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# **Stability and Instability in the Middle East**

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**May 14, 2001**

## **Reports Downloadable Under “Middle East Energy and Security” or “Geopolitics of Middle East Energy”**

The CSIS Middle East Energy and Security Project is a major CSIS study which is funded in part by the Smith Richardson Foundation. The project builds on the work done for the CSIS Strategic Energy Initiative, the CSIS Net Assessment of the Middle East, and the Gulf in Transition projects. It is being conducted in conjunction with a separate – but closely related -- study of Saudi Arabia. It is led by Anthony H. Cordesman as the principal investigator in consultation with a range of experts, including many in the region, and make extensive use of informal working groups.

The project addresses the following issues and problems:

- The Middle East is a troubled region, and instability in the region presents a major threat to peace, regional stability, the flow of energy exports, trade, and investment. The security environment is also changing in ways that affect both global energy supplies and regional security. The US may be the world's only superpower, but proliferation is emerging as a major new security problem in nations like Iran, Iraq, and Syria.
- Internal instability has led to civil conflict that remains a serious problem in Algeria, and may become a problem in other oil exporting states. The transfer of advanced conventional weapons is already giving Iran new capabilities to challenge the flow of shipping through the Gulf. More generally, it is greatly expanding the range and lethality with which Middle Eastern states can strike at other states in the region.
- During the coming decade, these military developments will alter every aspect of the vulnerability of Middle Eastern energy facilities, and create the risk of new types of energy interruptions.
- Economic and social problems affect the security of Middle Eastern energy supplies, and the ability of the nations in the region to react to market forces. The economic melt-down in Asia, and the “crash” in oil prices that followed, has exposed a number of structural problems in the economies of key energy exporters like Kuwait, Oman, Qatar, Saudi Arabia, and Yemen. Iran is still in the middle of a highly uncertain revolution, and the Khatami era has so far done nothing to halt the steadily increasing intensity of Iran's economic problems. Iraq remains firmly under the control of Saddam Hussein, creating major problems for Iraq's economy that the UN “oil for food” program can only partially solve.
- Egypt and Syria are much smaller energy producers but each faces economic problems of its own. So do Algeria and Libya, which are key energy suppliers to Europe.
- These problems interact with serious political challenges. Jordan, Morocco, and Qatar have already undergone the first change in their regime in several decades. Saudi Arabia is in transition, and the aging leadership of much of the rest of the region will change during the coming decade.
- More broadly, there are major demographic and economic forces for political change, sometimes interacting with Islamism and other ideological pressures.

The CSIS Middle East Energy and Security Project will carry out a country-by-country analysis of these trends as they affect each major energy exporter in the region, while focusing on the pattern of energy development in each Middle Eastern energy-producing state. It will provide a survey of security, economic, social, and political developments, and a risk analysis of whether given countries in the region can be expected to meet their goals in energy development and carry out the reforms and changes necessary to allow them to respond to market forces. It will identify key planning tasks and develop policy recommendations for US and regional decision-makers.

Work on the project will focus on the use of an informal working group to develop draft documents that will be revised steadily during the course of the project. As a result, all of the material provided in this section of the CSIS

web page should be regarded as working material that will change according to the comments received from policymakers and outside experts.

To comment, provide suggestions, or provide corrections, please contact Anthony H. Cordesman at the CSIS at the address shown on each report, or e-mail him at [Acordesman@aol.com](mailto:Acordesman@aol.com). Those interested in participating in the informal working groups should also contact Anthony H. Cordesman at [Acordesman@aol.com](mailto:Acordesman@aol.com).

Related material can be found in the “Gulf and Transition” and “Saudi Arabia Enters the 21<sup>st</sup> Century” sections of the CSIS Web Page.

## Reports

- [Stability and Instability in the Middle East and the Gulf](#) [updated 05-10-01]
- [The Shifting Geopolitics of Energy Fuel Choice, Supply, and Reliability in the Early 21st Century](#) [updated 03-05-01]
- [Geopolitics and Energy in the Middle East](#) [updated 05-20-00]
- [Geopolitics and Energy in the Middle East A Graphic Analysis](#) [updated 08-03-00]
- [The Economic, Energy, and Demographic Causes of Stability and Instability in the Middle East and the Gulf](#) [updated 03-20-00]
- [The Challenge of Creating an Effective Energy and Development Policy](#) [new 10-11-00]
- [Geopolitics, Social and Economic Change, and Energy in the Middle East and Gulf : A Graphic Analysis](#) [new 10-11-00]

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## **Key Trends**

- **Boom and Bust Revenue Cycles: “Oil Crash” to “Oil Boom.”**
- **Limited Diversification, Slow Economic Reform.**
- **Demographic Pressure and High Population Momentum**
- **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” in Explaining 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**

## **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**

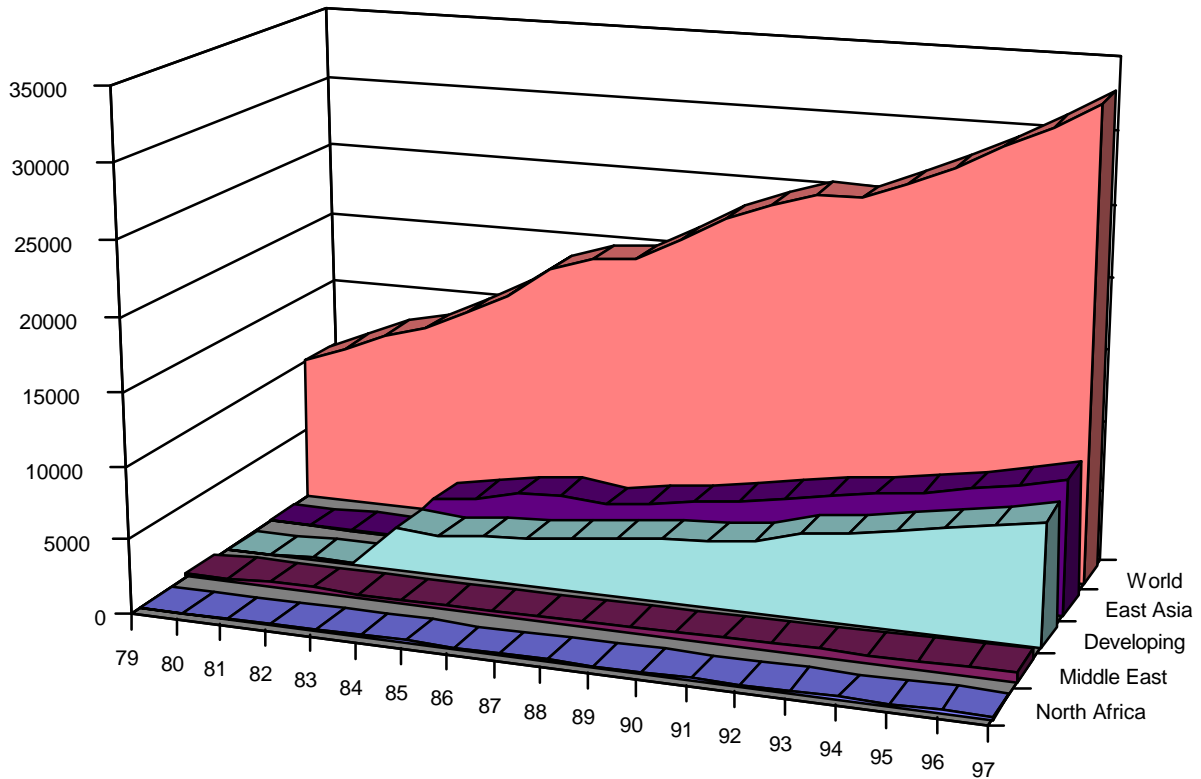
## **Economic Development Has Lagged Except for Oil Exporting States in Years of High Oil Prices**

- **The real GDP of the Middle East and North Africa “flat-lined” during 1979-2000, compared to growth in 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:

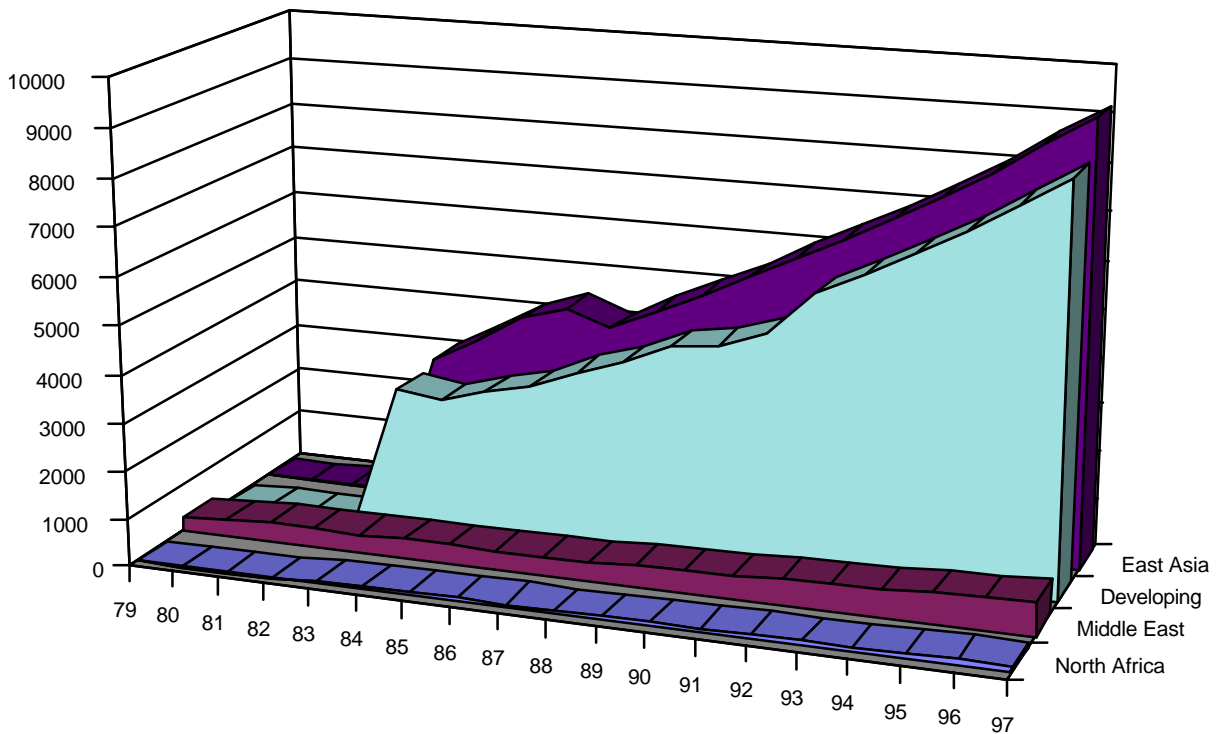
The GNP of the Middle East Relative to World Total in \$US Current Billions)



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.

## Comparing Total Middle Eastern and North African GNP Growth to The Overall Trend in Developing States: 1979-1997

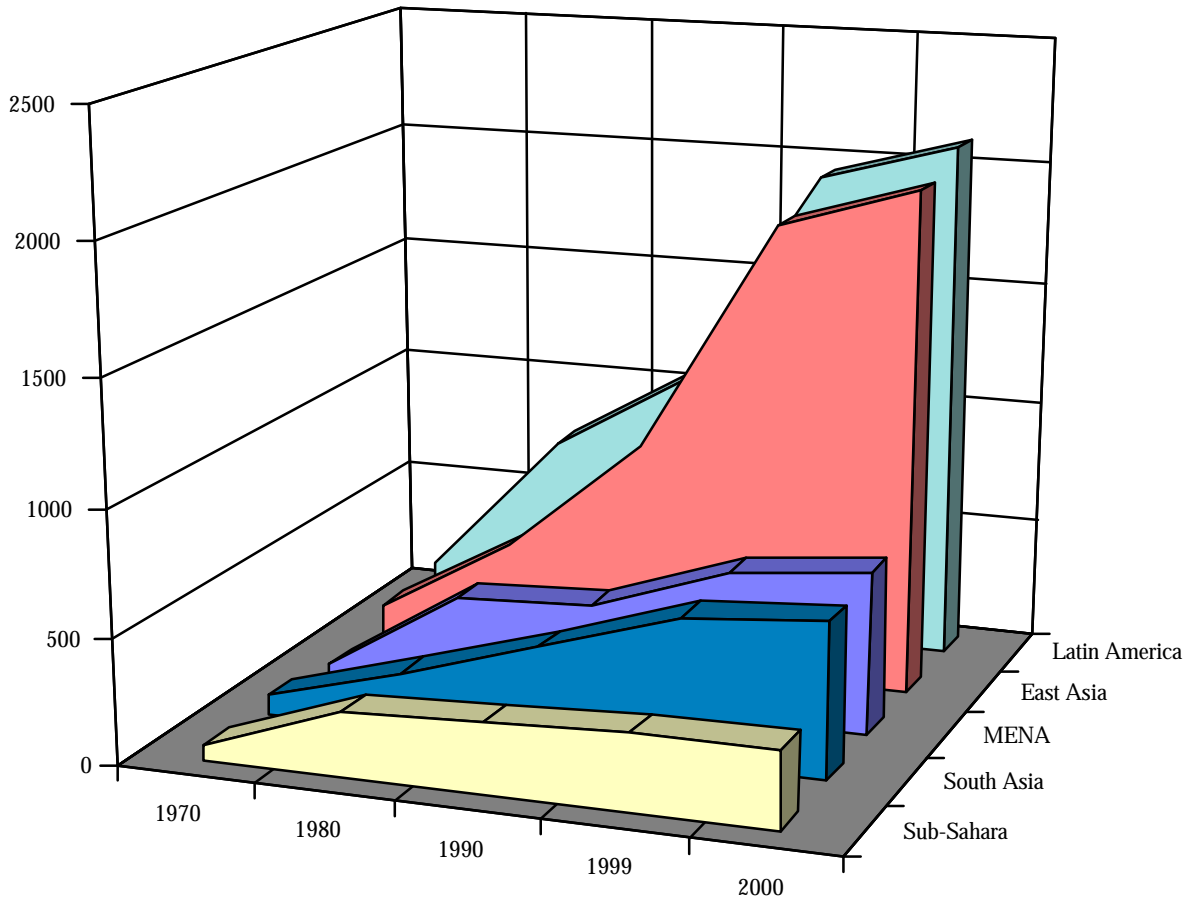
(\$Current Billions)



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.

## Comparative Growth in GNP: 1980-2000

(In Current \$US Billions)



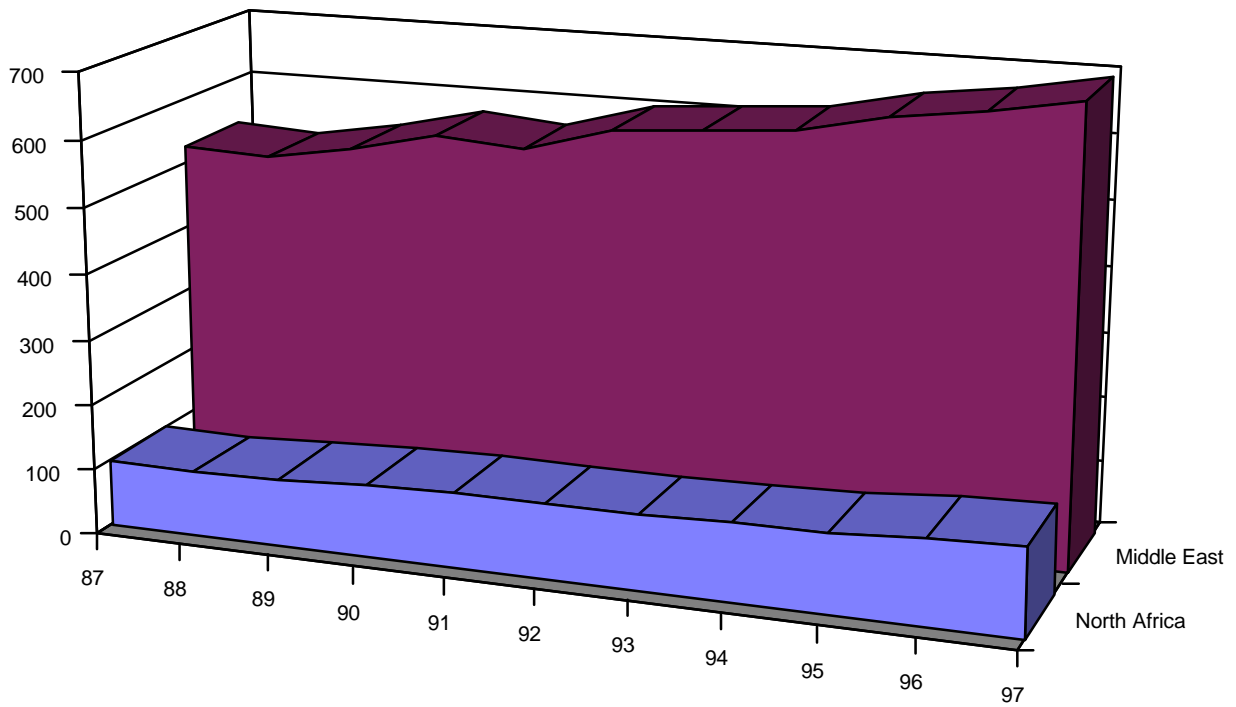
	1970	1980	1990	1999	2000
Sub-Sahara	59.7	259.3	280.7	306.7	311.9
South Asia	84.2	236.3	401.9	579.8	621.3
MENA	39.3	380.6	402.6	597.1	651.8
East Asia	133.8	444.4	920.8	1854.8	2025.7
Latin America	160.6	747.7	1067.1	1947.7	2102.9

Source: Adapted by Anthony H. Cordesman from World Bank, Global Development Finance, 2001, Washington, World Bank, 2001, pp. 254-255.



## Middle Eastern and North African GNP Growth in Constant Dollars

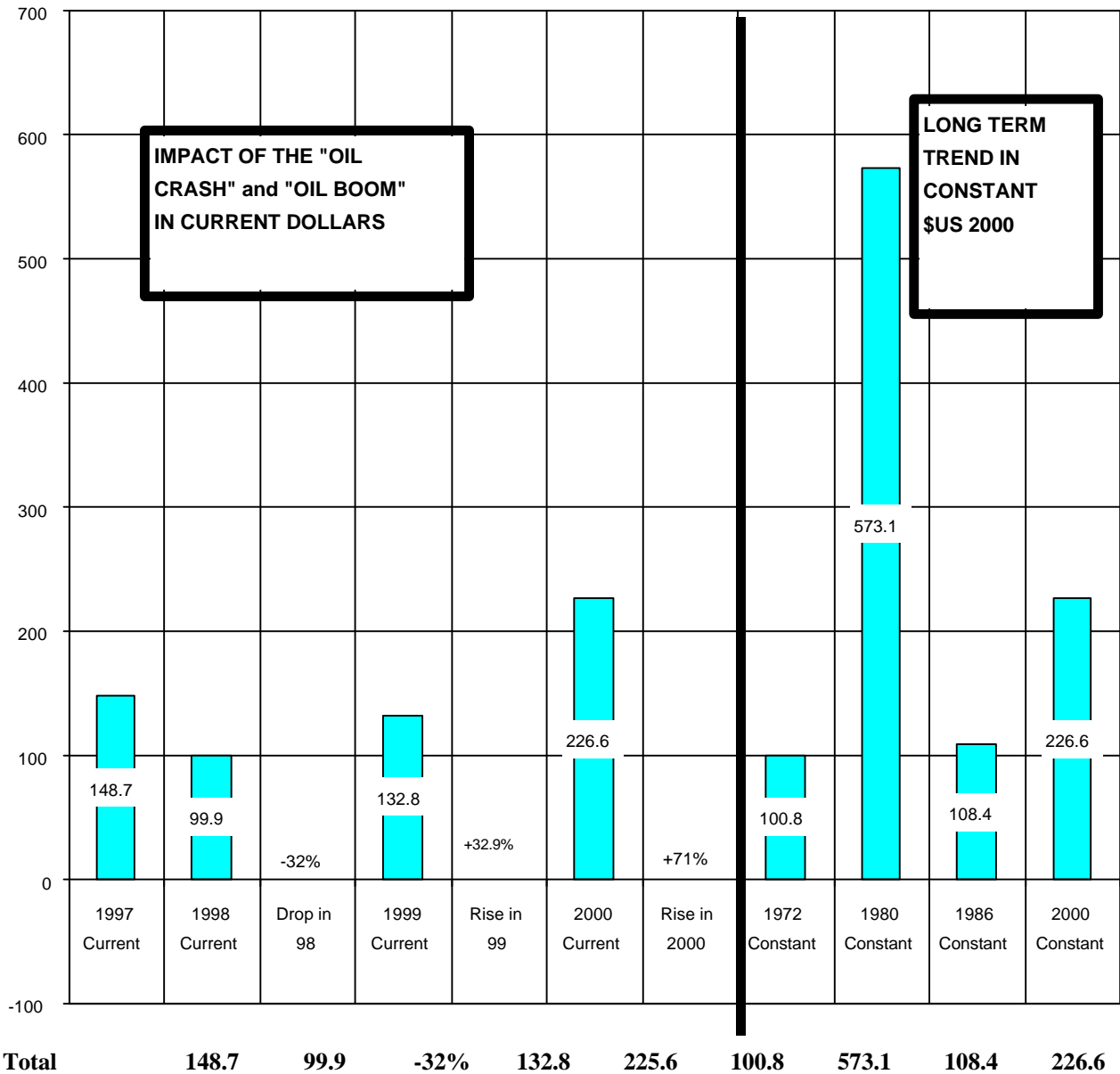
(\$US 1997 Billions)



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.

# OPEC Oil Export Revenues: Investment and Stability versus Interruptions: Total

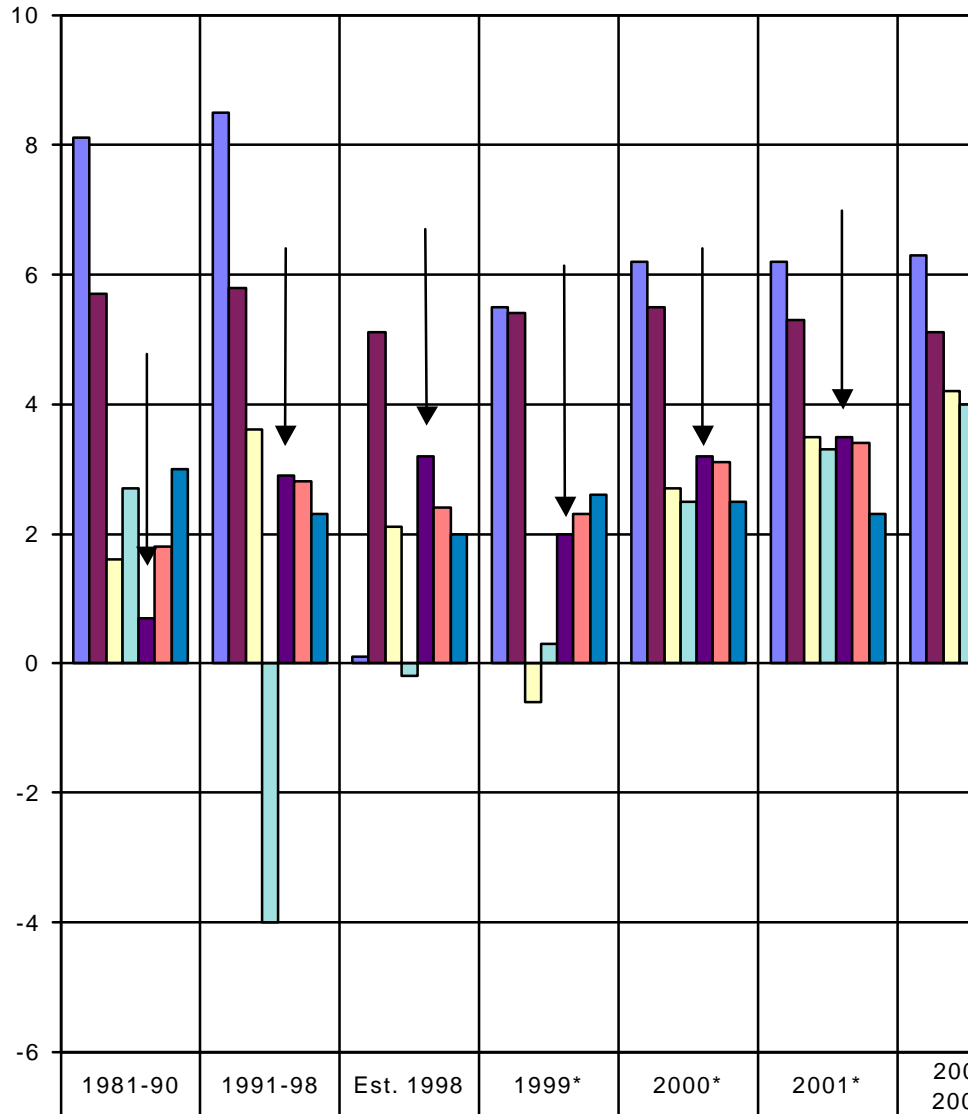
(in \$US Current and 2000 Constant Billions)



Source: Adapted by Anthony H. Cordesman from data provided by the EIA as of October 2000.

## The Middle East's Comparative Track Record in Economic Growth: World Bank Estimate: 1981-2008

(Growth as a Percent of Real GDP)



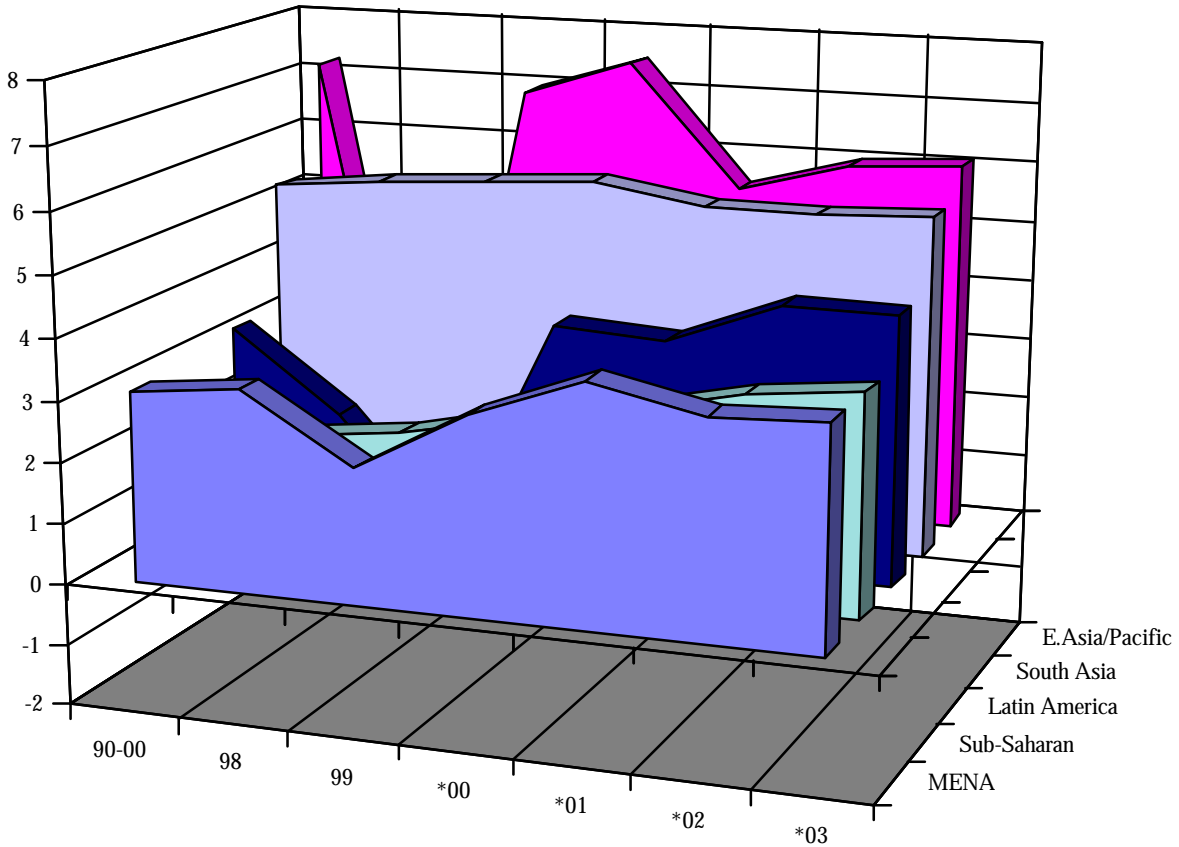
■ E. Asia & Pacific	8.1	8.5	0.1	5.5	6.2	6.2	6.2
■ South Asia	5.7	5.8	5.1	5.4	5.5	5.3	5.3
■ Latin America & Caribbean	1.6	3.6	2.1	-0.6	2.7	3.5	4.2
■ Developing Europe and Central Asia	2.7	-4	-0.2	0.3	2.5	3.3	4.0
■ Middle East and North Africa	0.7	2.9	3.2	2	3.2	3.5	3.5
■ Sub-Saharan Africa	1.8	2.8	2.4	2.3	3.1	3.4	3.4
■ High Income Countries	3	2.3	2	2.6	2.5	2.3	2.3

\*Forecasts

Source: Adapted by Anthony H. Cordesman from World Bank, Annual Report 2000: Prospects for Growth and Poverty Reduction, 2000, p. 23.

