major Buyers: 1984-1996

(\$96 Constant Millions)



Source: Adapted by Anthony H. Cordesman from US Arms Control and Disarmament Agency, World Military Expenditures and Arms Transfers, GPO, Washington, various editions.