## The Middle East's Record in Economic Growth Compared to Other Developing Areas: World Bank Estimate: 1990-2003

(Growth as a Percent of Real GDP)



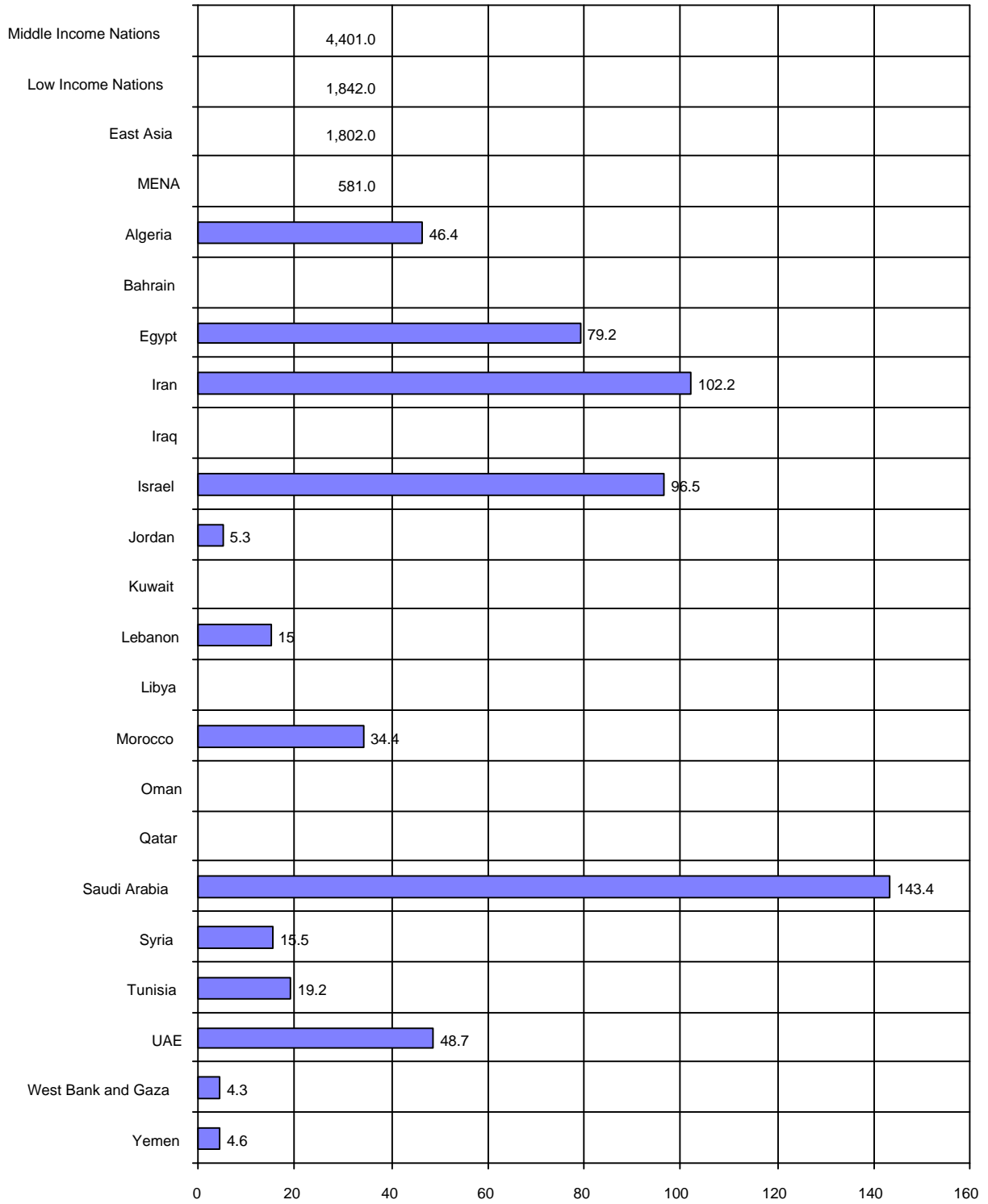
	90-00	98	99	*00	*01	*02	*03
■ MENA	3.1	3.3	2.2	3.2	3.9	3.5	3.6
■ Sub-Saharan	2.1	2.1	2.3	2.7	3	3.4	3.6
■ Latin America	3.3	2	0	3.8	3.7	4.4	4.4
■ South Asia	5.4	5.6	5.7	5.8	5.5	5.5	5.6
■ E.Asia/Pacific	7.2	-1.5	6.9	7.5	5.5	6	6.1

\*Forecasts

Source: Adapted by Anthony H. Cordesman from World Bank, Global Development Finance, 2001, Washington, World Bank, 2001, pp. 202-207

## Countries Differ Radically in GNP: World Bank Estimate

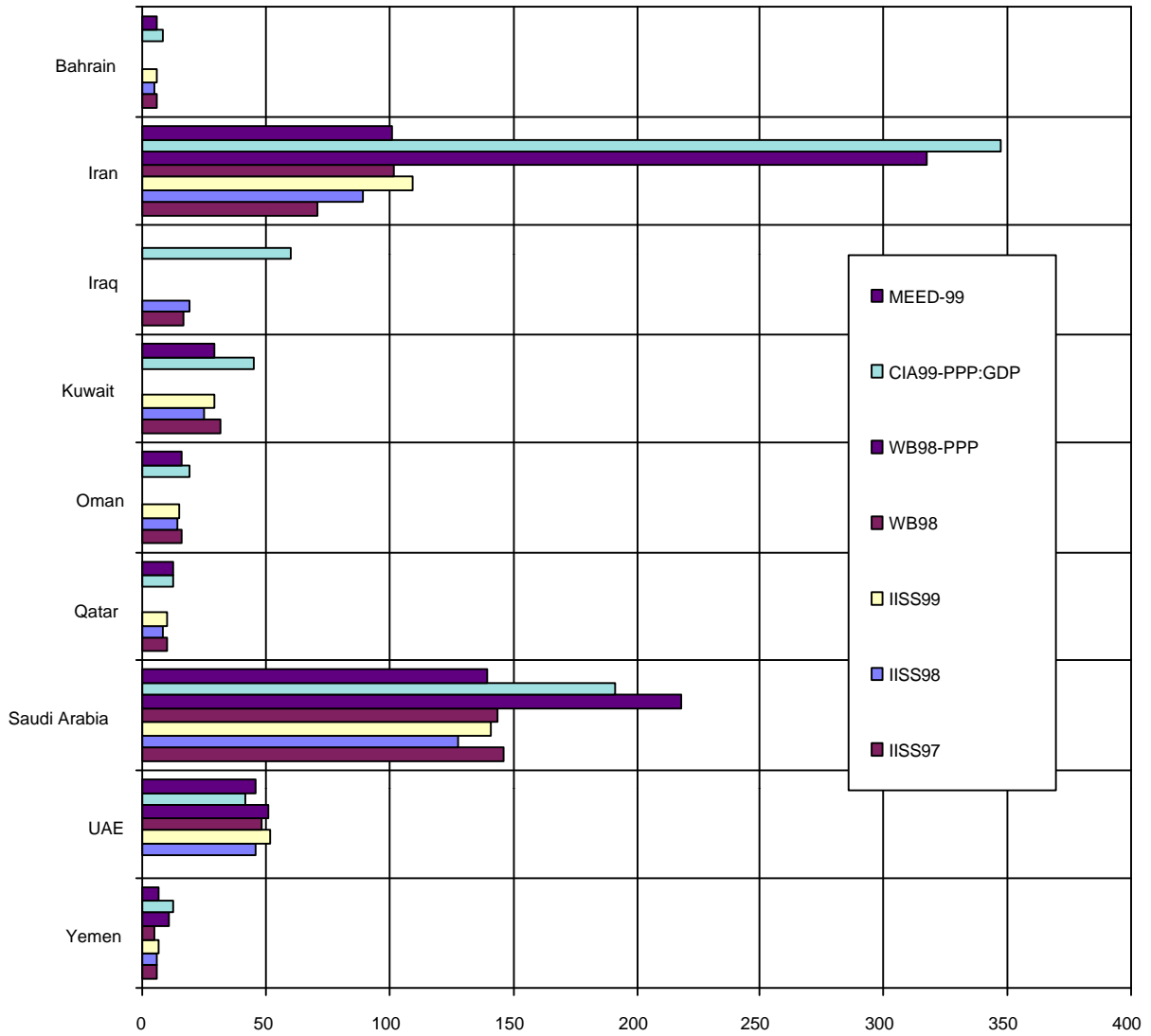
(\$US in Current Billions)



Adapted by Anthony H. Cordesman from World Bank, *World Development Indicators*, 2000, pp. 22-24.

## Estimates of GNP Differ Sharply: World Bank, IISS, MEED, and CIA Estimates of Gulf States

(In \$US Current Billions)

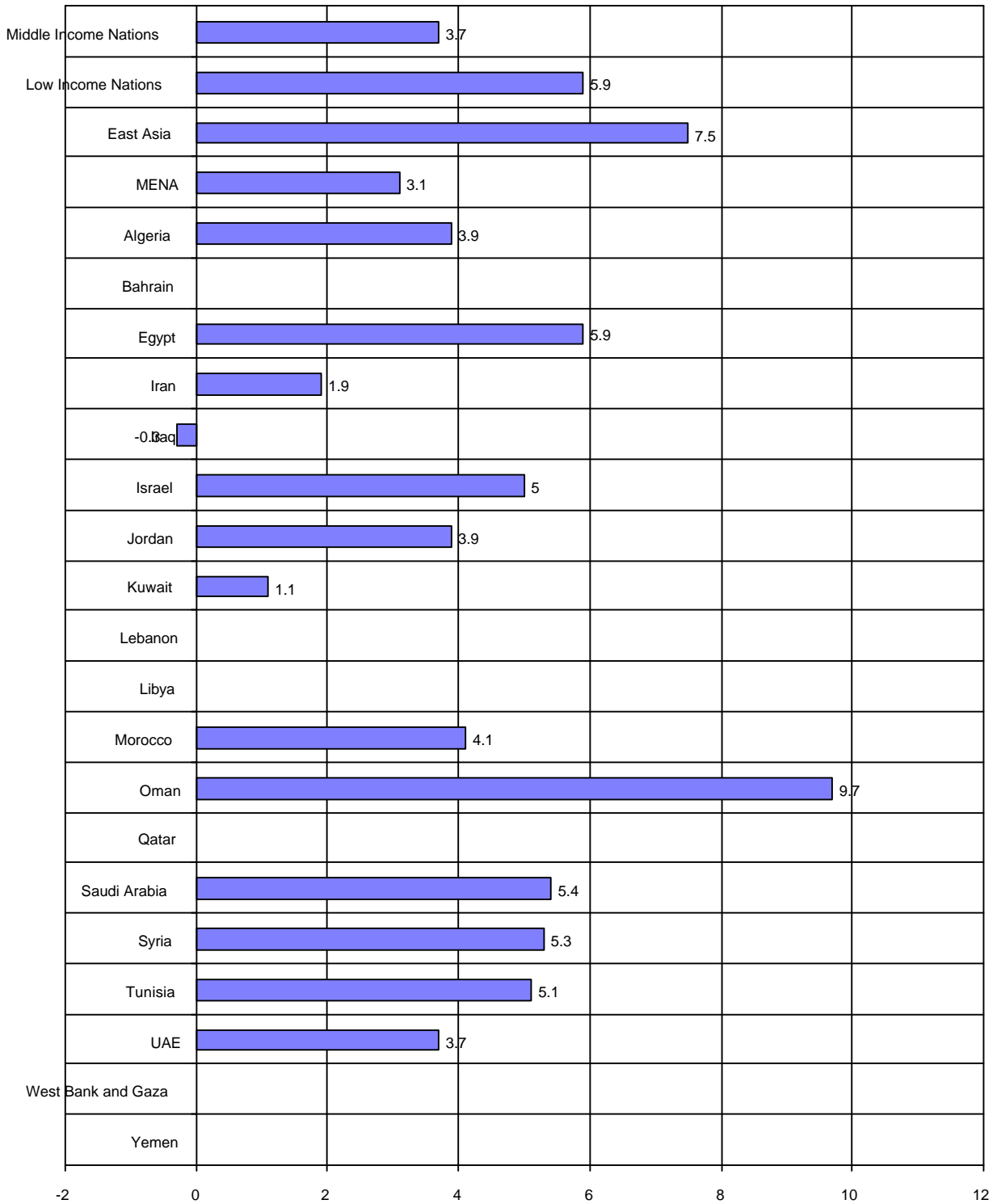


	Yemen	UAE	Saudi Arabia	Qatar	Oman	Kuwait	Iraq	Iran	Bahrain
MEED-99	6.8	46.3	139.2	12.2	15.8	29.6		101.1	6.2
CIA99-PPP:GDP	12.7	41.5	191	12.3	19.6	44.8	59.9	347.6	8.6
WB98-PPP	11	51	218	-	-	-	-	317	-
WB98	4.6	48.7	143.4	-	-	-	-	102.2	-
IISS99	6.7	52	141	9.7	15	29.5	-	109	5.7
IISS98	6	46	128	8.7	14.2	25.1	19	89	5.3
IISS97	5.7	-	146	9.8	16.2	32	17	71	5.6

Adapted by Anthony H. Cordesman from IISS, Military Balance, 2001-2001, CIA, World Factbook, World Bank, World Development Indicators, and MEED, December 15, 2000, p. 32.

## Countries Differ Radically in Percent of GNP Growth Over Time: 1965-1998

(Average Percent of Annual Growth)

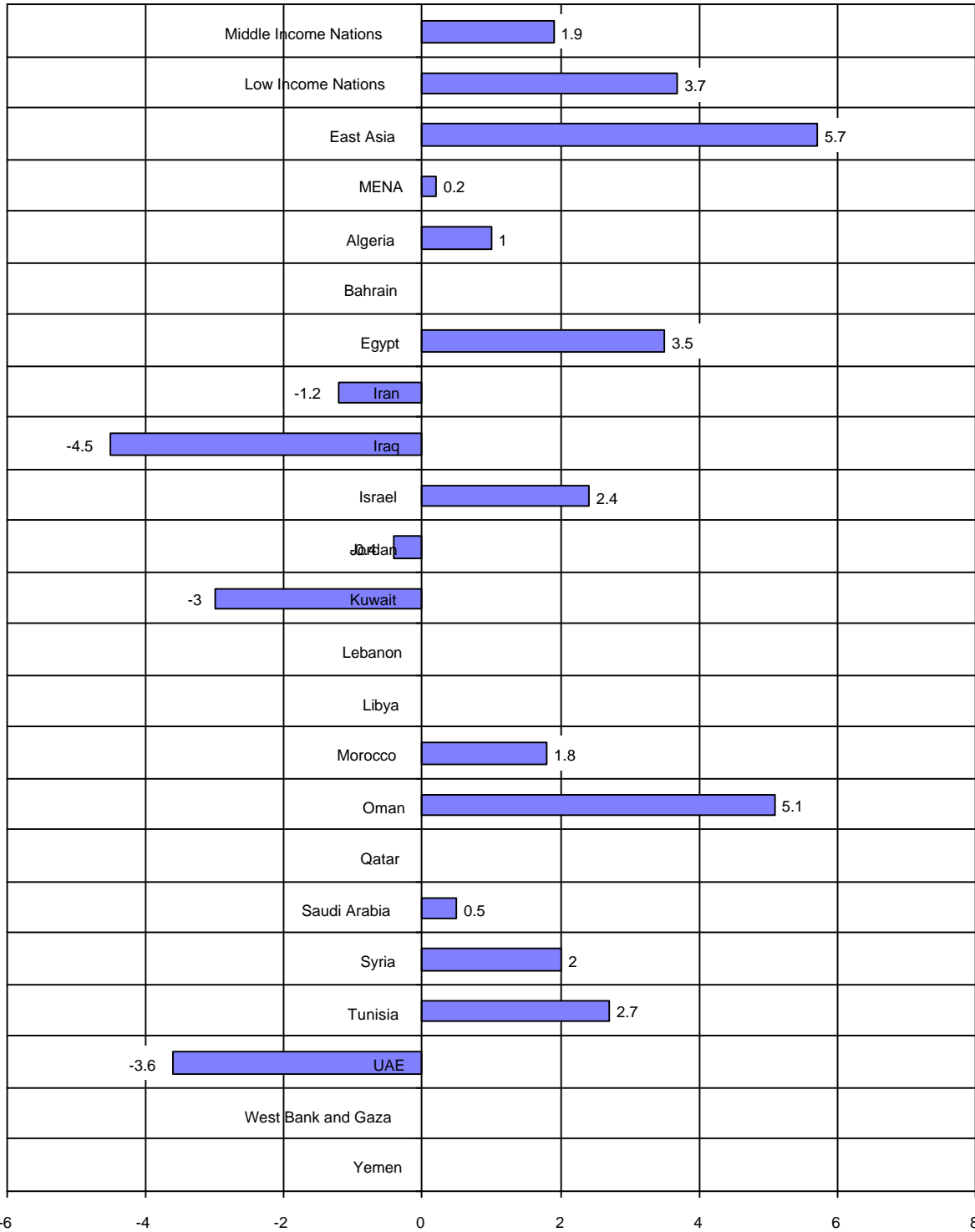


Adapted by Anthony H. Cordesman from World Bank, World Development Indicators, 2000, pp. 22-24.

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## Countries Differ Radically in Recent Percent of Growth in Per Capita Income

(Average Percent of Annual Growth)



Adapted by Anthony H. Cordesman from World Bank, World Development Indicators, 2000, pp. 22-24.

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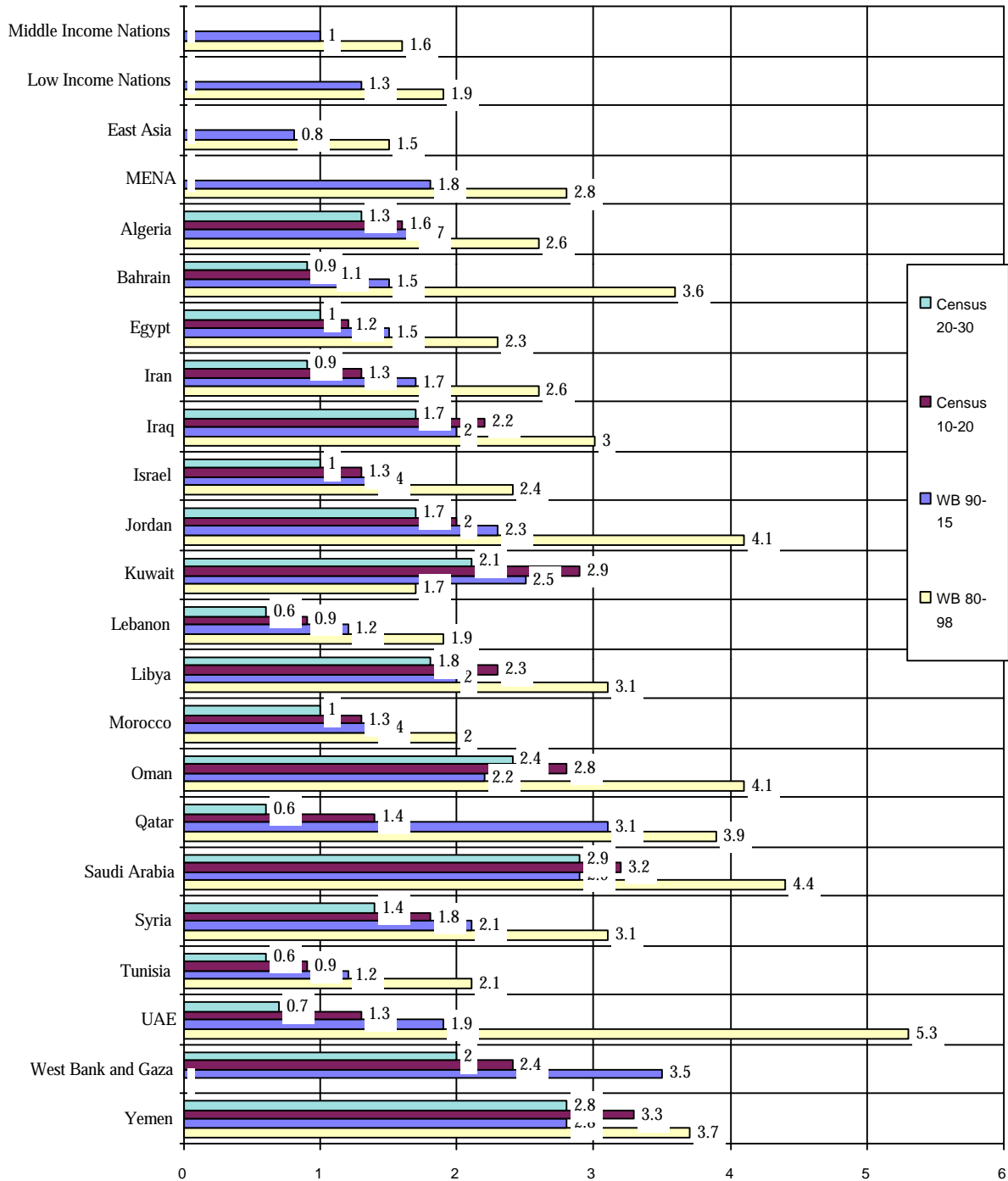
## **Demographics, Economics, and Stability**

- **Population growth sometimes exceeds 3% annually and often 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 Southern 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!**

## Population Growth Is Projected to Decline Sharply in the Future But Rate is Dropping Faster in Other Areas and Population Momentum will Still Produce Major Increases

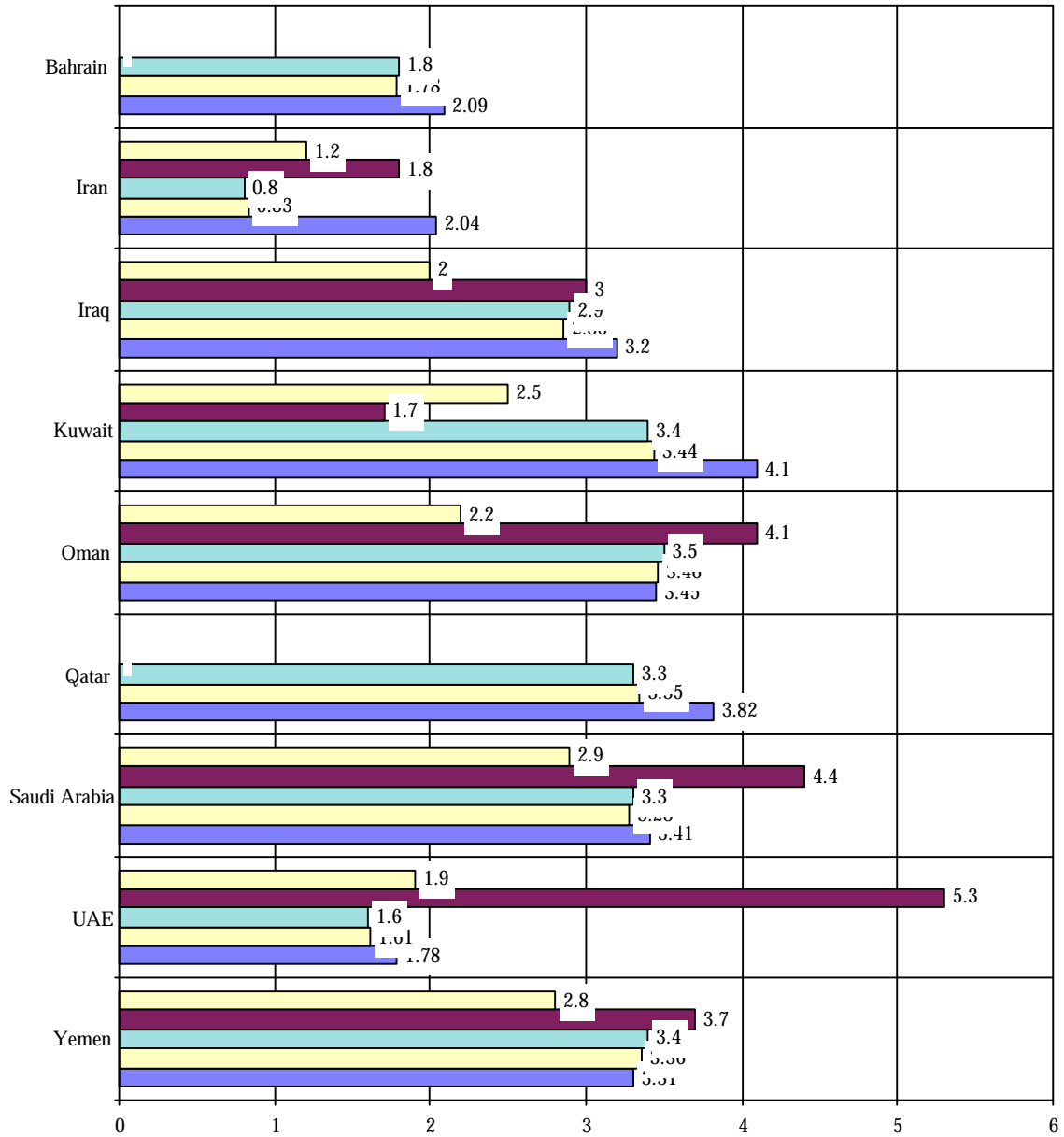
(Average Percent of Annual Growth)



Adapted by Anthony H. Cordesman from World Bank, *World Development Indicators*, 2000, pp. 22-24, and US Census Bureau IDB summary demographic data base on <http://www.census.gov/cgi-bin/ipc/idbsum?cty>.

## There is No Consensus in Estimating the Population Growth Rate

(Percentage Growth Estimates as of 2000)

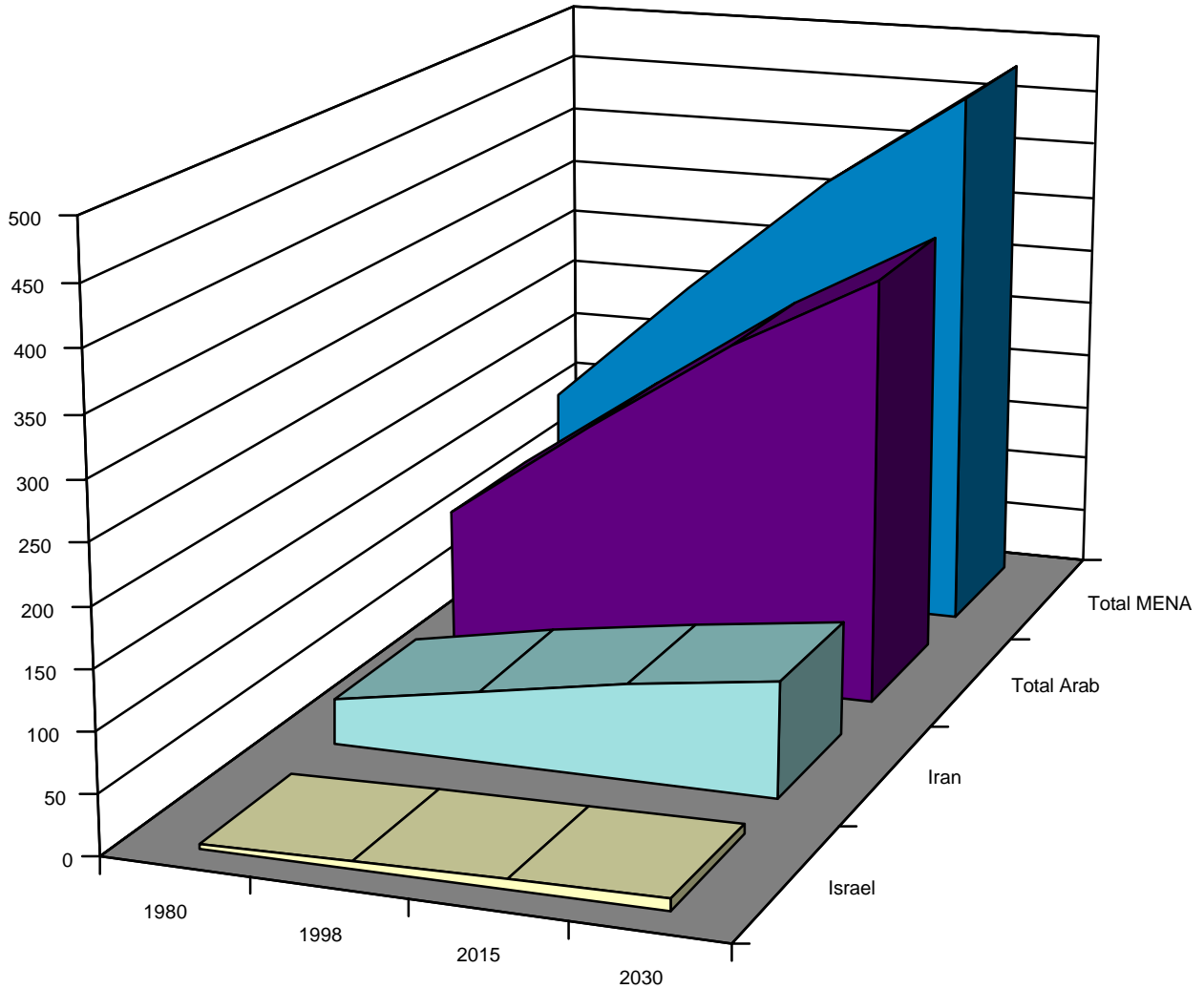


	Yemen	UAE	Saudi Arabia	Qatar	Oman	Kuwait	Iraq	Iran	Bahrain
World Bank 89-2015	2.8	1.9	2.9	-	2.2	2.5	2	1.2	-
World Bank 80-98	3.7	5.3	4.4	-	4.1	1.7	3	1.8	-
Census 2000	3.4	1.6	3.3	3.3	3.5	3.4	2.9	0.8	1.8
CIA 2000	3.36	1.61	3.28	3.35	3.46	3.44	2.86	0.83	1.78
CIA 1998	3.31	1.78	3.41	3.82	3.45	4.1	3.2	2.04	2.09

Adapted by Anthony H. Cordesman from CIA, *World Factbook*, 1998 and 2000, World Bank, *World Development Indicators*, 2000, pp. 38-40, and US Census Bureau IDB summary demographic data base on <http://www.census.gov/cgi-bin/ipc/idbsum?cty>.

## The Population Time Bomb: Demographics of the Entire Middle East and North Africa – World Bank Estimate: 1980-2030:

(World Bank Estimate Made in 2000 in Millions)

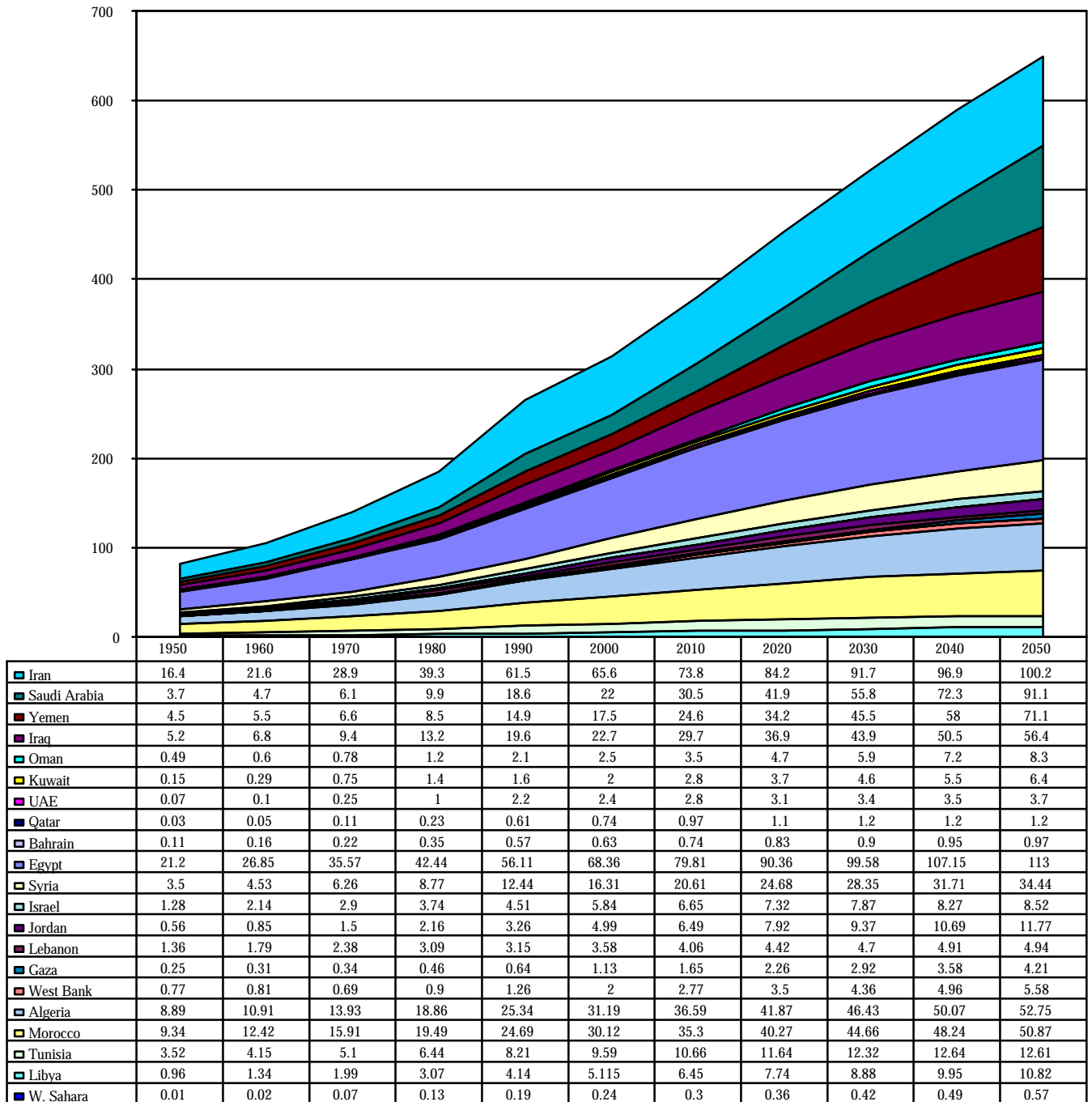


	1980	1998	2015	2030
■ Israel	3.9	6	7.6	9
■ Iran	39.1	61.9	82.1	98
■ Total Arab	131	217.3	300.5	368
■ Total MENA	174	285.2	390.2	475

Adapted by Anthony H. Cordesman from World Bank database for [World Development Indicators](#), various editions. Note that WHO estimate is much higher and its estimate for 2020 is 550 million. (MEED, January 19, 201, p. 27)

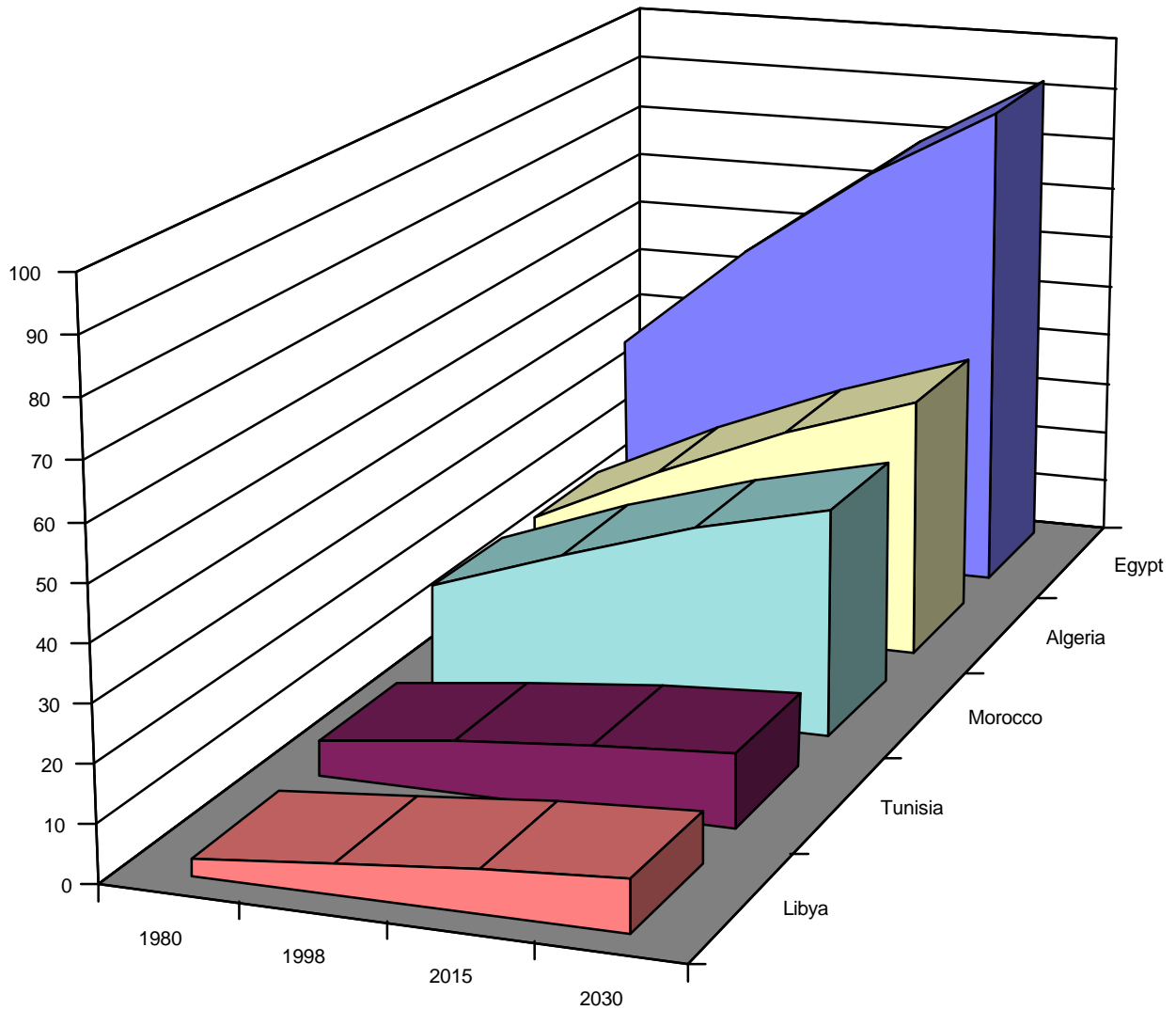
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## The Population Time Bomb – US Census Bureau Estimate: Demographics of the Middle East and North Africa: 1950-2050: (In Millions)



Adapted by Anthony H. Cordesman from data provided by the US Census Bureau IDB summary demographic data base on <http://www.census.gov/cgi-bin/ipc/idbsum?ctv>.

## The Population Time Bomb: Demographics of North Africa – World Bank Estimate: 1980-2030: (World Bank Estimate Made in 2000 in Millions)

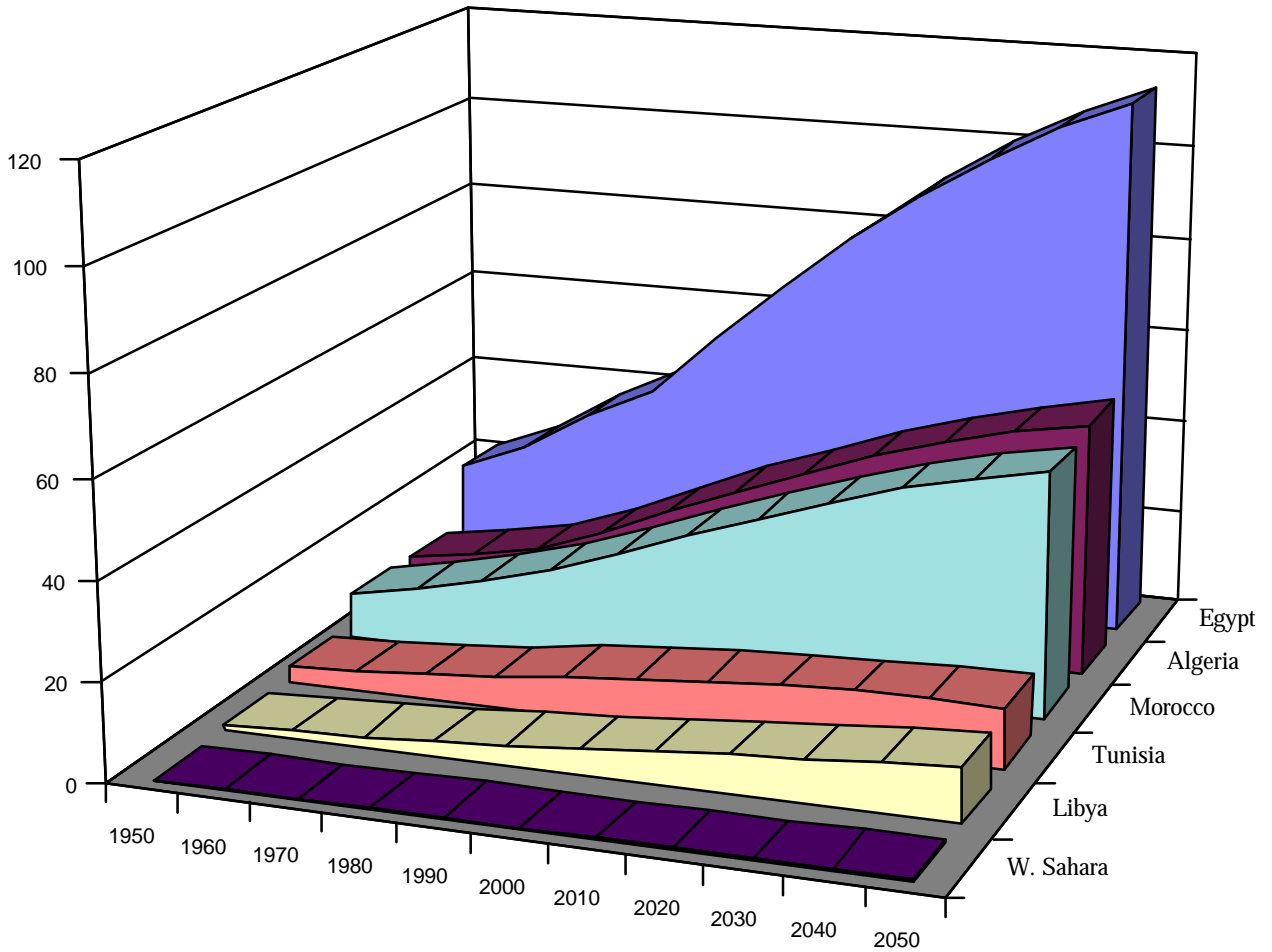


	1980	1998	2015	2030
Libya	3	5.3	7.4	9
Tunisia	6.4	9.3	11.5	13
Morocco	19.4	27.8	35.3	41
Algeria	18.7	29.9	39.8	48
Egypt	40.9	61.4	78.7	92

Adapted by Anthony H. Cordesman from World Bank database for World Development Indicators, various editions.

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## The Population Time Bomb – US Census Bureau Estimate: Demographics of the North African States: 1950-2050: (In Millions)



	1950	1960	1970	1980	1990	2000	2010	2020	2030	2040	2050
■ W. Sahara	0.01	0.02	0.07	0.13	0.19	0.24	0.3	0.36	0.42	0.49	0.57
■ Libya	0.96	1.34	1.99	3.07	4.14	5.115	6.45	7.74	8.88	9.95	10.82
■ Tunisia	3.52	4.15	5.1	6.44	8.21	9.59	10.66	11.64	12.32	12.64	12.61
■ Morocco	9.34	12.42	15.91	19.49	24.69	30.12	35.3	40.27	44.66	48.24	50.87
■ Algeria	8.89	10.91	13.93	18.86	25.34	31.19	36.59	41.87	46.43	50.07	52.75
■ Egypt	21.2	26.85	35.57	42.44	56.11	68.36	79.81	90.36	99.58	107.15	113

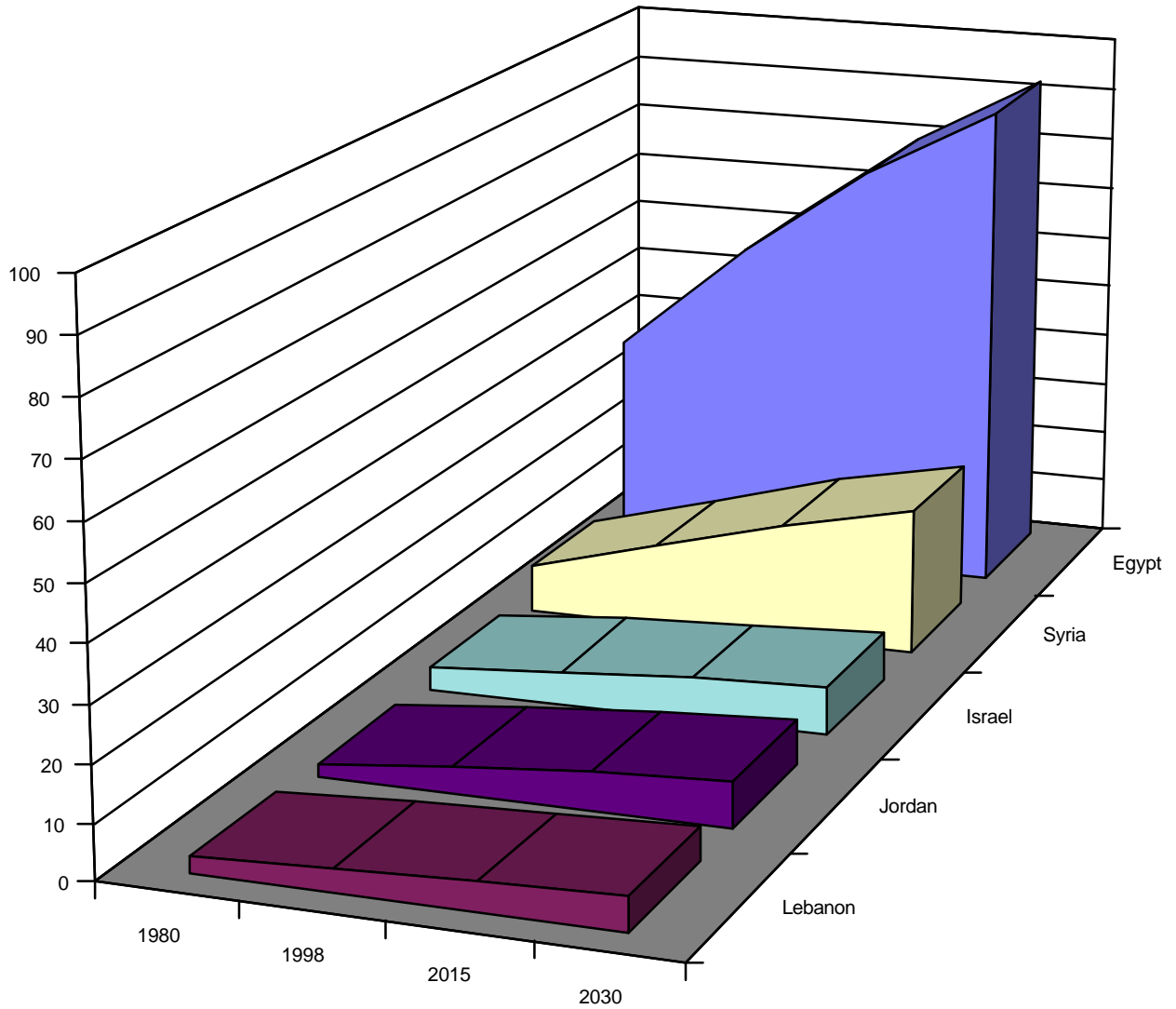
Adapted by Anthony H. Cordesman from data provided by the US Census Bureau IDB summary demographic data base on <http://www.census.gov/cgi-bin/ipc/idbsum?cty>.

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## The Population Time Bomb – World Bank Estimate: Demographics of the Arab-Israeli Ring States: 1980-2030:

(World Bank Estimate Made in 2000 in Millions)

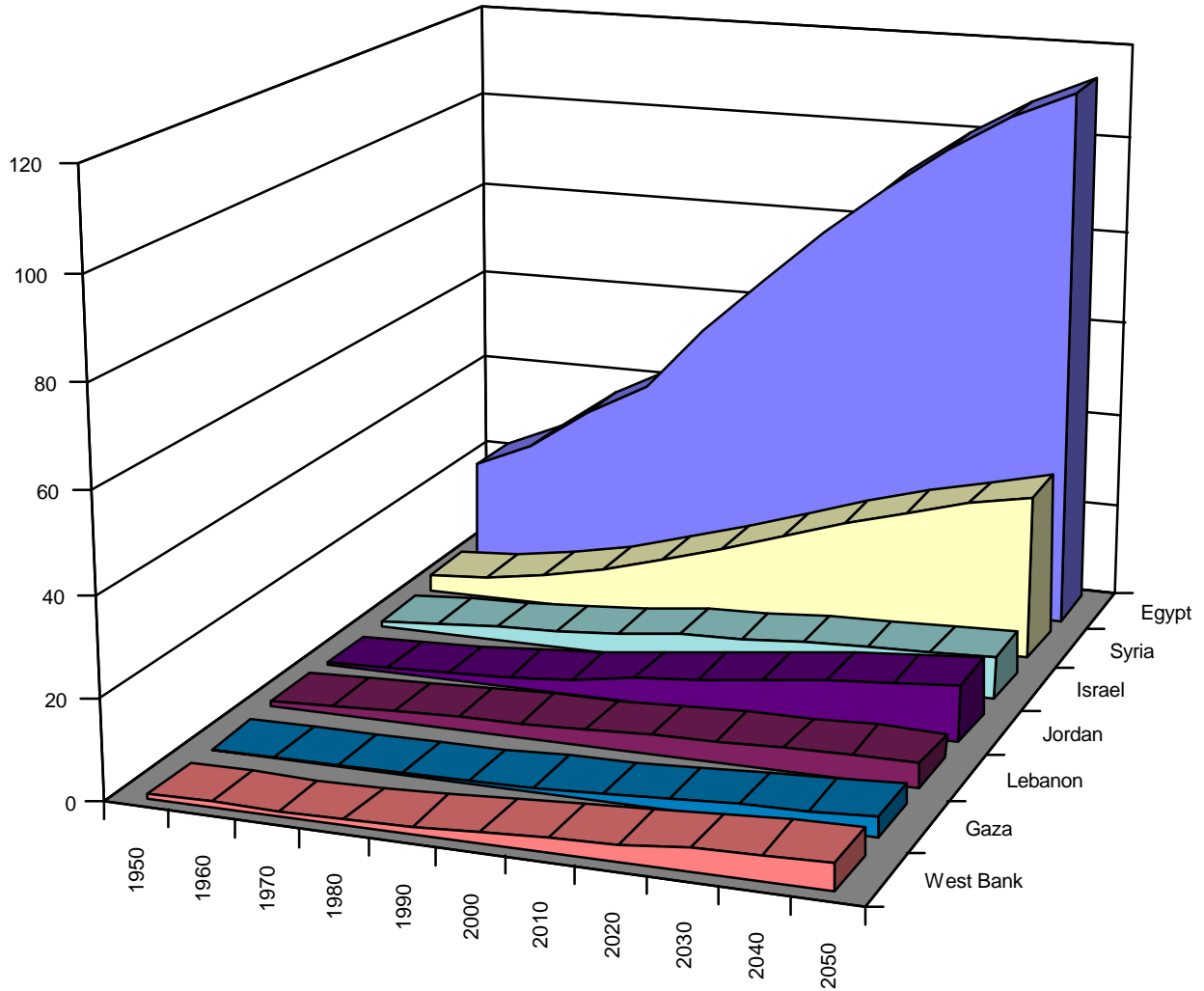


	1980	1998	2015	2030
Lebanon	3	4.2	5.2	6
Jordan	2.2	4.6	6.7	8
Israel	3.9	6	7.6	9
Syria	8.7	15.3	21.8	27
Egypt	40.9	61.4	78.7	92

Adapted by Anthony H. Cordesman from World Bank database for World Development Indicators, various editions.

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## The Population Time Bomb – US Census Bureau Estimate for Demographics of the Arab-Israeli Ring States: 1950-2050: (In Millions)

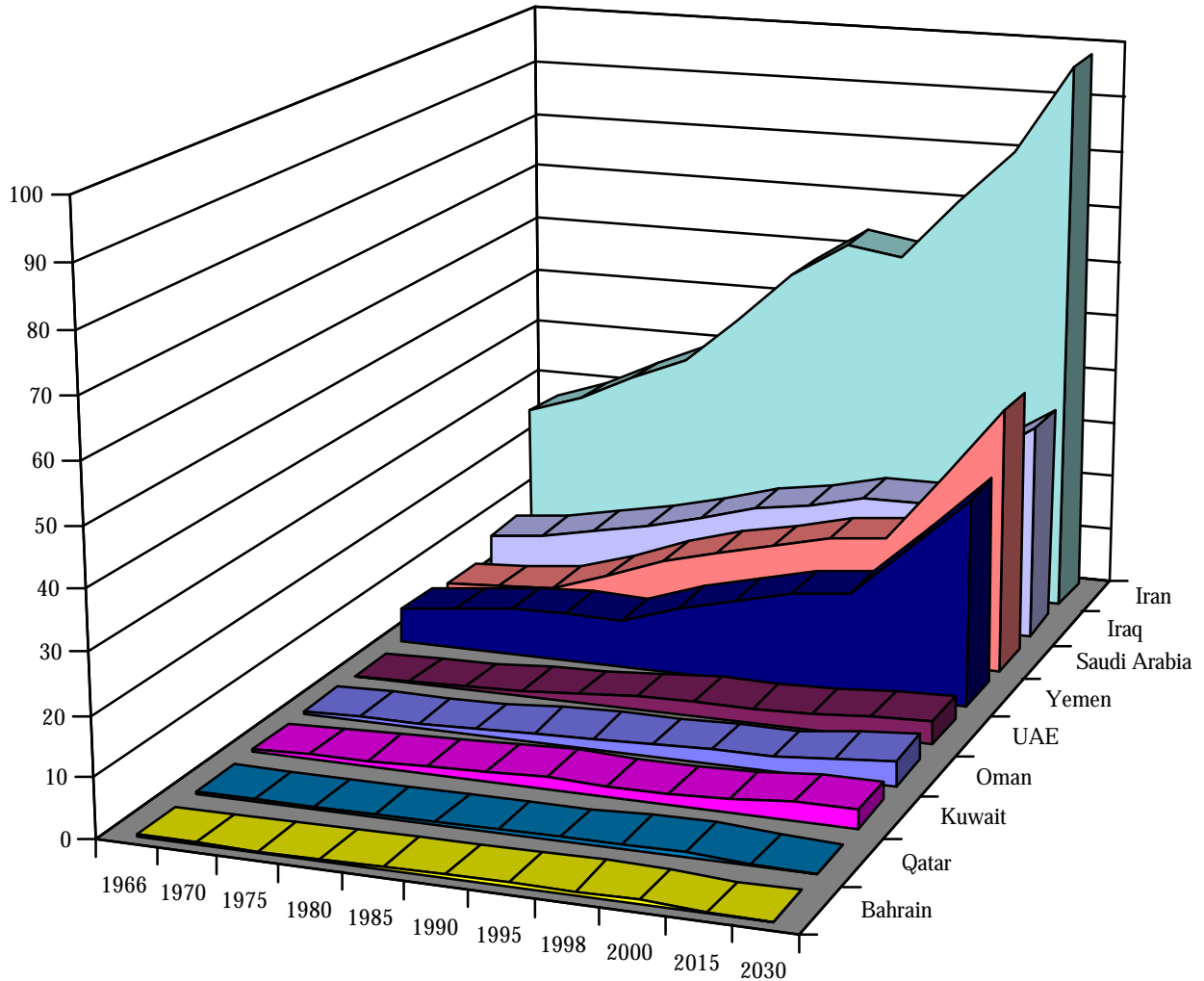


	1950	1960	1970	1980	1990	2000	2010	2020	2030	2040	2050
West Bank	0.77	0.81	0.69	0.9	1.26	2	2.77	3.5	4.36	4.96	5.58
Gaza	0.25	0.31	0.34	0.46	0.64	1.13	1.65	2.26	2.92	3.58	4.21
Lebanon	1.36	1.79	2.38	3.09	3.15	3.58	4.06	4.42	4.7	4.91	4.94
Jordan	0.56	0.85	1.5	2.16	3.26	4.99	6.49	7.92	9.37	10.69	11.77
Israel	1.28	2.14	2.9	3.74	4.51	5.84	6.65	7.32	7.87	8.27	8.52
Syria	3.5	4.53	6.26	8.77	12.44	16.31	20.61	24.68	28.35	31.71	34.44
Egypt	21.2	26.85	35.57	42.44	56.11	68.36	79.81	90.36	99.58	107.15	113

Adapted by Anthony H. Cordesman from data provided by the US Census Bureau IDB summary demographic data base on <http://www.census.gov/cgi-bin/ipc/idbsum?cty>.

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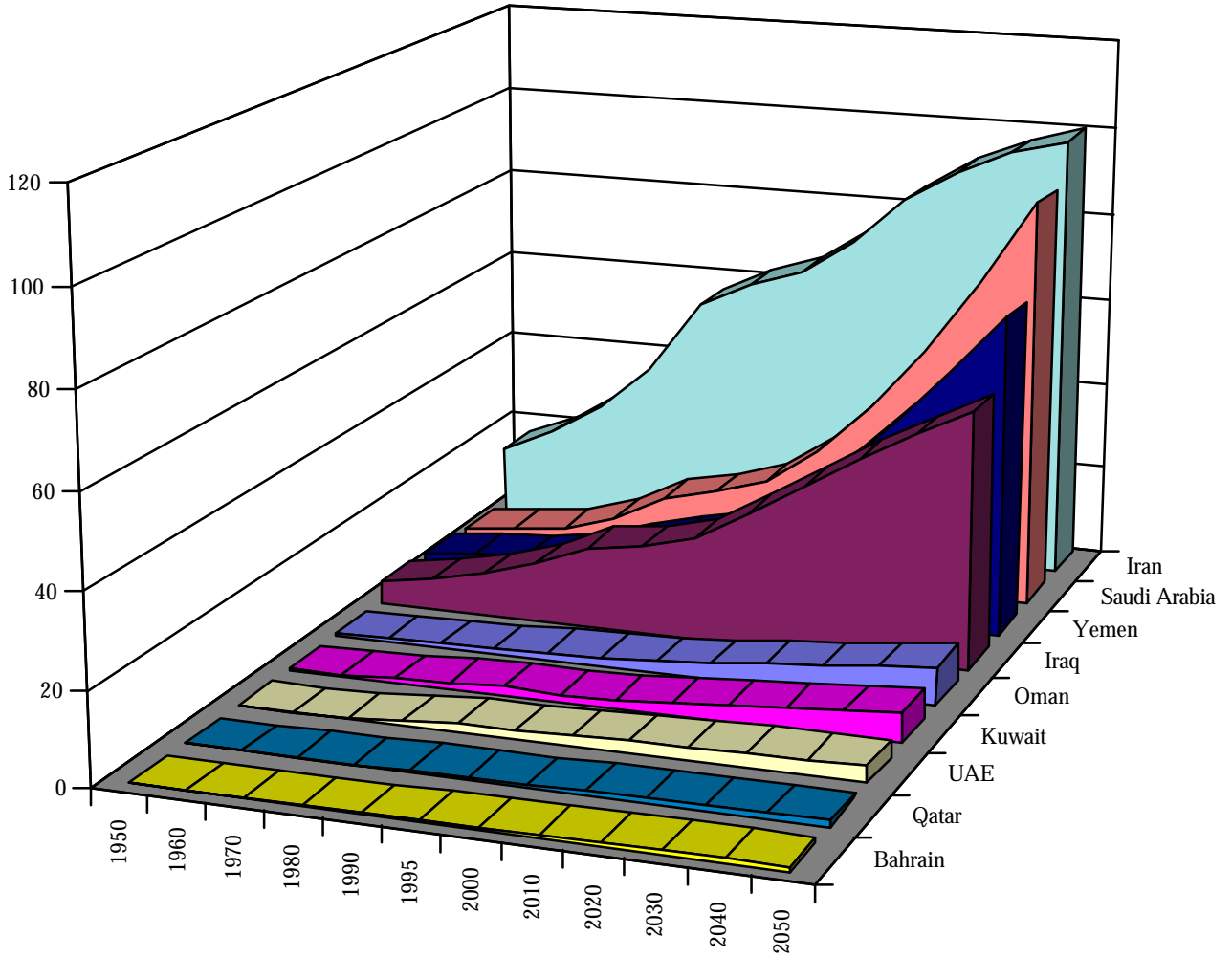
## The Population Time Bomb: Demographics of the Gulf: World Bank Estimate for 1980-2030 (Population in Millions)



	1966	1970	1975	1980	1985	1990	1995	1998	2000	2015	2030
■ Bahrain	0.18	0.22	0.3	0.4	0.4	0.5	0.6	0.6	0.6	NA	NA
■ Qatar	0.07	0.09	0.14	0.3	0.3	0.4	0.5	0.6	0.7	NA	NA
■ Kuwait	0.5	0.8	1	1.4	1.7	2.1	1.7	1.9	2.3	2.9	3
■ Oman	0.6	0.7	0.8	1.1	1.5	1.8	2	2.3	2.3	3.3	4
■ UAE	0.2	0.3	0.7	1	1.6	2.3	2.8	2.7	2.8	3.7	4
■ Yemen	6.1	7.2	8.3	8.5	8.4	11.6	14.1	16.6	17.8	26.6	36
■ Saudi Arabia	4.8	5.4	6.2	9.4	13.2	15.9	18	20.7	21.7	33.7	46
■ Iraq	8.2	9.4	11.1	13	15.7	18.4	19.9	22.3	22.3	31.3	38
■ Iran	26.8	30.1	34.9	39.1	47.6	56.9	63.1	61.9	72.7	82.1	98

Adapted by Anthony H. Cordesman from data provided by the US State Department and the World Bank database for *World Development Indicators, 2000*, pp. 40 and 44. The World Bank does not report on Bahrain and Qatar. World Bank figures are otherwise used for 1980, 1998, 2015, and 2000.

## The Population Time Bomb: Demographics of the Gulf: US Census Bureau Estimate for 1950-2050 (In Millions)

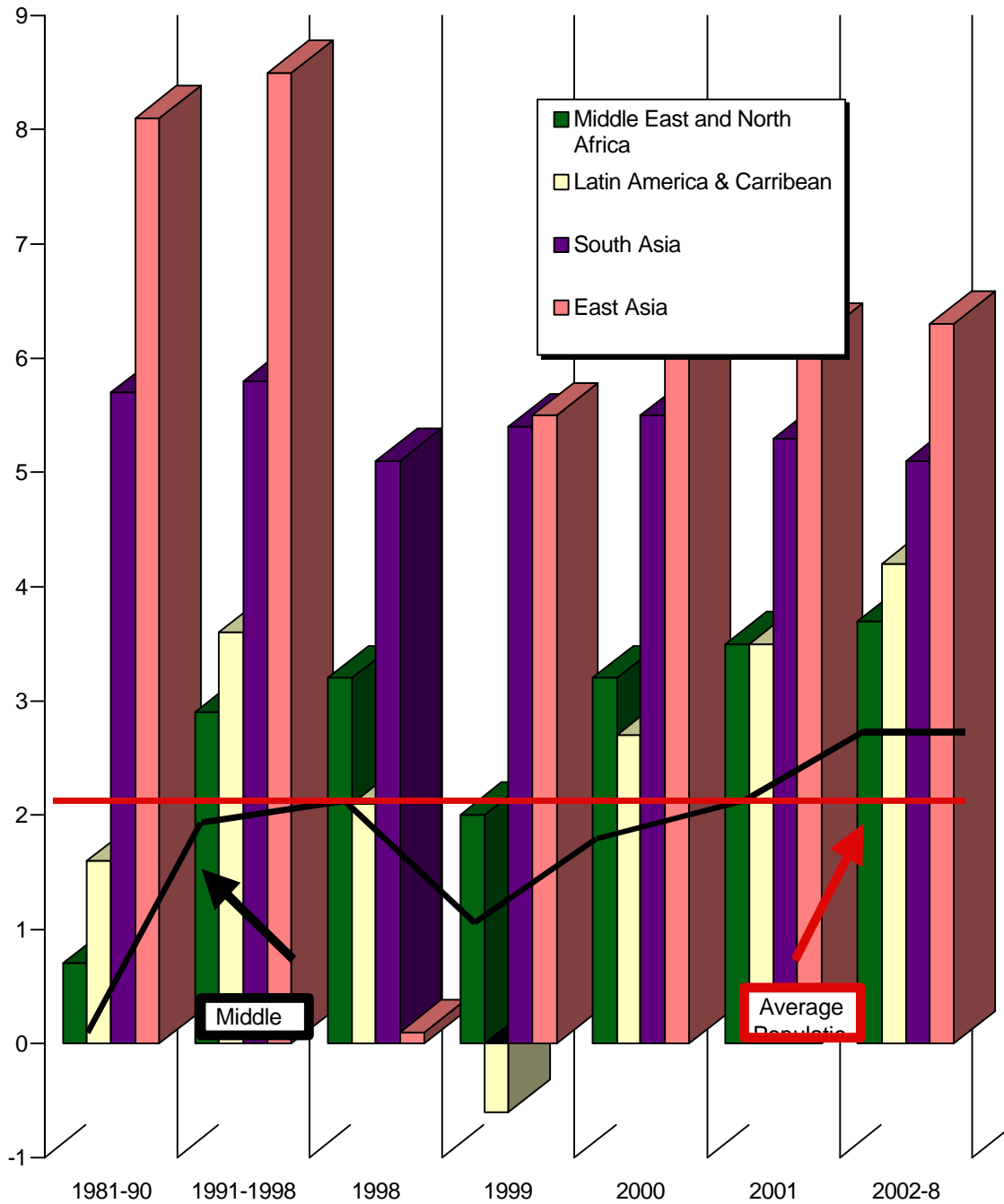


	1950	1960	1970	1980	1990	1995	2000	2010	2020	2030	2040	2050
■ Bahrain	0.11	0.16	0.22	0.35	0.5	0.57	0.63	0.74	0.83	0.9	0.95	0.97
■ Qatar	0.03	0.05	0.11	0.23	0.48	0.61	0.74	0.97	1.1	1.2	1.2	1.2
■ UAE	0.07	0.1	0.25	1	2	2.2	2.4	2.8	3.1	3.4	3.5	3.7
■ Kuwait	0.15	0.29	0.75	1.4	2.1	1.6	2	2.8	3.7	4.6	5.5	6.4
■ Oman	0.49	0.6	0.78	1.2	1.8	2.1	2.5	3.5	4.7	5.9	7.2	8.3
■ Iraq	5.2	6.8	9.4	13.2	18.1	19.6	22.7	29.7	36.9	43.9	50.5	56.4
■ Yemen	4.5	5.5	6.6	8.5	12	14.9	17.5	24.6	34.2	45.5	58	71.1
■ Saudi Arabia	3.7	4.7	6.1	9.9	15.8	18.6	22	30.5	41.9	55.8	72.3	91.1
■ Iran	16.4	21.6	28.9	39.3	55.7	61.5	65.6	73.8	84.2	91.7	96.9	100.2

Adapted by Anthony H. Cordesman from data provided by the US Census Bureau IDB summary demographic data base on <http://www.census.gov/cgi-bin/ipc/idbsum?cty>.

## Economic Growth Rate Versus Other Developing Regions and the Population Growth Rate in the Middle East: 1981-2008

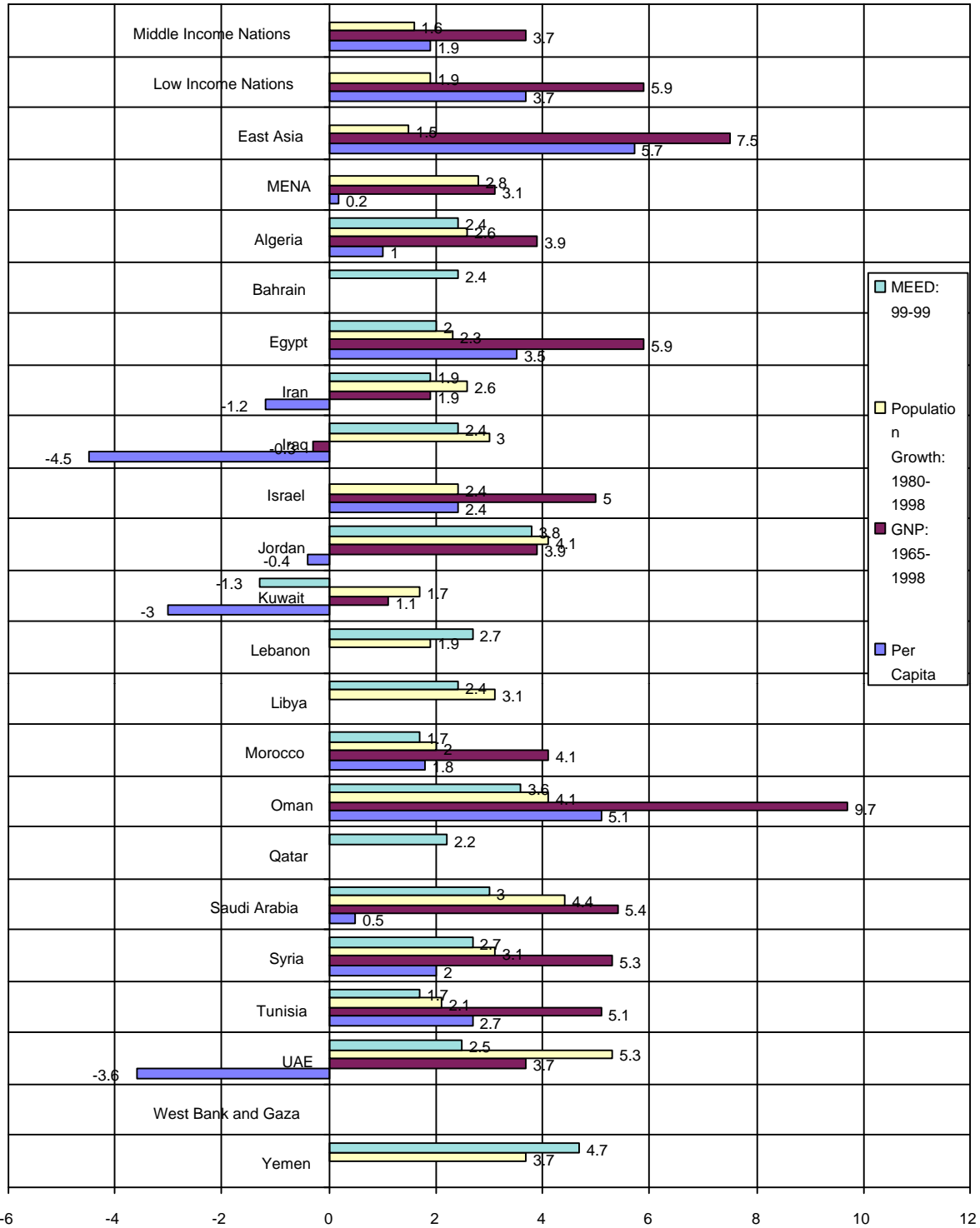
(Growth as a Percent of Real GDP)



Source: Adapted by Anthony H. Cordesman from World Bank, Global Economic Prospects and the Developing Countries, 1996, p. 22, and 2000, p. 23.

## Population Growth Has Had a Major Impact in Limiting Per Capita Income

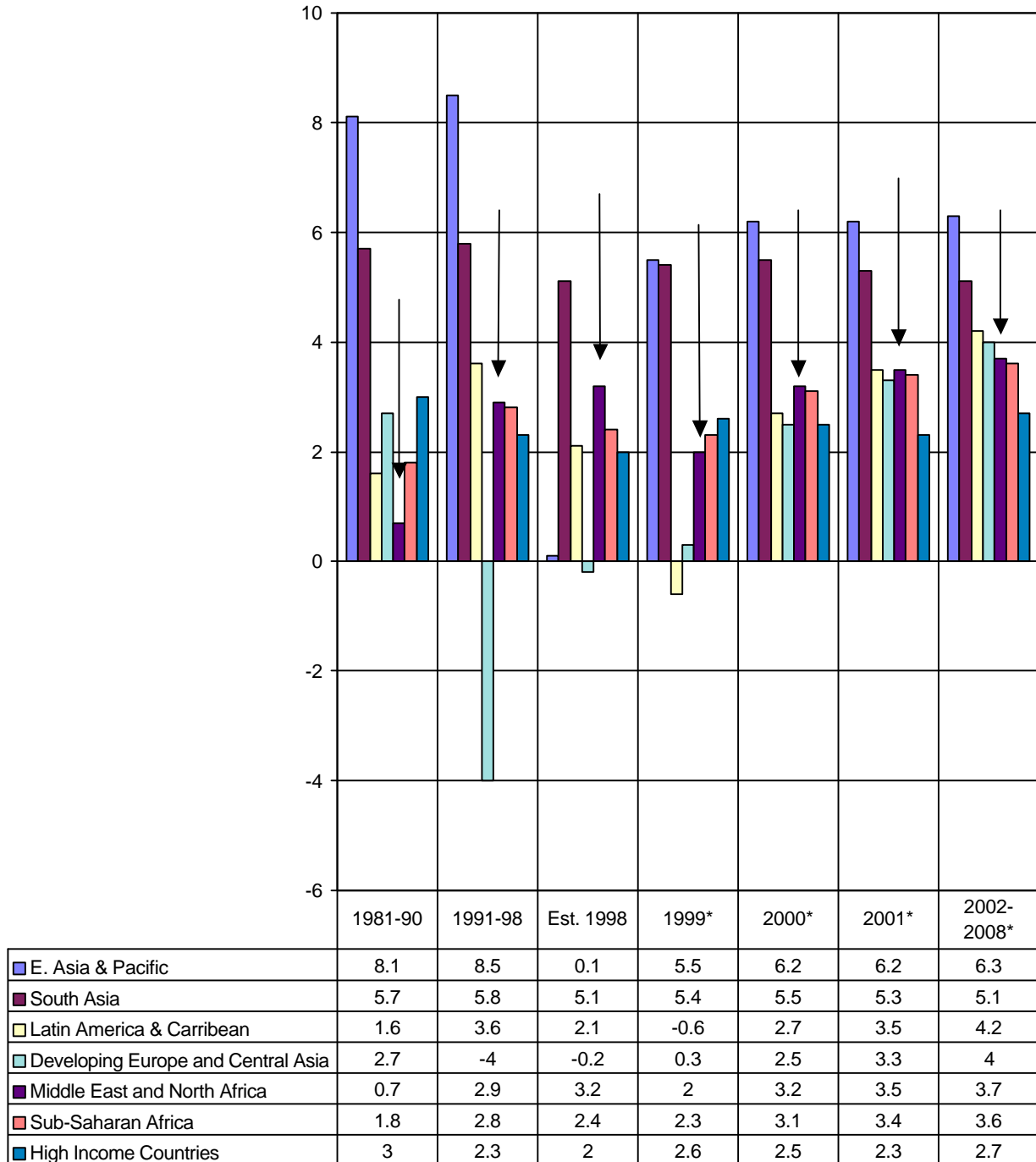
(Average Percent of Annual Growth)



Adapted by Anthony H. Cordesman from World Bank, *World Development Indicators*, 2000, pp. 22-24, and *MEED*, January 19, 2001, p. 27.

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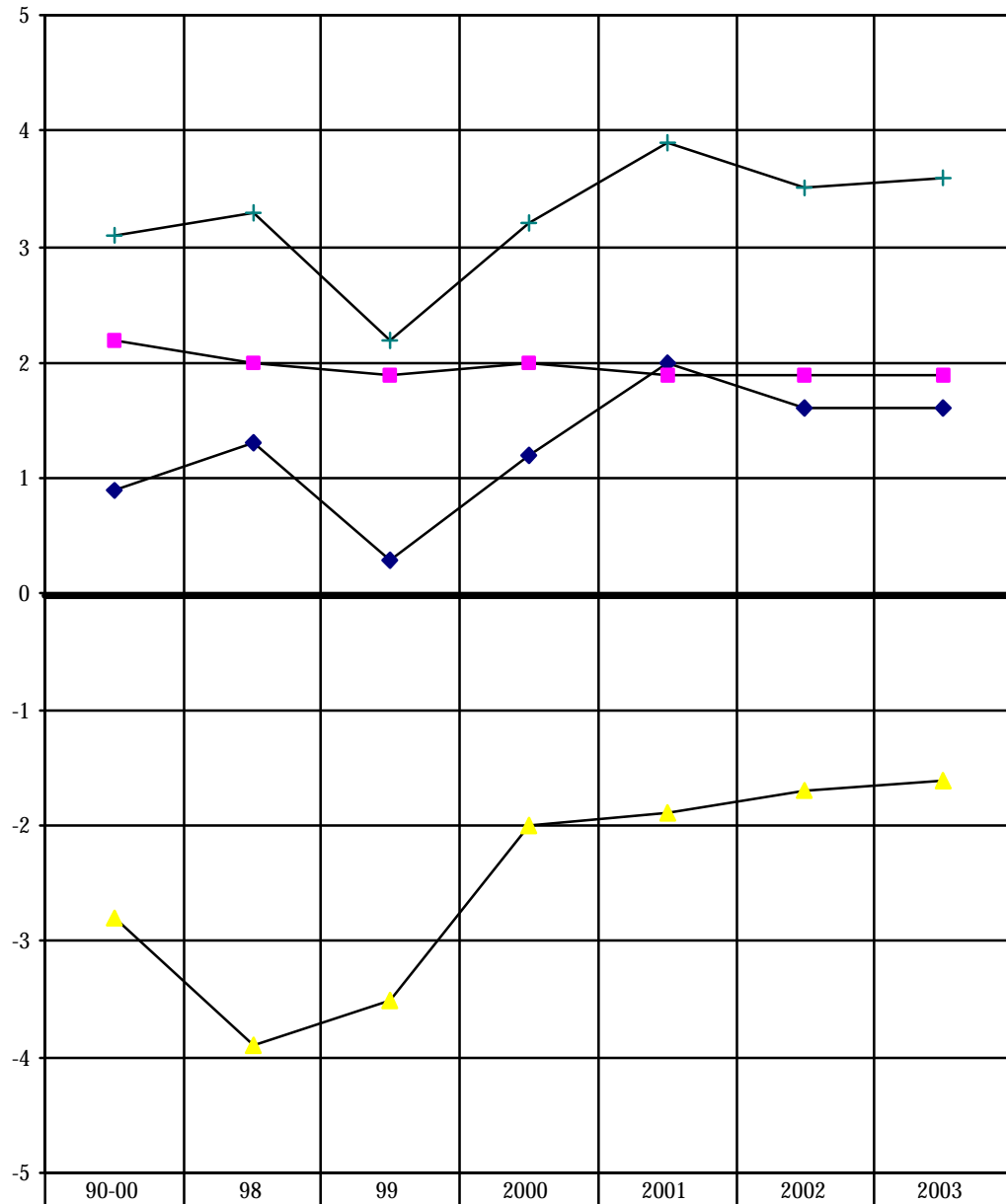
## Growth in GDP vs. GDP Per Capita: The IMF Estimate for the Middle East, Turkey, and: 1983-2002 (In Percent)



Source: Adapted by Anthony H. Cordesman from International Monetary Fund, World Economic Outlook, Washington, IMF, October 2000, p. 171.

## Growth in GDP vs. Growth in Population, GDP Per Capita, and Decline in Budget Balance: The World Bank Estimate for the Middle East: 1990-2003

(In Percent)

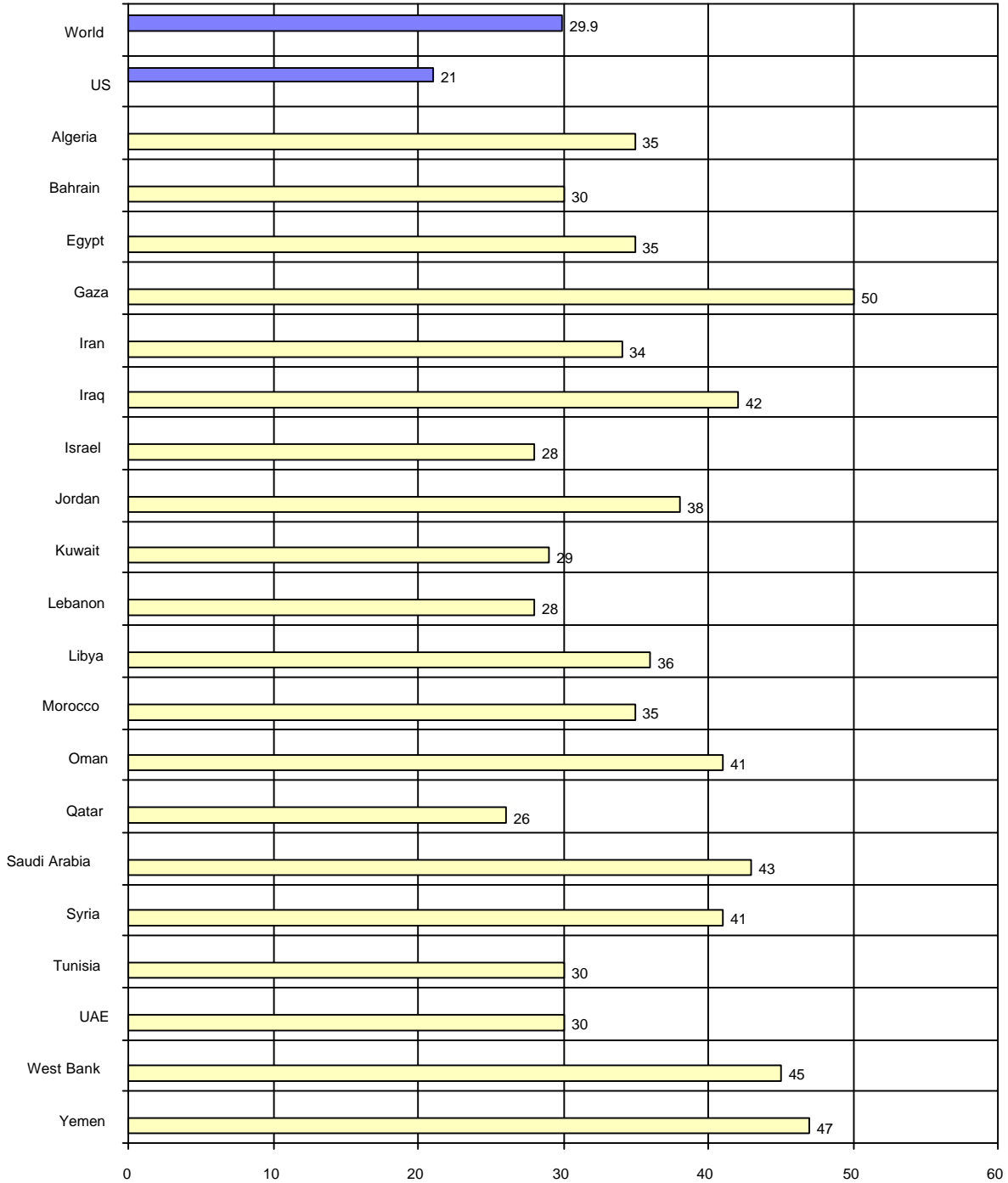


Real GDP	3.1	3.3	2.2	3.2	3.9	3.5	3.6
GDP Per Capita	0.9	1.3	0.3	1.2	2	1.6	1.6
Population	2.2	2	1.9	2	1.9	1.9	1.9
Budget Balance	-2.8	-3.9	-3.5	-2	-1.9	-1.7	-1.6

Source: Adapted by Anthony H. Cordesman from World Bank, *Global Development Finance, 2001*, Washington, World Bank, 2001, p. 207.

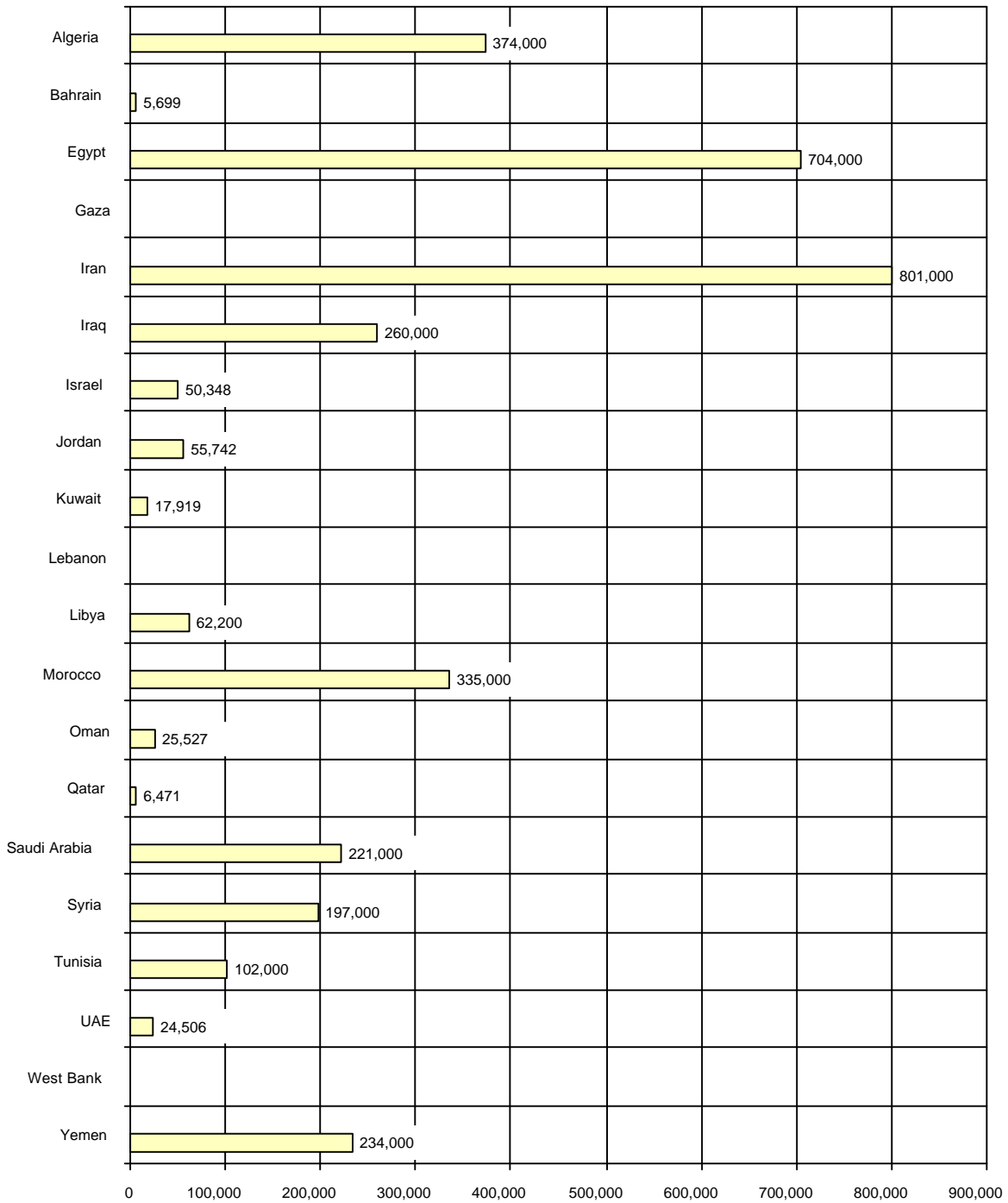


## Population Momentum and Pressure on the Job Market: CIA Comparative Estimate of the “Youth Rate” (Percentage of the Population Aged 14 Years or Less in 2000)



Adapted by Anthony H. Cordesman from CIA, World Factbook, 2000

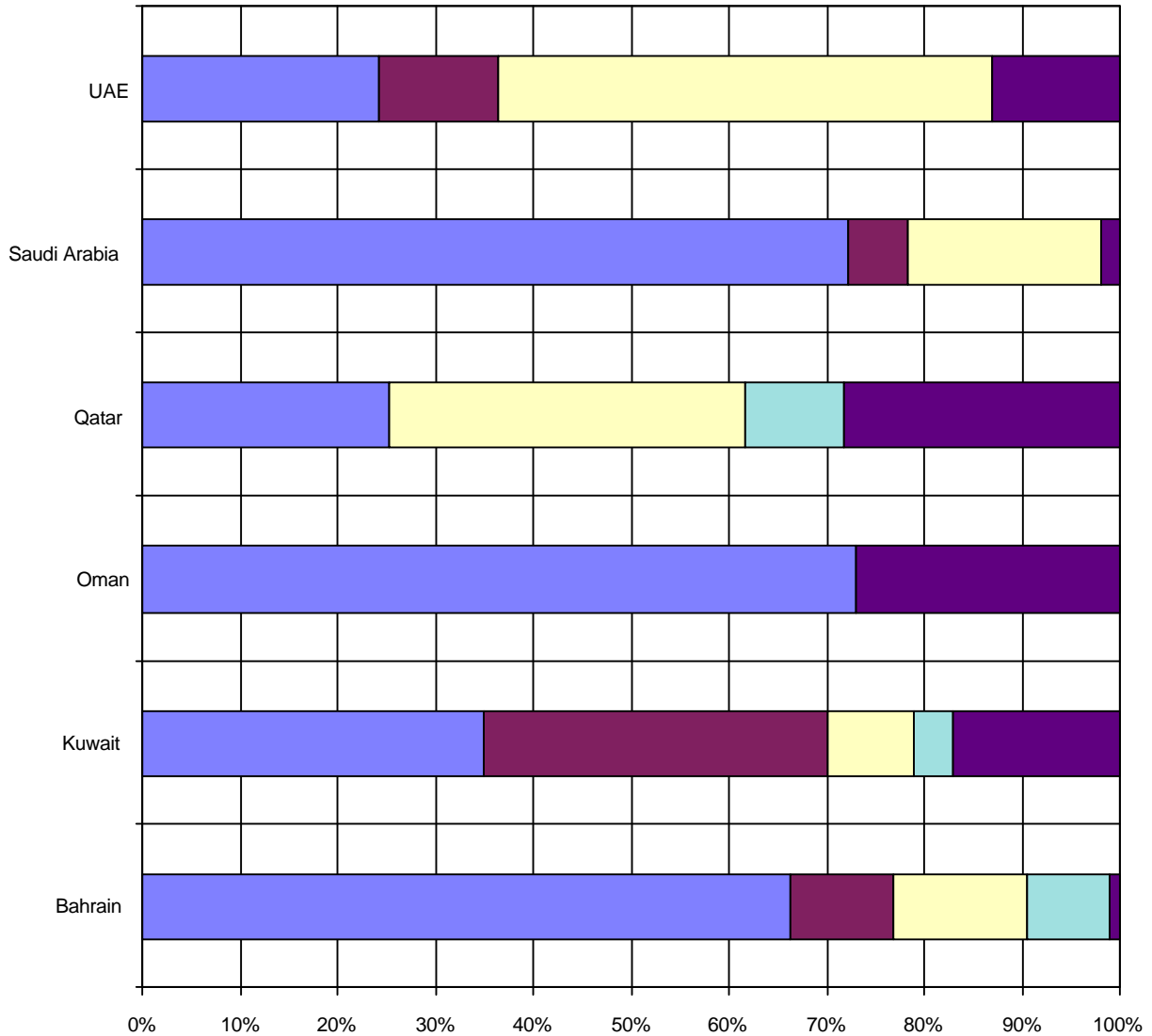
## The Search for Jobs: CIA Estimate of Number of Young Males Entering the Labor Market Each Year



Adapted by Anthony H. Cordesman from CIA, World Factbook, 2000

## Foreign Population in Selected Countries in the Gulf

(in percentages of total population)



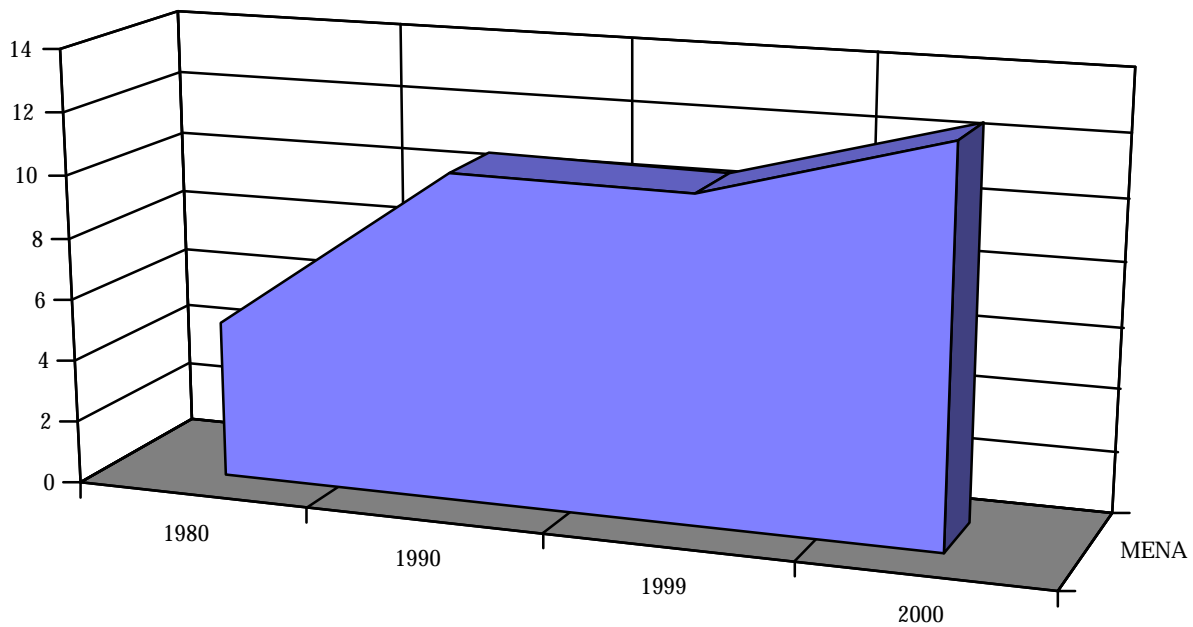
	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	UAE
Other	1	17	27	28	2	13
Iranian	8	4		10		
South Asian	13	9		36	20	50
Foreign Arab	10	35			6	12
Native Arab	63	35	73	25	73	24

Note: Iran is 51% Persian, 24% Azeri, 8% Gilaki/Mazandarani, 7% Kurdish, 2% Lurm and 2% Turkman; Iraq is 75-80% Arab, of which some 55% are Shi'ite and 45% Sunni) and 20-25% Kurdish and other minority,

Source: Adapted by Anthony H. Cordesman from CIA, World Factbook, 2000, and IISS, Military Balance, 2000-2001.

## Foreign Worker Remittances Flowing Out of the MENA Area: 1980-2000

(In Current \$US Billions)

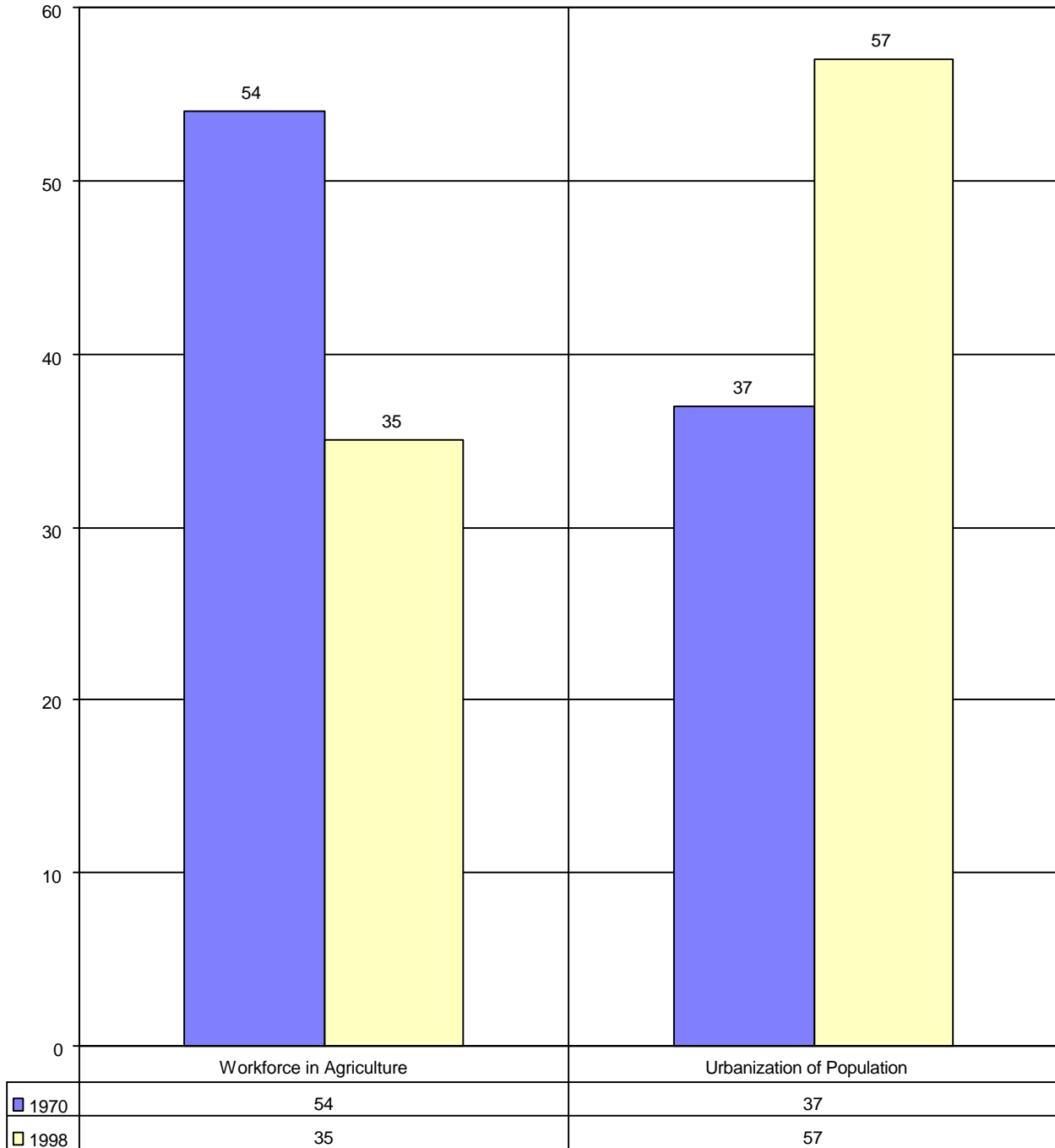


	1980	1990	1999	2000
■ MENA	5.1	10.5	10.4	12.5

Source: Adapted by Anthony H. Cordesman from World Bank, Global Development Finance, 2001, Washington, World Bank, 2001, pp. 254-255.

## Percent of Urbanization and Percent of Labor Force in Agriculture: Shaping the Pace of Social Change in the MENA Region

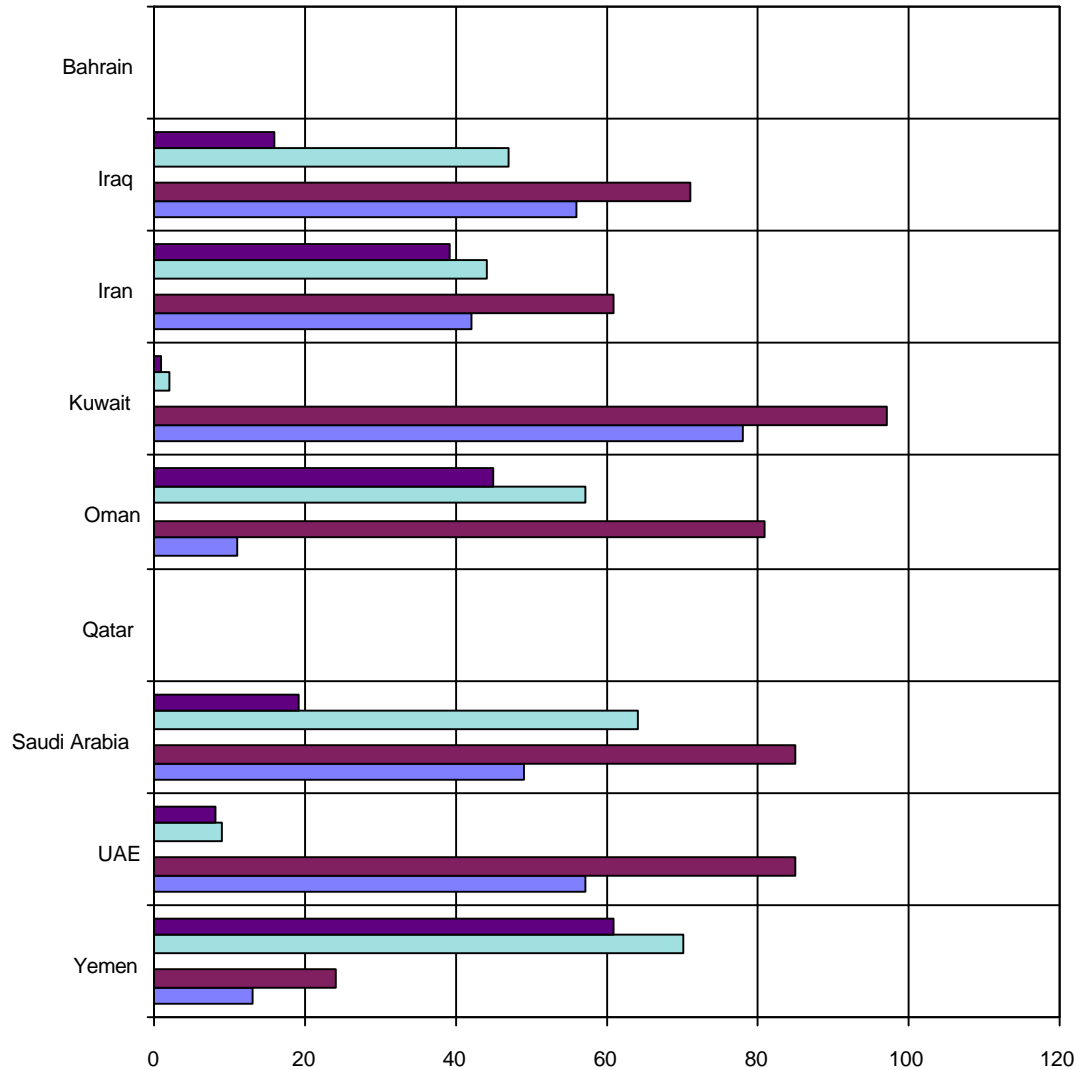
(in percent)



Source: Adapted by Anthony H. Cordesman World Bank, World Development Indicators, 1998 and 2000.

## Pressures for Social Change: Massive Urbanization and Sharp Decline in the Role of Agriculture in Selected Countries in the Gulf

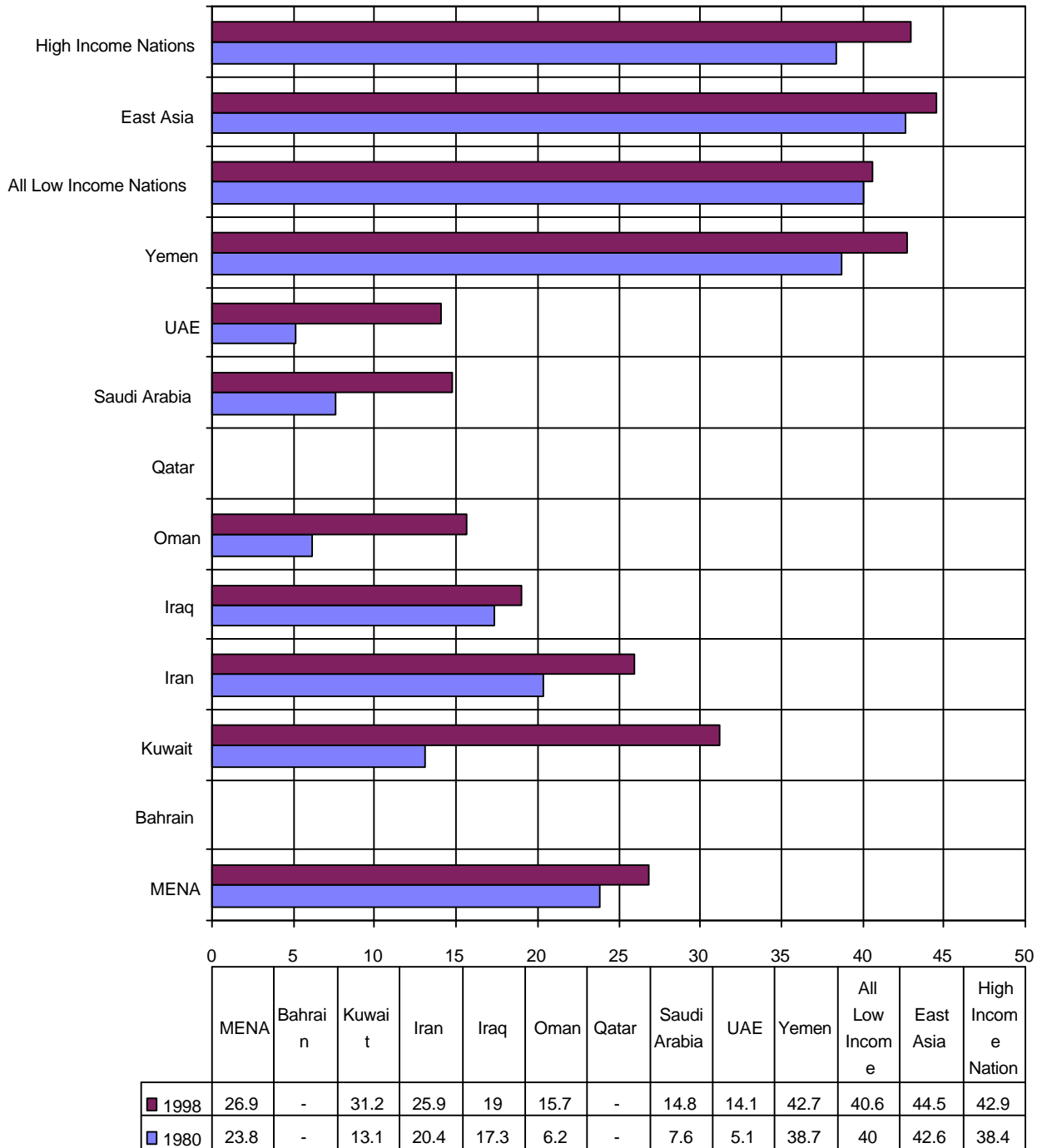
(in percentages of total population)



	Yemen	UAE	Saudi Arabia	Qatar	Oman	Kuwait	Iran	Iraq	Bahrain
■ Labor in Agriculture in 1998	61	8	19	-	45	1	39	16	-
■ Labor in Agriculture 1970	70	9	64	-	57	2	44	47	-
□ .									
■ Urbanization in 1998	24	85	85	-	81	97	61	71	-
■ Urbanization in 1970	13	57	49	-	11	78	42	56	-

Source: Adapted by Anthony H. Cordesman World Bank, World Development Indicators, 2000, pp. 26-28

## Women as a Percent of the Labor Force: Pace of Social Change



Adapted by Anthony H. Cordesman from World Bank, World Development Indicators, 2000, pp. 46-48.

## **Increases in Real Per Capita Income Lag Badly Behind Absolute Growth**

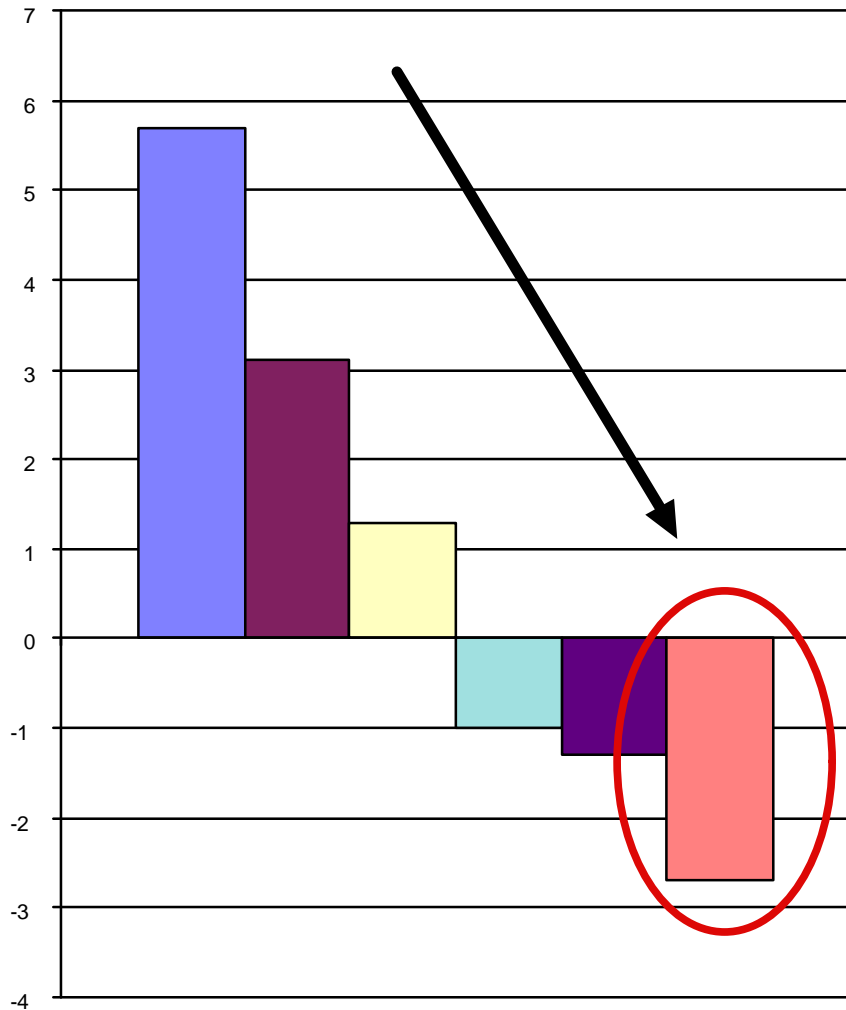
- **The Middle East and North Africa lagged the entire world during 1980-1991.**
- **Real per capita income declined by well over 25% during the 1980s.**
- **The situation has improved since 1991, but there is still little real growth.**
- **Many of the oil exporting states still have a real per capita 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)

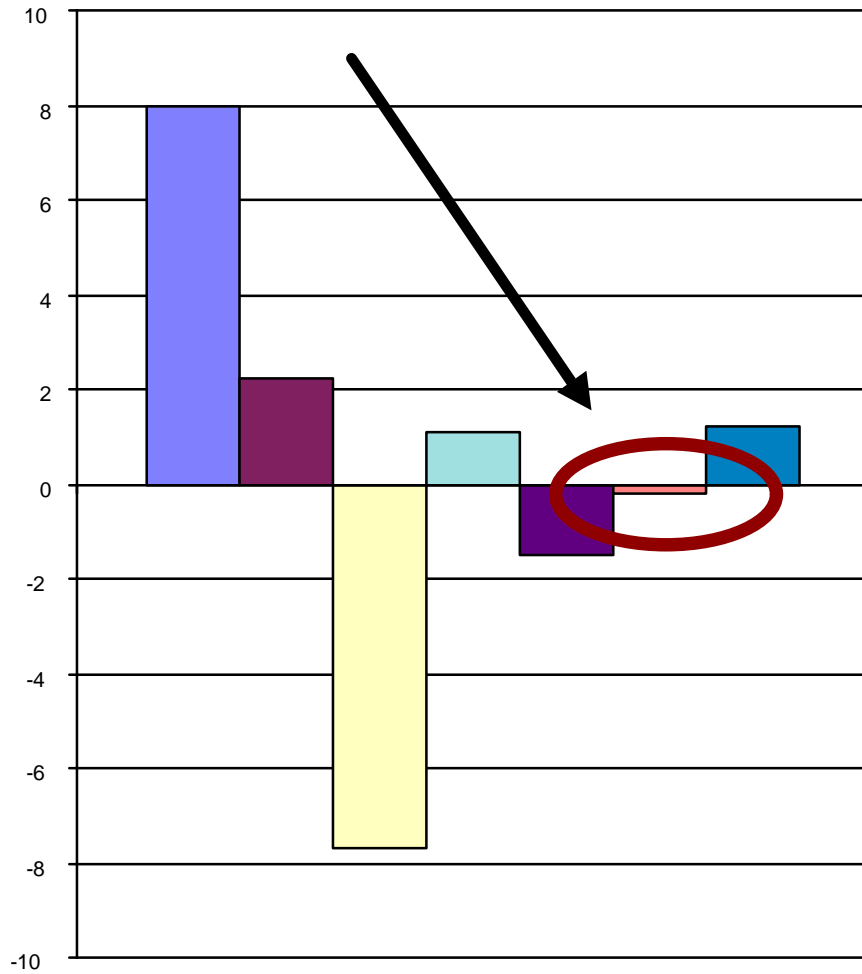


■ East Asia	5.7
■ South Asia	3.1
■ Europe and Central Asia	1.3
■ Latin America and Caribbean	-1
■ Africa	-1.3
■ Middle East and North Africa	-2.7

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)

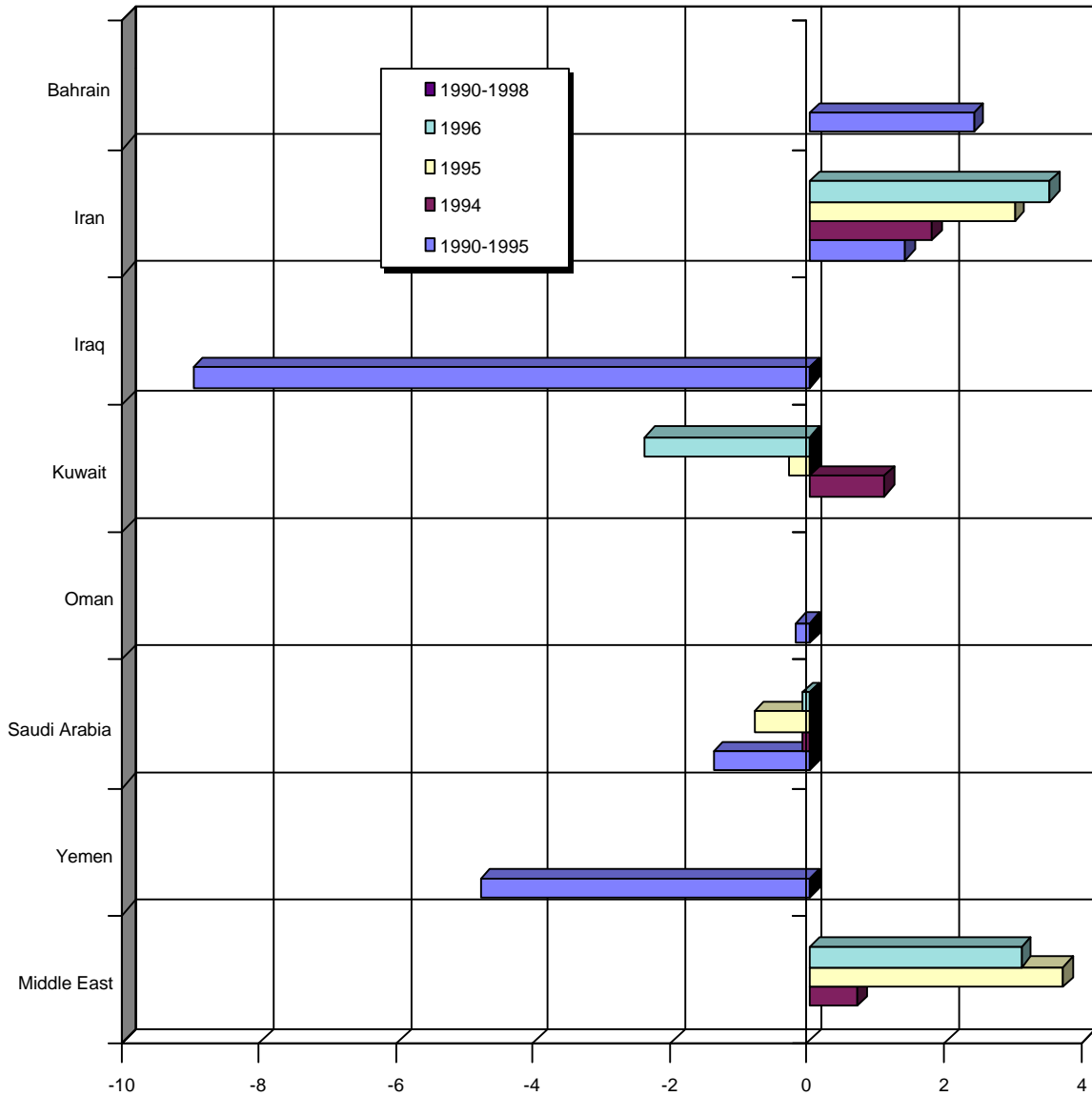


■ East Asia	8
■ South Asia	2.2
■ Europe and Central Asia	-7.7
■ Latin America and Caribbean	1.1
■ Sub-Saharan Africa	-1.5
■ Middle East and North Africa	-0.2
■ High Income Countries	1.2

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: Trends by Region and Key Country: 1994-1996

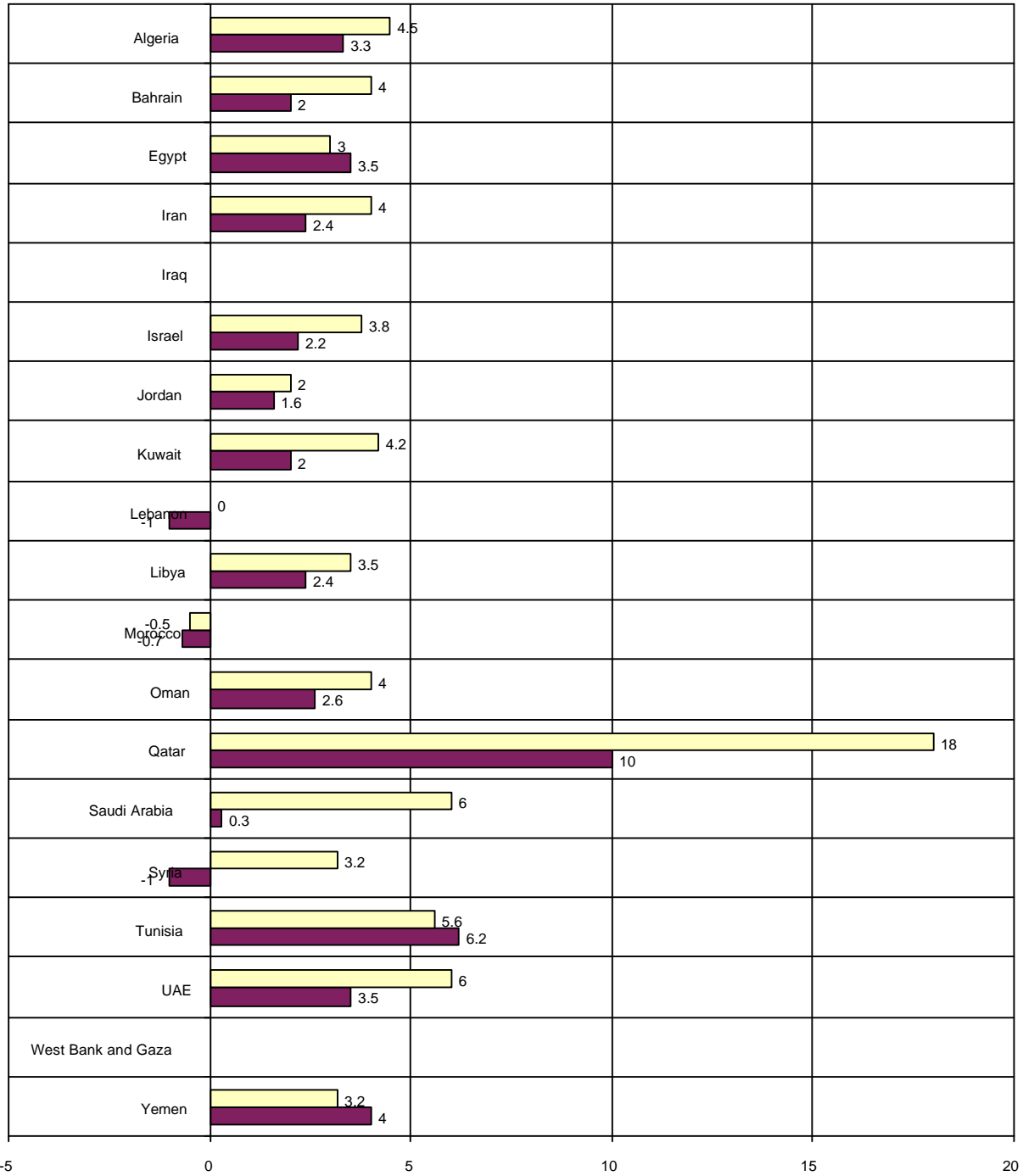
(Change in Average Percent of Growth or Decline in Per Capita Income in Constant Dollars)



	Middle East	Yemen	Saudi Arabia	Oman	Kuwait	Iraq	Iran	Bahrain
■ 1990-1998								
■ 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 Continue to Differ Radically in Percent of Recent GNP Growth, But High Oil Revenues Have Helped Most Exporting Countries

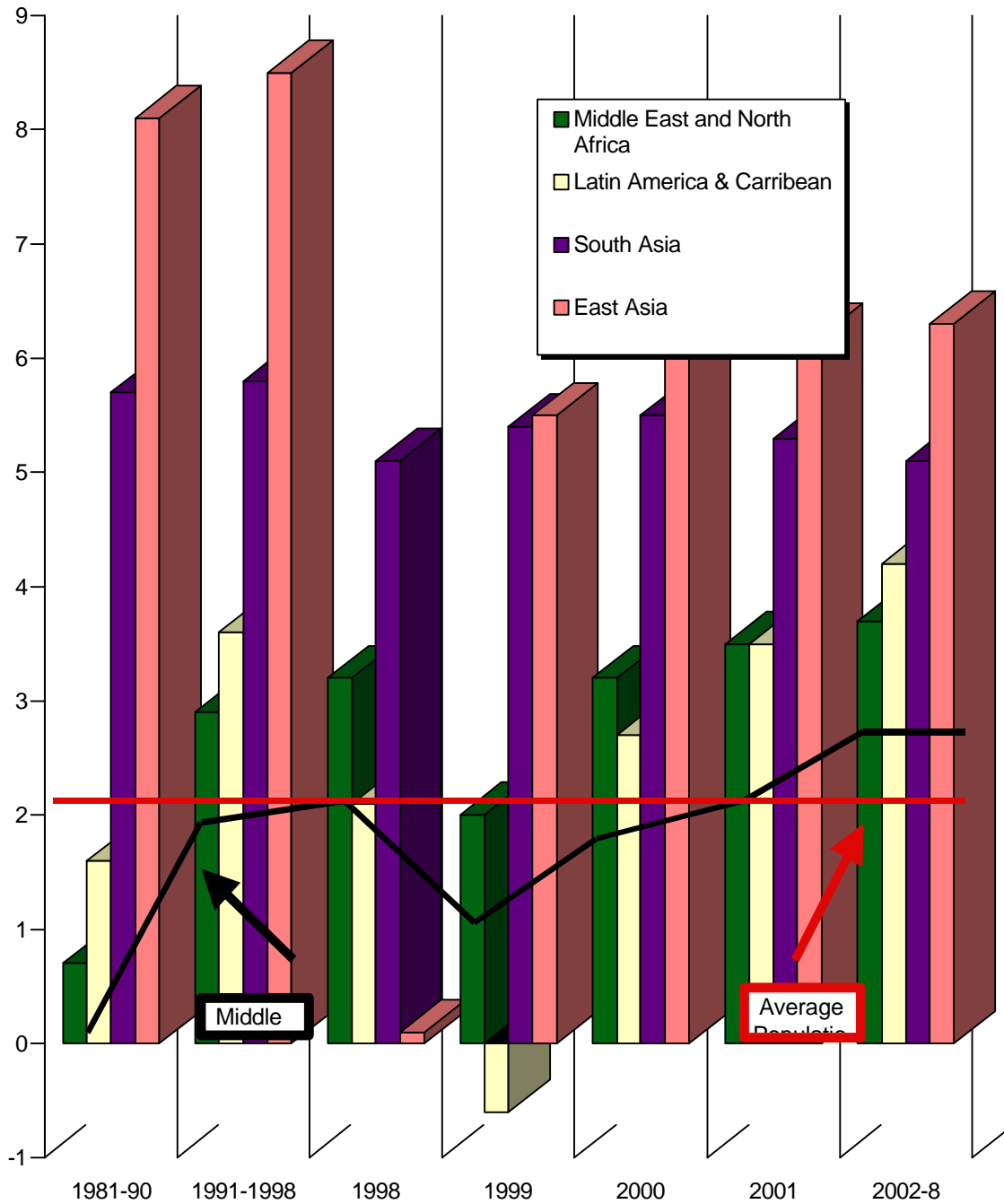
(Average Percent of Annual Growth)



Adapted by Anthony H. Cordesman from Middle East Economic Digest, December 15, 2000, pp. 32-33.

## Current Economic Growth Projections Are More Favorable but Still Are Not Competitive Enough: 1981-2008

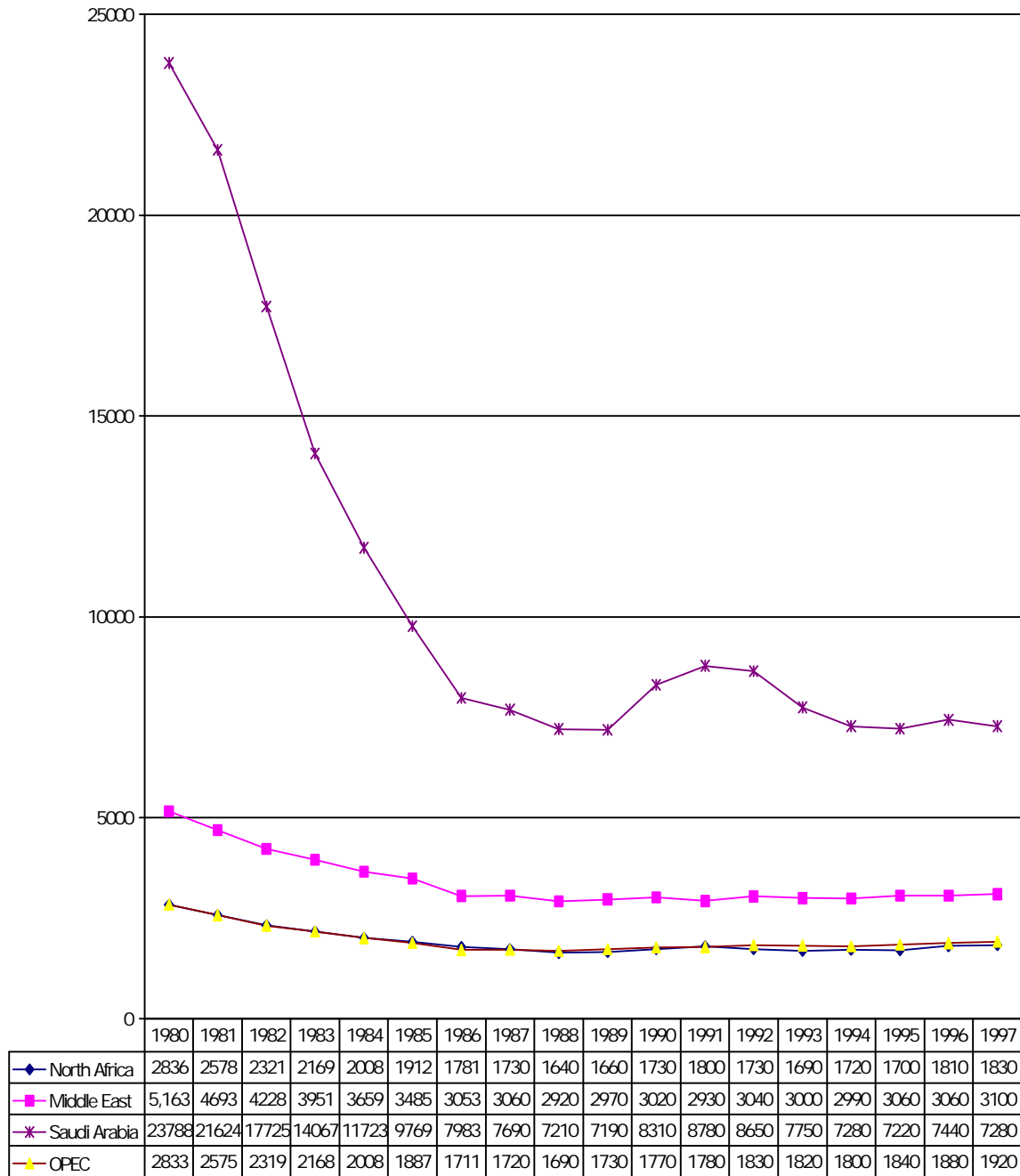
(Growth as a Percent of Real GDP)



Source: Adapted by Anthony H. Cordesman from World Bank, *Global Economic Prospects and the Developing Countries*, 1996, p. 22, and 2000, p. 23.

## The Decline in Real Per Capita Income in the Middle East, North Africa, OPEC and Saudi Arabia: 1980-1997

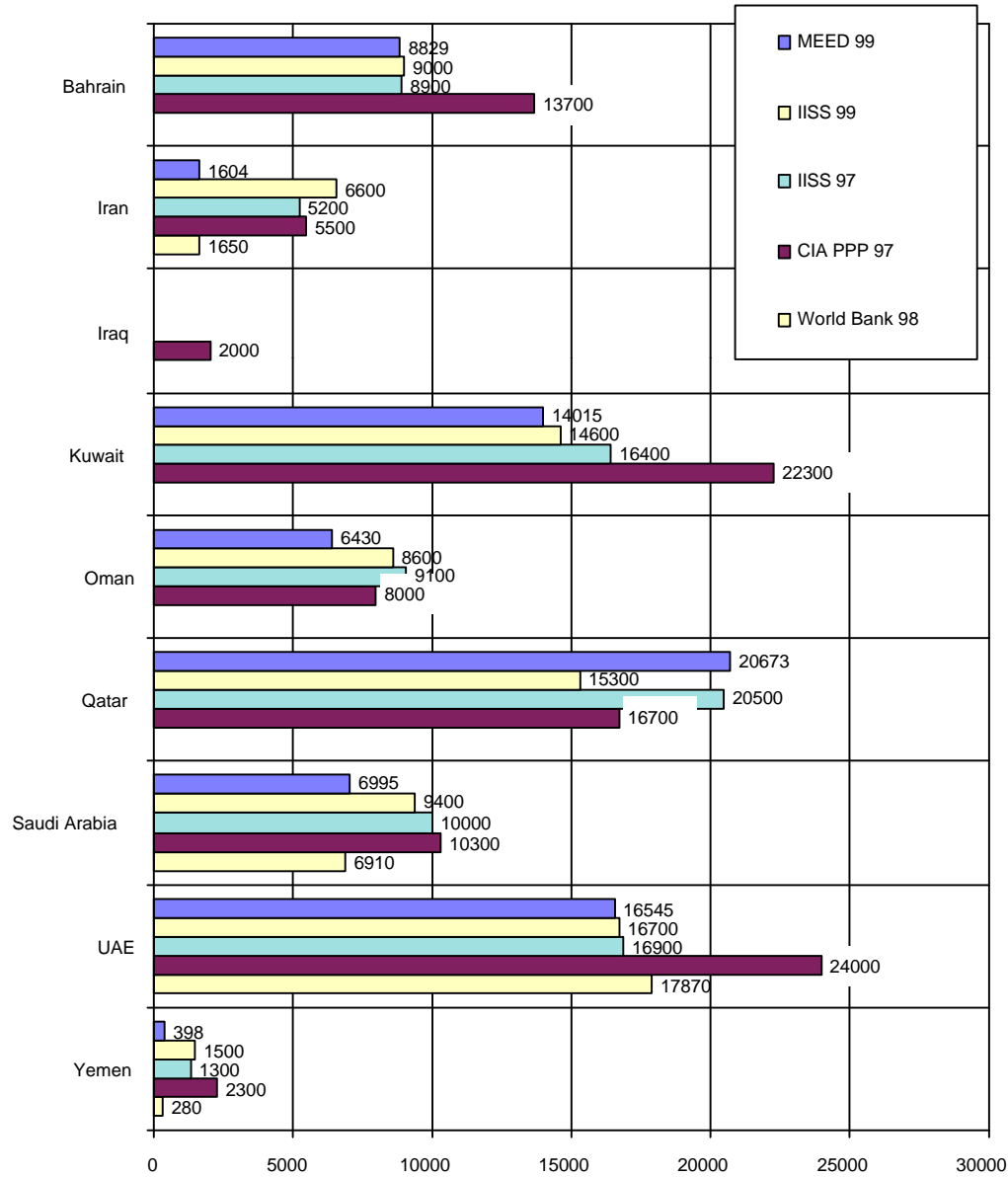
(\$US Constant 1997 Dollars)



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

## Gulf Countries Now Differ Radically in Per Capita Income and the Rise in Oil Prices in 1999 Had Only a Limited Impact

(\$US Current)



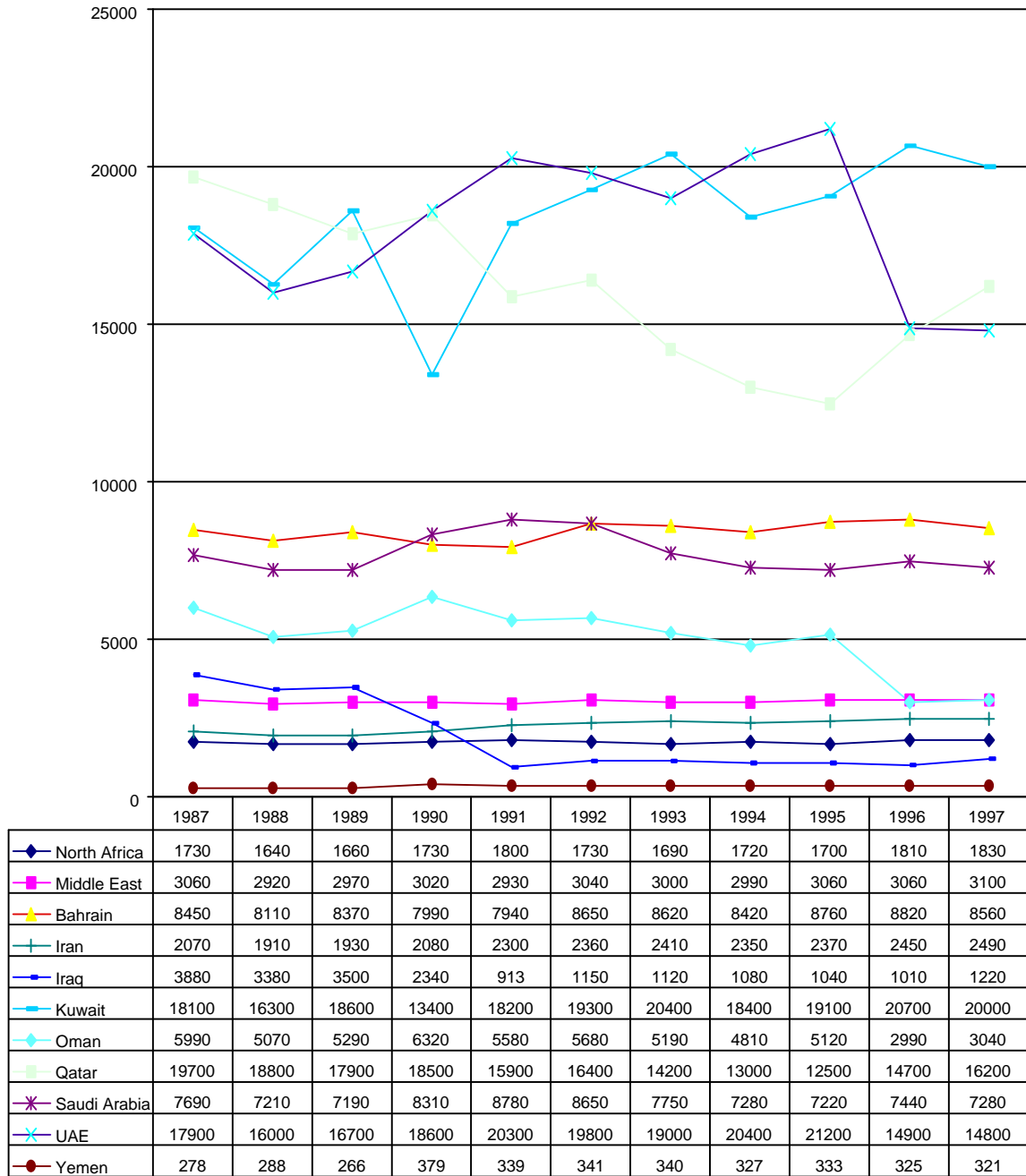
	Yemen	UAE	Saudi Arabia	Qatar	Oman	Kuwait	Iraq	Iran	Bahrain
MEED 99	398	16545	6995	20673	6430	14015	-	1604	8829
IISS 99	1500	16700	9400	15300	8600	14600	-	6600	9000
IISS 97	1300	16900	10000	20500	9100	16400	-	5200	8900
CIA PPP 97	2300	24000	10300	16700	8000	22300	2000	5500	13700
World Bank 98	280	17870	6910	-	-	-	-	1650	-

Countries Now Differ Radically in Per Capita Income Adapted by Anthony H. Cordesman from World Bank, World Development Indicators, 1998, pp. 172-174.



## The Rich versus the Poor: Comparing the Trend in National Per Capita Income in Constant Dollars

(\$US Constant 1997 Dollars)



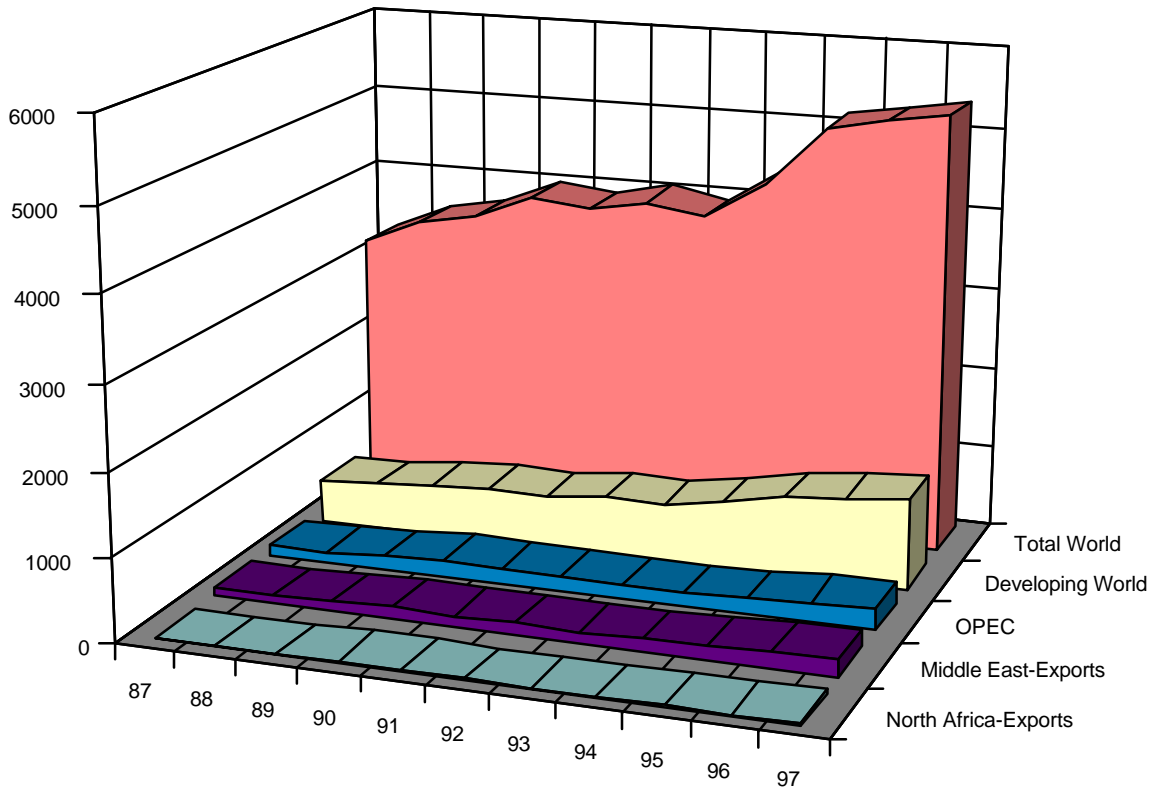
Adapted by Anthony H. Cordesman from Arms Control and Disarmament Agency (ACDA), World Military Expenditures and Arms Transfers, Washington, GPO, Table I, various editions..

## **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: 1986-1997

(In Constant \$1997 US Billions)

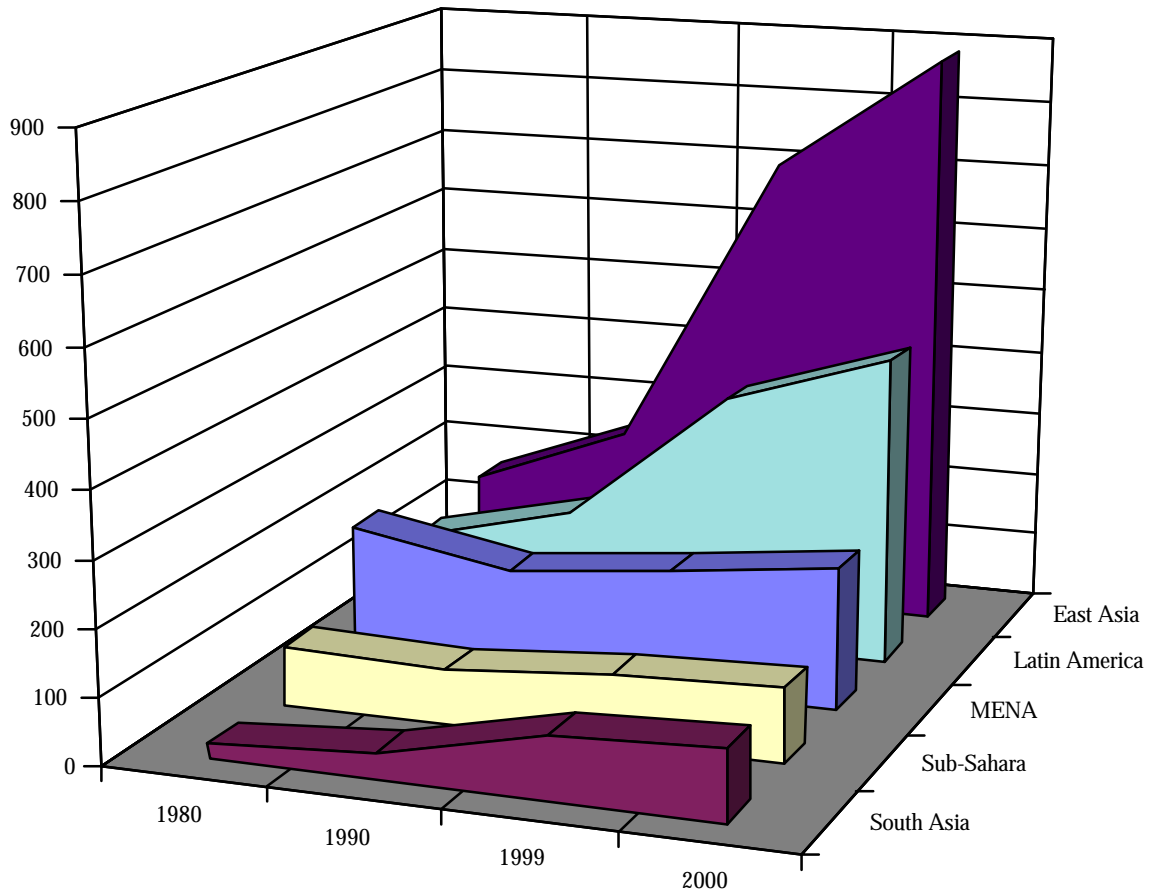


	87	88	89	90	91	92	93	94	95	96	97
North Africa-Exports	27.8	26.3	29	39.8	36	32.2	27.6	26.7	32.2	35.7	36.4
Middle East-Exports	114	110.3	134.1	157.1	143	152.4	140.3	144.7	158.9	183.2	189.5
OPEC	157.2	149.8	177.8	221.9	201.8	209.7	193.2	195.6	214.9	254.3	262.4
Developing World	519.1	558.5	607.1	667.2	648	717.8	714.7	810.1	957.7	1035	1107
Total World	3240	3552	3674	3990	3884	4037	3917	4367	5119	5242	5348

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.

## Comparative Growth of Exports of Goods and Services: 1980-2000

(In Current \$US Billions)

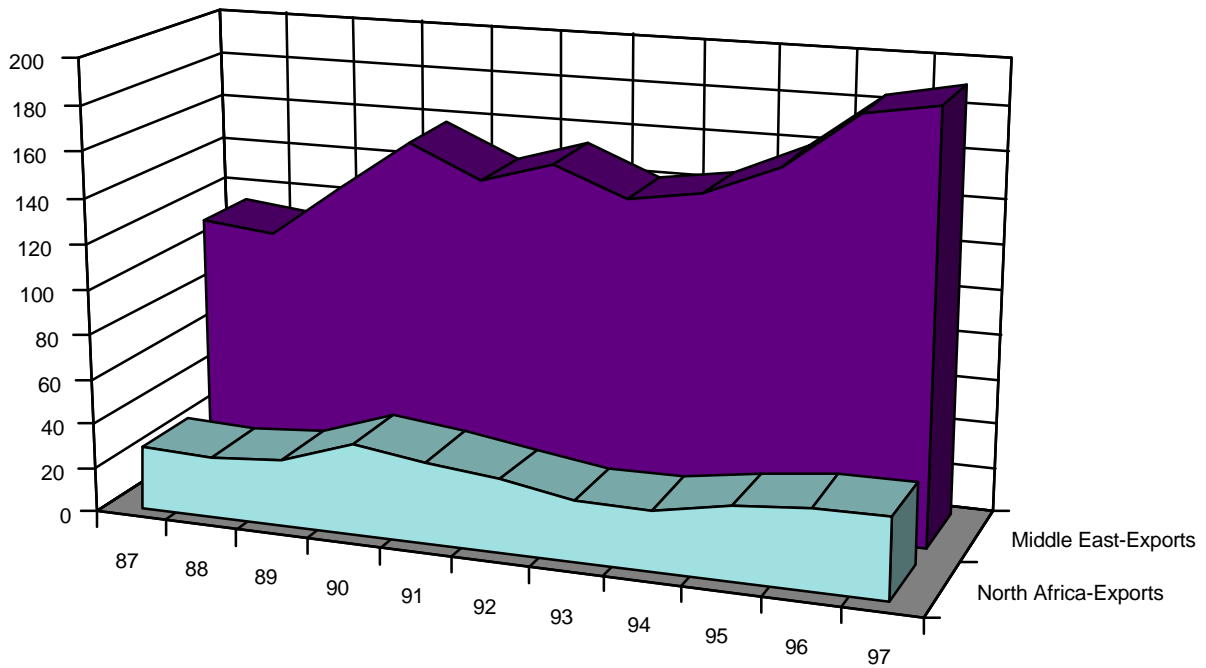


	1980	1990	1999	2000
■ South Asia	23.5	39.7	94.4	105.5
■ Sub-Sahara	92.9	84.5	102.6	114.3
■ MENA	207.2	163.4	187.1	217
■ Latin America	128	186.8	390.2	468.7
■ East Asia	158	252.8	706.5	883.1

Source: Adapted by Anthony H. Cordesman from World Bank, Global Development Finance, 2001, Washington, World Bank, 2001, pp. 254-255.

## The Middle East Has Exhibited Consistent Growth in Exports; North Africa Has Not

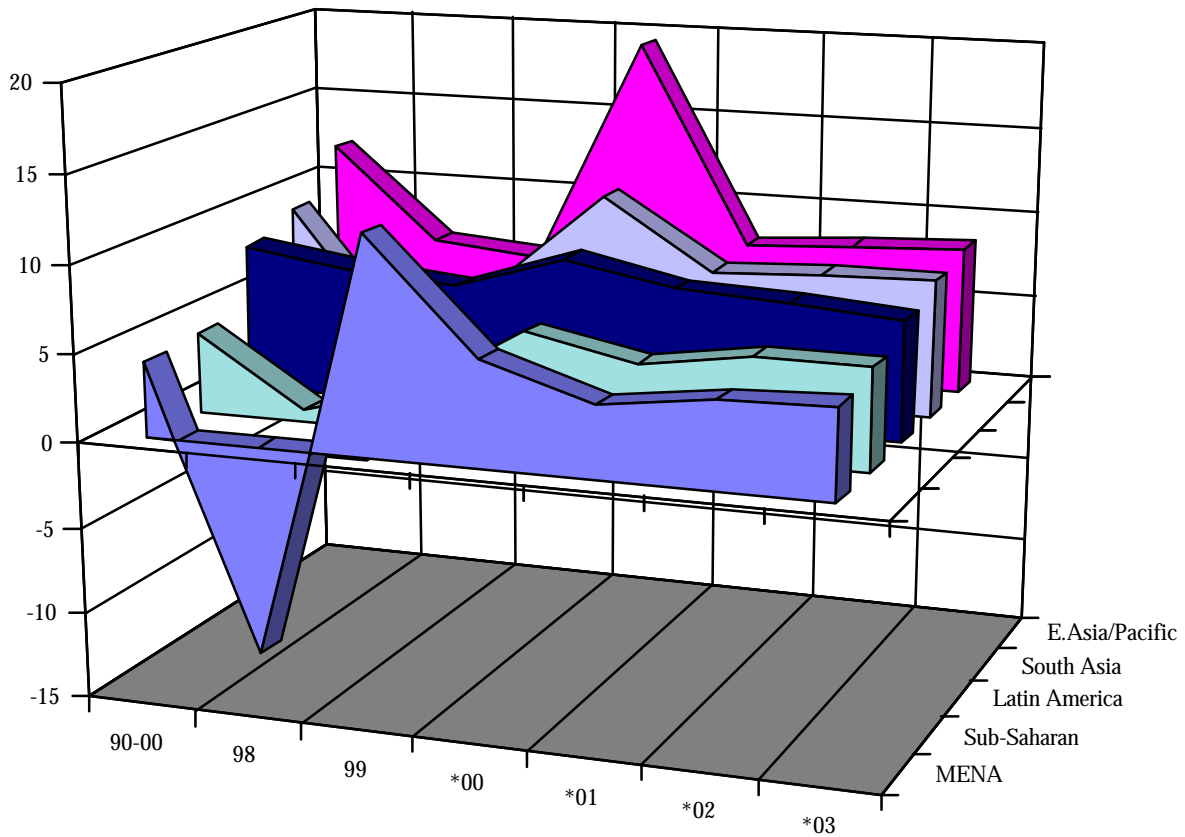
(In Constant \$1997 US Billions)



	87	88	89	90	91	92	93	94	95	96	97
North Africa-Exports	27.8	26.3	29	39.8	36	32.2	27.6	26.7	32.2	35.7	36.4
Middle East-Exports	114	110.3	134.1	157.1	143	152.4	140.3	144.7	158.9	183.2	189.5

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 Middle East Lags in Growth of Export Volume: World Bank Estimate: 1990-2003 (Annual Growth in Percent)



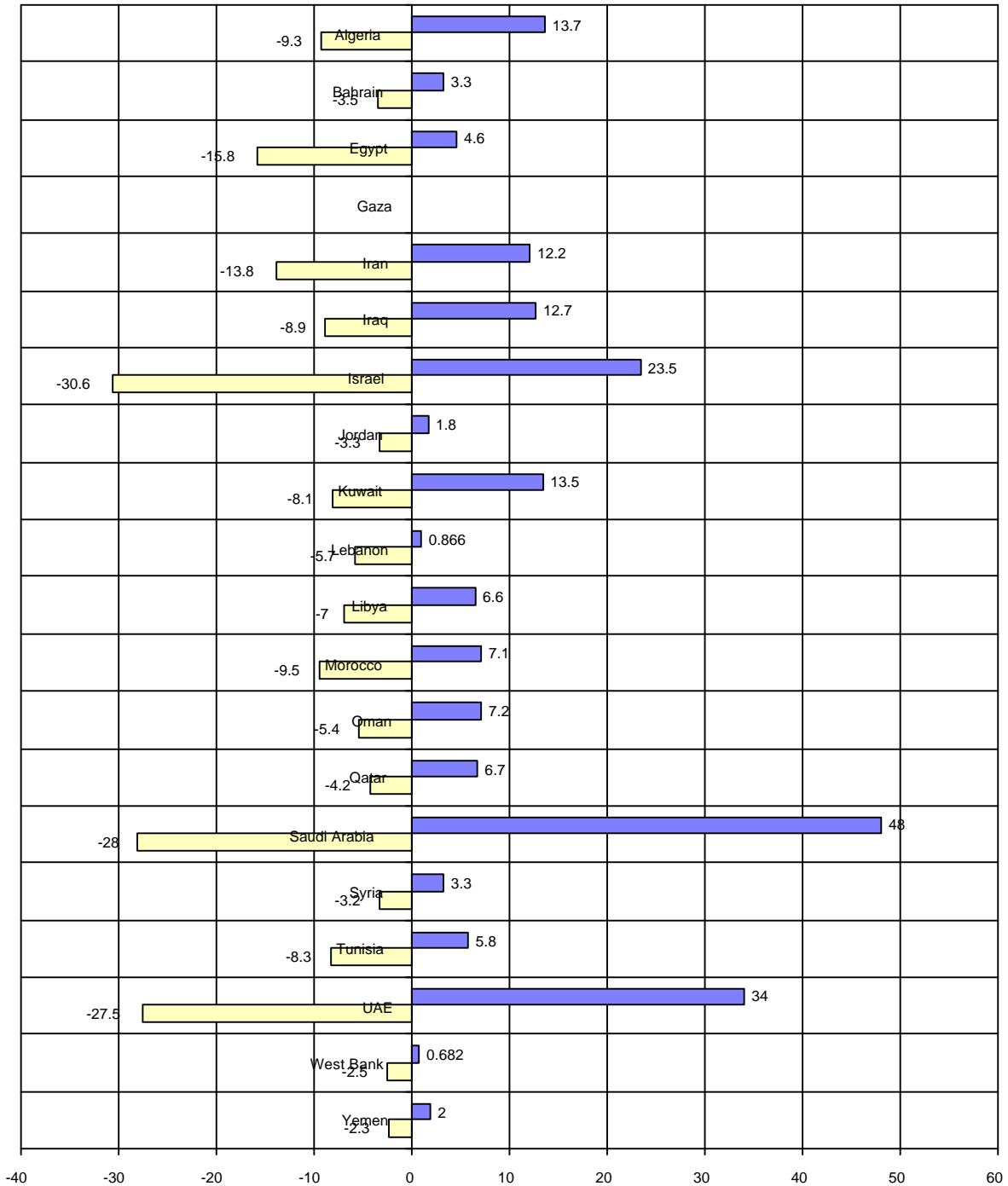
	90-00	98	99	*00	*01	*02	*03
■ MENA	4.4	-11.9	12.5	6.1	4.2	5	5.2
■ Sub-Saharan	4.6	0.7	2.4	6.2	5	5.9	5.8
■ Latin America	8.4	7.5	7	9	7.8	7.5	7
■ South Asia	9.4	1.9	6.1	11.5	7.5	7.8	7.9
■ E.Asia/Pacific	12.2	6.8	6.2	19.4	7.8	8.2	8.5

\*Forecasts

Source: Adapted by Anthony H. Cordesman from World Bank, Global Development Finance, 2001, Washington, World Bank, 2001, pp. 202-207

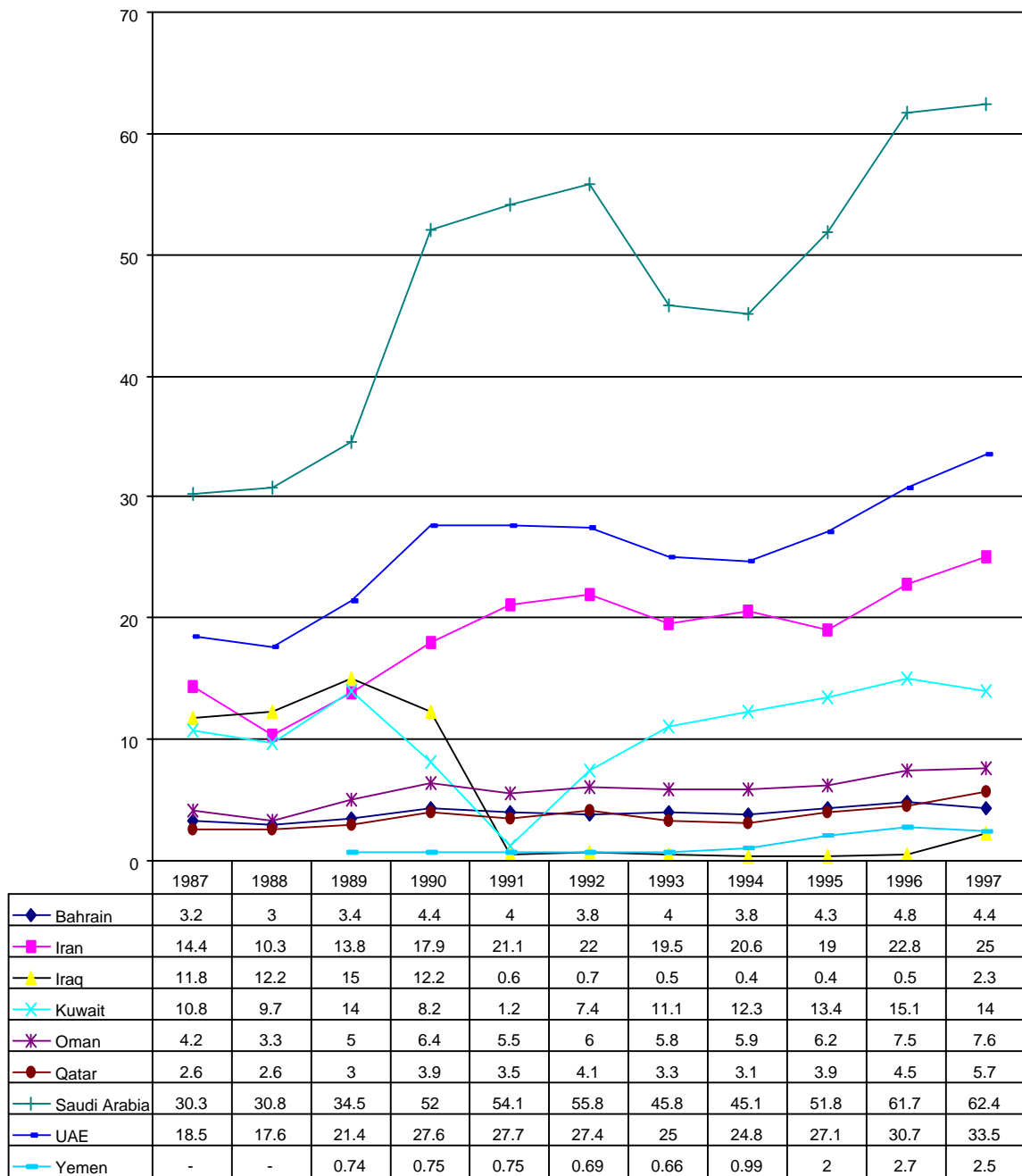
## Countries Differ Radically in Volume of Trade and Trade Balances Are Uncertain Except in Years With High Oil Revenues

(Exports and Imports in 2000 in \$US Current Billions)



Adapted by Anthony H. Cordesman from CIA, World Factbook, 2000

## Trends in Total Gulf Exports (\$US Constant 1997 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..

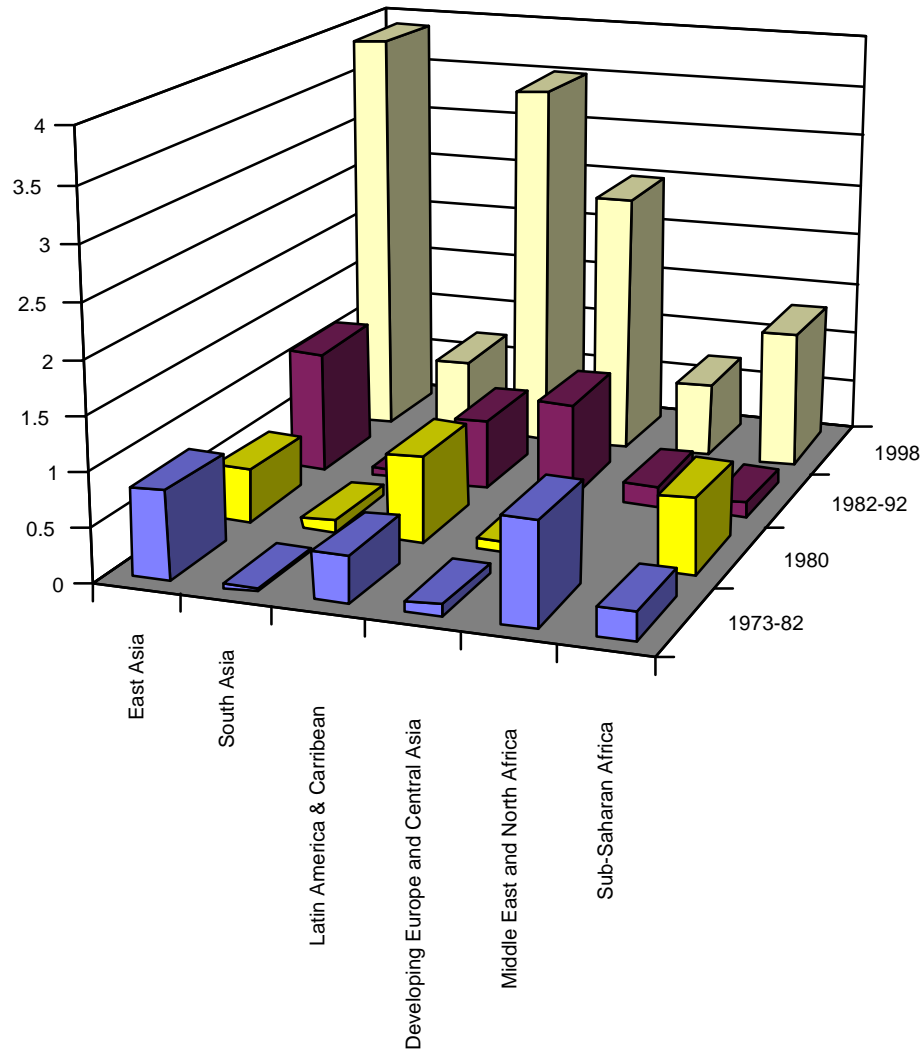


## **The Region has Failed to Compete in Attracting Investment**

- **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 in the 1970s and Remained Low Through the “Oil Crash”

(Foreign Direct Investment Flows as a Percent of GDP )

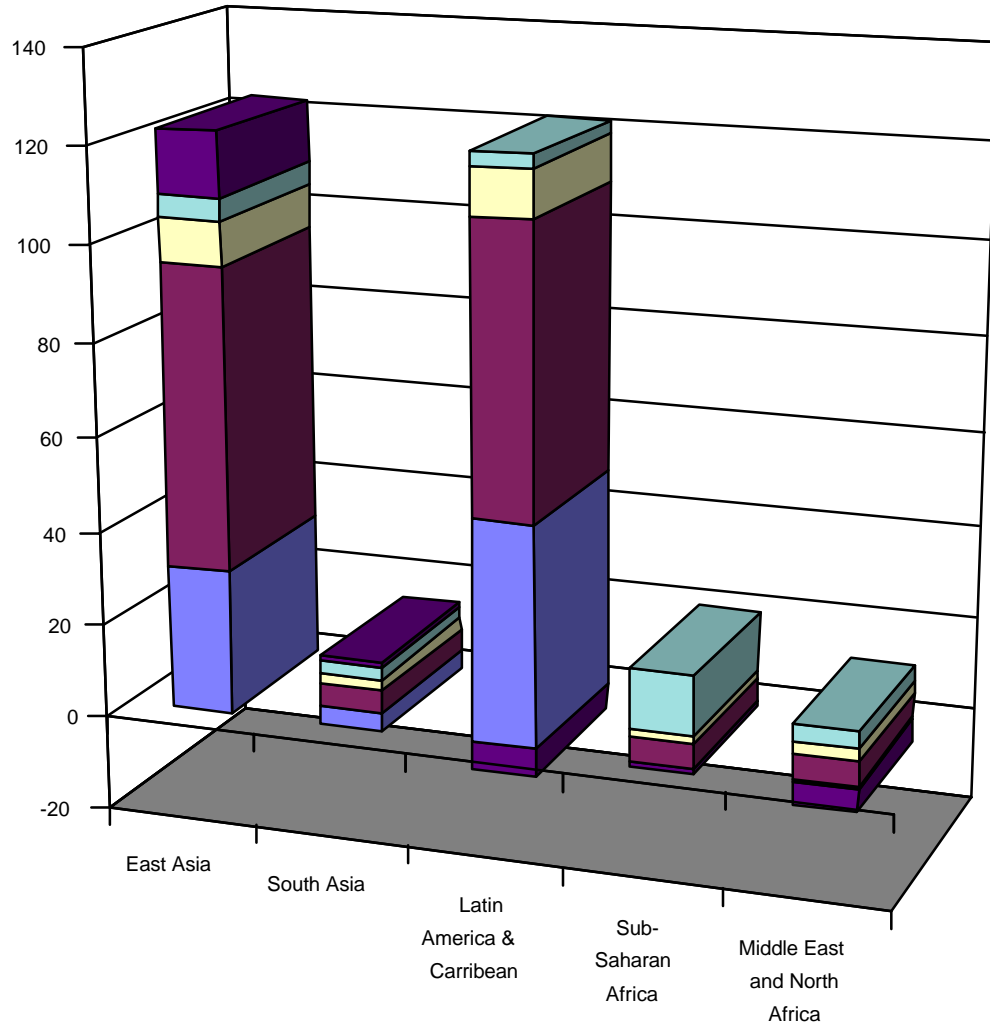


	East Asia	South Asia	Latin America & Caribbean	Developing Europe and Central Asia	Middle East and North Africa	Sub-Saharan Africa
■ 1973-82	0.82	0.04	0.43	0.1	0.95	0.25
■ 1980	0.5	0.1	0.8	0.1	-	0.7
■ 1982-92	1.15	0.07	0.65	0.9	0.2	0.125
■ 1998	3.9	0.7	3.5	2.5	0.7	1.3

Source: Adapted by Anthony H. Cordesman from World Bank, Global Economic Prospects and the Developing Countries, 1996, p. 22 and World Development Indicators, 2000, p. 262.

## The Middle East has Failed to Attract Long-Term Capital Flows

(Flow in 1997 Millions of Dollars)

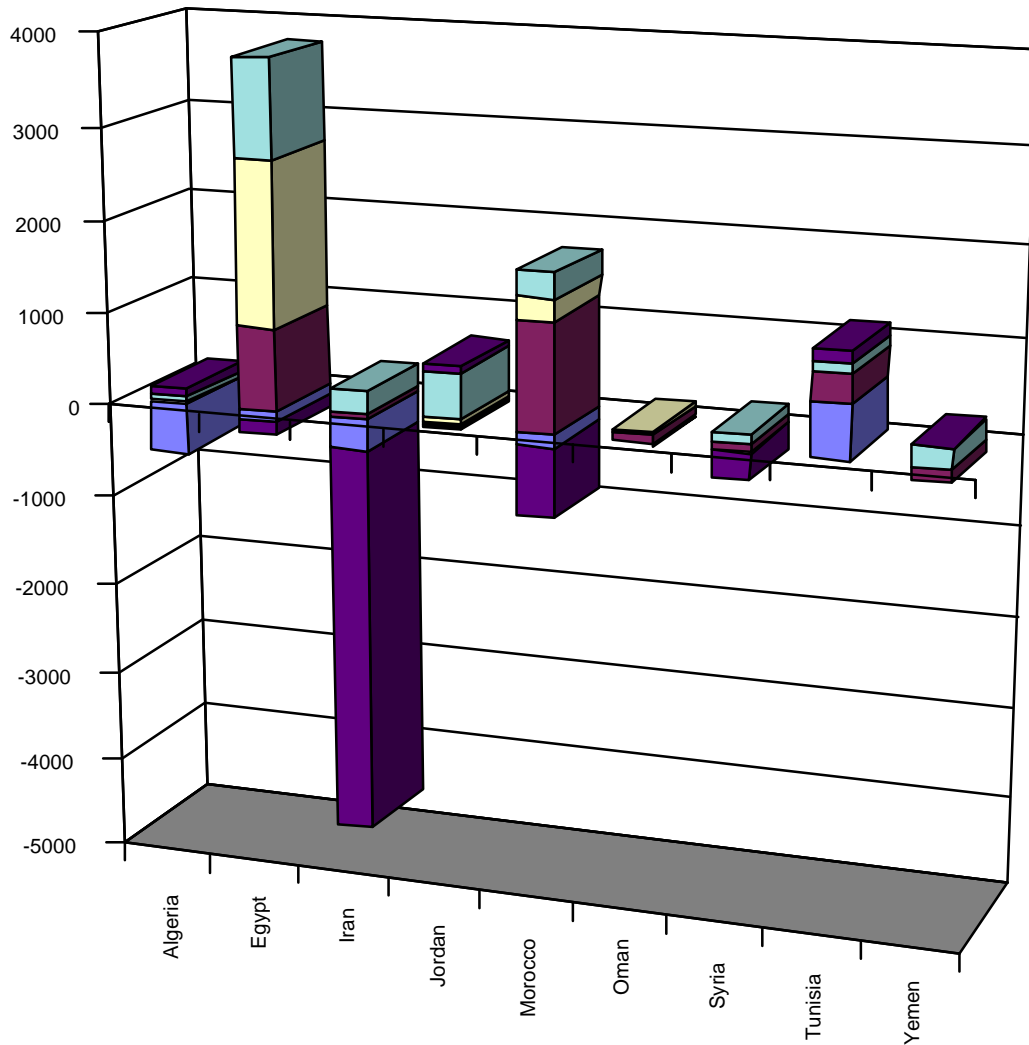


	East Asia	South Asia	Latin America & Caribbean	Sub-Saharan Africa	Middle East and North Africa
Other Official Transfers	13.5	0.8	-5.9	-1	-4.9
Official Development Assistance	4.9	2.8	3	13.1	3.7
Portfolio Investment	9.2	2.5	10	1.5	2.3
Foreign Direct Investment	64.3	4.7	61.6	5.2	5.3
Private Net Debt	30.8	3.9	47.4	-0.1	0.5

Source: Adapted by Anthony H. Cordesman from World Bank, *Global Economic Prospects and the Developing Countries*, 2000, pp. 164-165

## Capital Flow to the Middle East by Country Reveals Serious Shortcomings and Some Deficits

(Flow in 1997 Millions of Dollars)

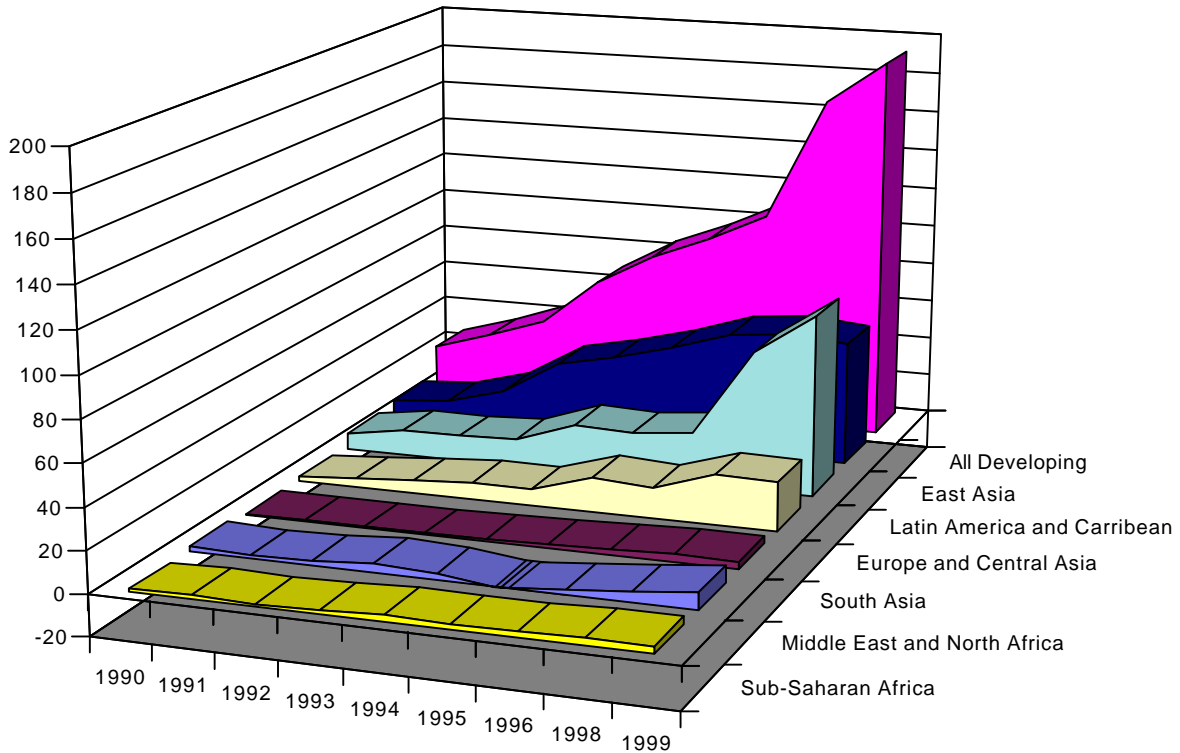


	Algeria	Egypt	Iran	Jordan	Morocco	Oman	Syria	Tunisia	Yemen
Other Official Transfers	98	-141	-4,236	81	-752	-6	-281	146	7
Official Development Assistance	54	1067	243	478	268	-10	104	92	214
Portfolio Investment	6	1813	0	70	243	38	0	0	0
Foreign Direct Investment	7	891	50	22	1200	90	80	316	-138
Private Net Debt	-557	-109	-353	-31	-141	-9	-11	587	0

Source: Adapted by Anthony H. Cordesman from World Bank, Global Economic Prospects and the Developing Countries, 2000, pp. 164-165

## The Trend in Total Foreign Direct Investment in the MENA “Flat Lined” During 1990-1999

(\$US billions)

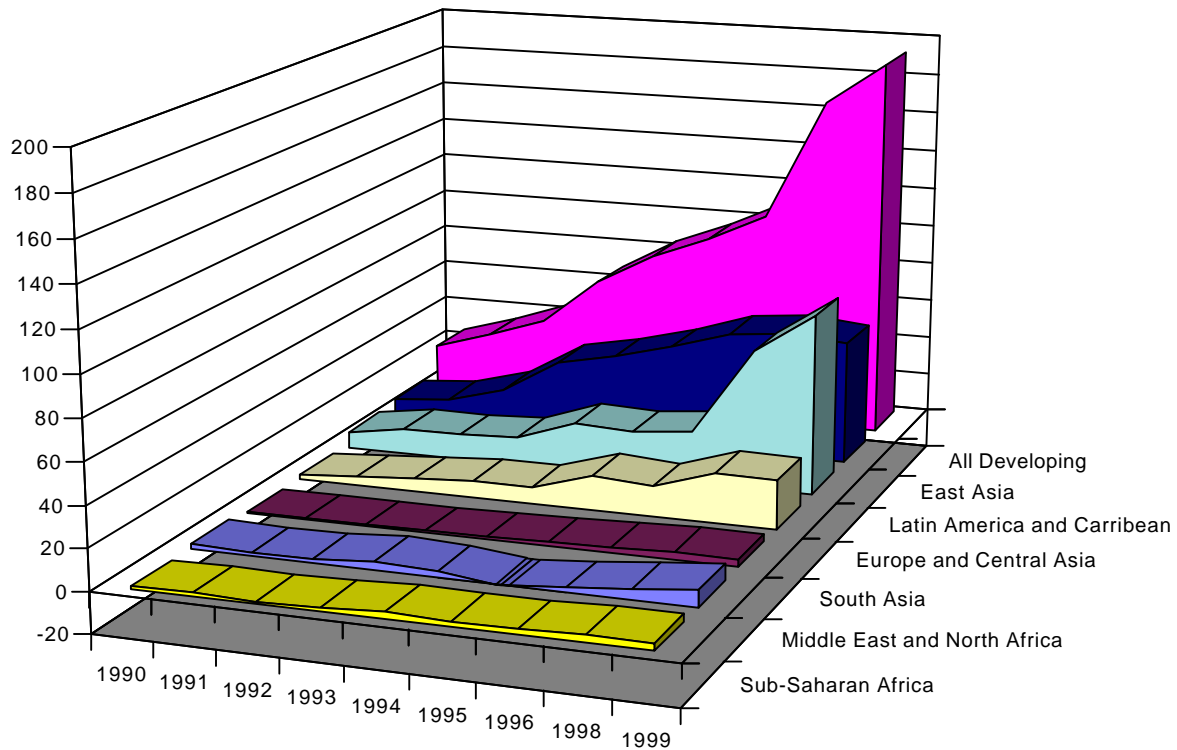


	1990	1991	1992	1993	1994	1995	1996	1998	1999
Sub-Saharan Africa	0.9	1.6	0.8	1.6	3.1	2.2	2.6	3.7	3.4
Middle East and North Africa	2.8	1.8	2.2	4.2	3	-0.3	2.2	5.1	8.1
South Asia	0.5	0.5	0.6	0.8	1.2	1.8	2.6	3.7	3.4
Europe and Central Asia	2.1	4.4	6.3	8.4	8.1	17.2	15	24.4	24
Latin America and Caribbean	8.1	12.5	12.7	14.1	24.2	22.9	25.9	69.3	89.4
East Asia	10.2	12.7	20.9	38.1	44.1	51.8	61.1	64.2	61.5
All Developing	24.5	33.5	43.6	67.2	83.7	95.5	109.5	170.9	192

Source: Adapted by Anthony H. Cordesman from World Bank, World Debt Tables, 1996, p. 17, and Global Development Performance, 1997, p. 29. World Bank, World Development Indicators, 1999, p. 262. Global Development Finance, 2000, p. 236-264.

## The Situation Has Improved in Some Countries Since the New Oil Boom Began in 1999, But Regional FDI is Very Poorly Distributed

(\$US billions)

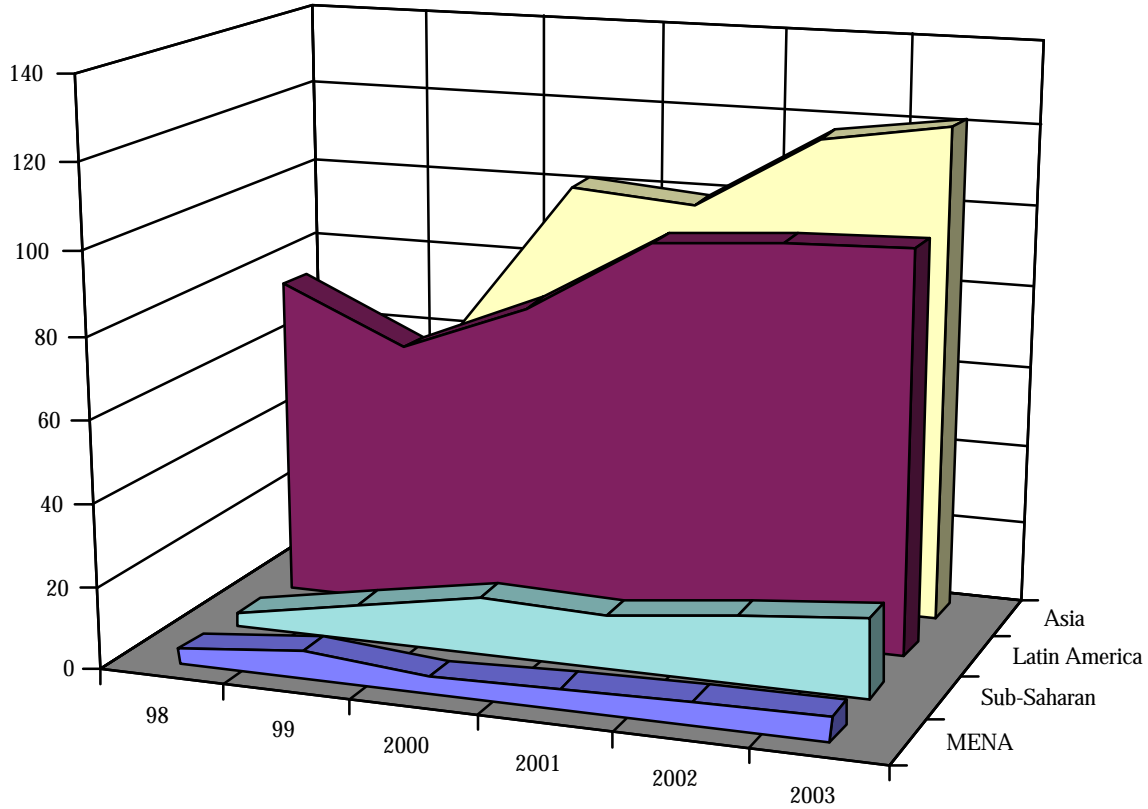


	1990	1991	1992	1993	1994	1995	1996	1998	1999
Sub-Saharan Africa	0.9	1.6	0.8	1.6	3.1	2.2	2.6	3.7	3.4
Middle East and North Africa	2.8	1.8	2.2	4.2	3	-0.3	2.2	5.1	8.1
South Asia	0.5	0.5	0.6	0.8	1.2	1.8	2.6	3.7	3.4
Europe and Central Asia	2.1	4.4	6.3	8.4	8.1	17.2	15	24.4	24
Latin America and Caribbean	8.1	12.5	12.7	14.1	24.2	22.9	25.9	69.3	89.4
East Asia	10.2	12.7	20.9	38.1	44.1	51.8	61.1	64.2	61.5
All Developing	24.5	33.5	43.6	67.2	83.7	95.5	109.5	170.9	192

Source: Adapted by Anthony H. Cordesman from Middle East Economic Digest, November 10, 2000, p. 26, and World Investment Report 2000, UNCTAD, Geneva, Switzerland.

## Capital Market Flows are Not Projected to be Competitive Through 2003

(Transfer of Productive Assets from State to Private Investors: \$US Current billions)

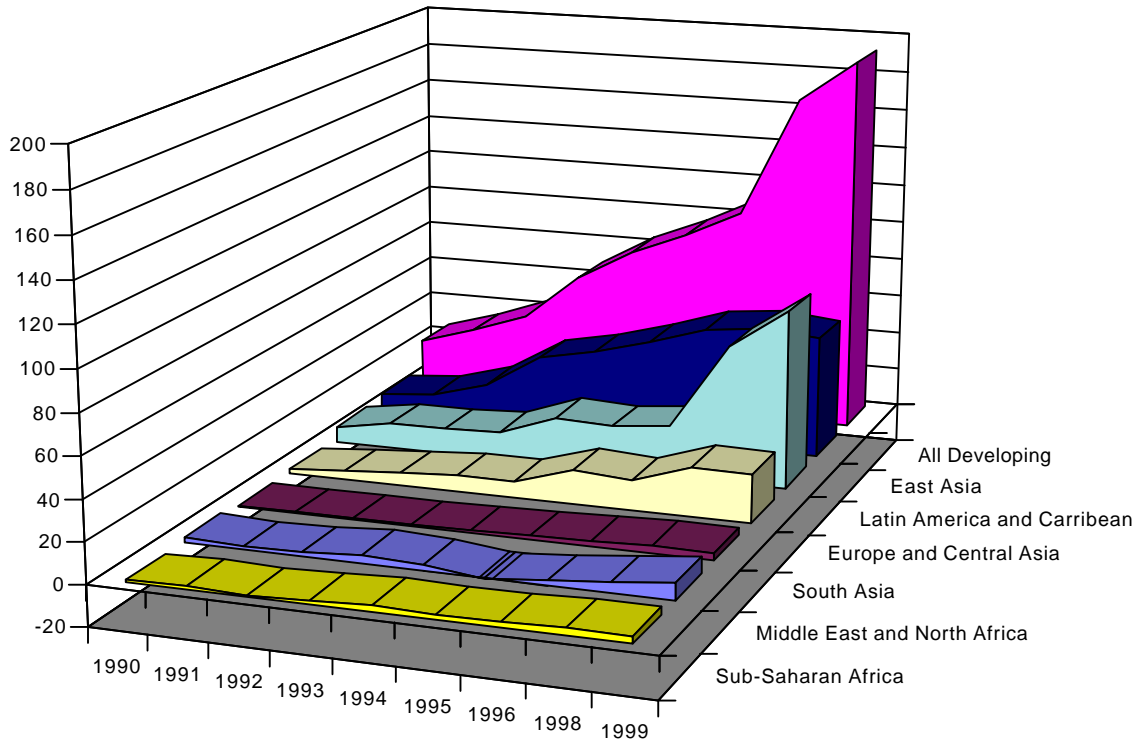


	98	99	2000	2001	2002	2003
MENA	4	6.7	4.1	4.9	5.6	6.1
Sub-Saharan	3	8.6	13.7	13	16.1	19.2
Latin America	79	65	77.5	95.7	97.8	98.5
Asia	49.9	62.2	101.5	98.9	117.1	121.6

Source: Adapted by Anthony H. Cordesman from World Bank, Global Development Finance, 2001, Washington, World Bank, 2001, pp. 180-190

## Country Trends in Total Foreign Direct Investment are Very Different:

(\$US billions)



	1990	1991	1992	1993	1994	1995	1996	1998	1999
Sub-Saharan Africa	0.9	1.6	0.8	1.6	3.1	2.2	2.6	3.7	3.4
Middle East and North Africa	2.8	1.8	2.2	4.2	3	-0.3	2.2	5.1	8.1
South Asia	0.5	0.5	0.6	0.8	1.2	1.8	2.6	3.7	3.4
Europe and Central Asia	2.1	4.4	6.3	8.4	8.1	17.2	15	24.4	24
Latin America and Caribbean	8.1	12.5	12.7	14.1	24.2	22.9	25.9	69.3	89.4
East Asia	10.2	12.7	20.9	38.1	44.1	51.8	61.1	64.2	61.5
All Developing	24.5	33.5	43.6	67.2	83.7	95.5	109.5	170.9	192

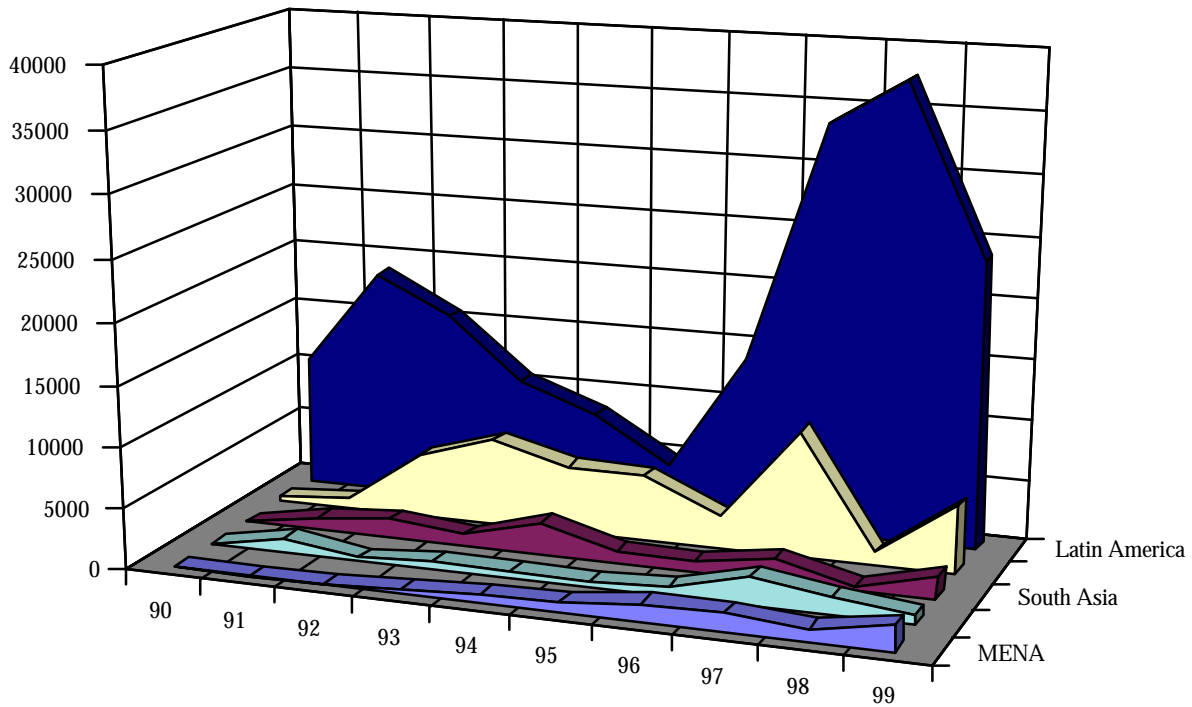
Note: Total FDI in MENA was 7,169 in 1997, 8,078 in 1998, and 9,267 in 1999. Total FDI in World was 473,052 in 1997, 680,082 in 1998, and 865,487 in 1999

Source: Adapted by Anthony H. Cordesman from MEED, November 10, 2000, p. 26



## Privatization Revenues Have Lagged Badly Behind Other Regions: 1990-1999

(Transfer of Productive Assets from State to Private Investors: \$US Current Millions)

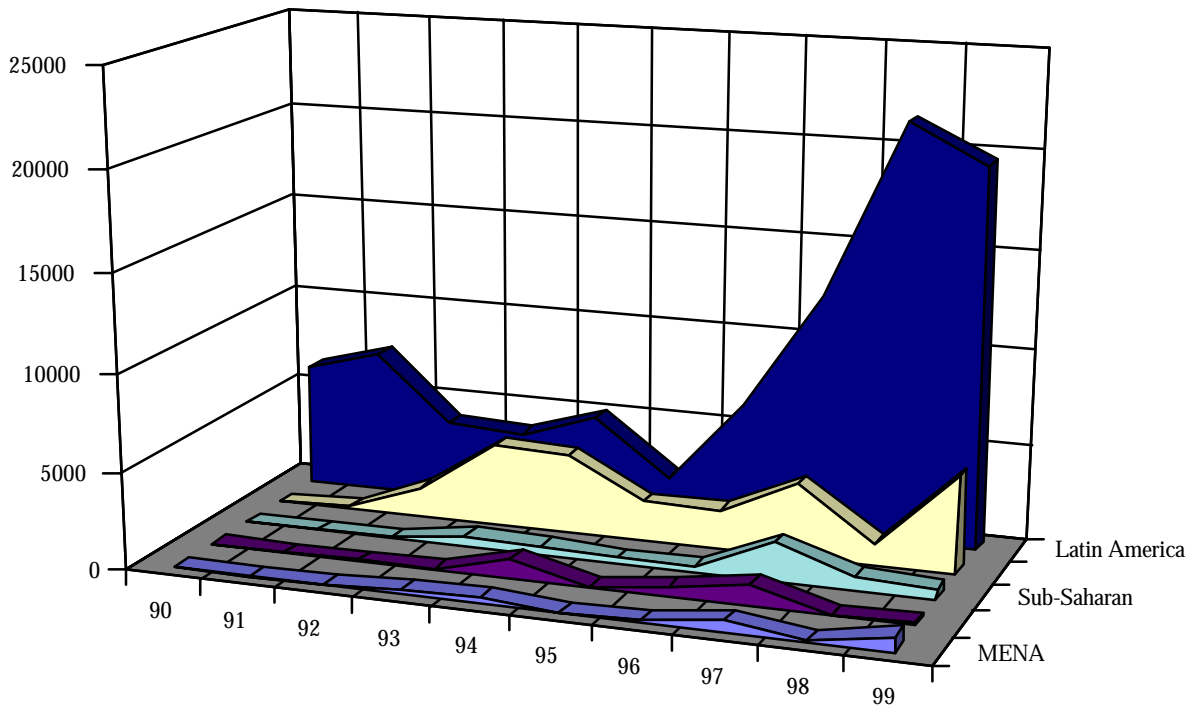


	90	91	92	93	94	95	96	97	98	99
■ MENA	2	17	69	417	782	746	1478	1612	1000	2074
■ Sub-Saharan	74	1121	307	641	605	473	745	2348	1356	694
■ South Asia	29	996	1557	974	2666	916	889	1794	174	1859
■ E.Asia/Pacific	376	834	5161	7155	5508	5410	2680	10385	1091	5500
■ Latin America	10915	18723	15560	10488	8199	4616	14142	33897	37685	23614

Source: Adapted by Anthony H. Cordesman from World Bank, Global Development Finance, 2001, Washington, World Bank, 2001, pp. 180-190

## Negligible Foreign Participation in Privatization: 1990-1999

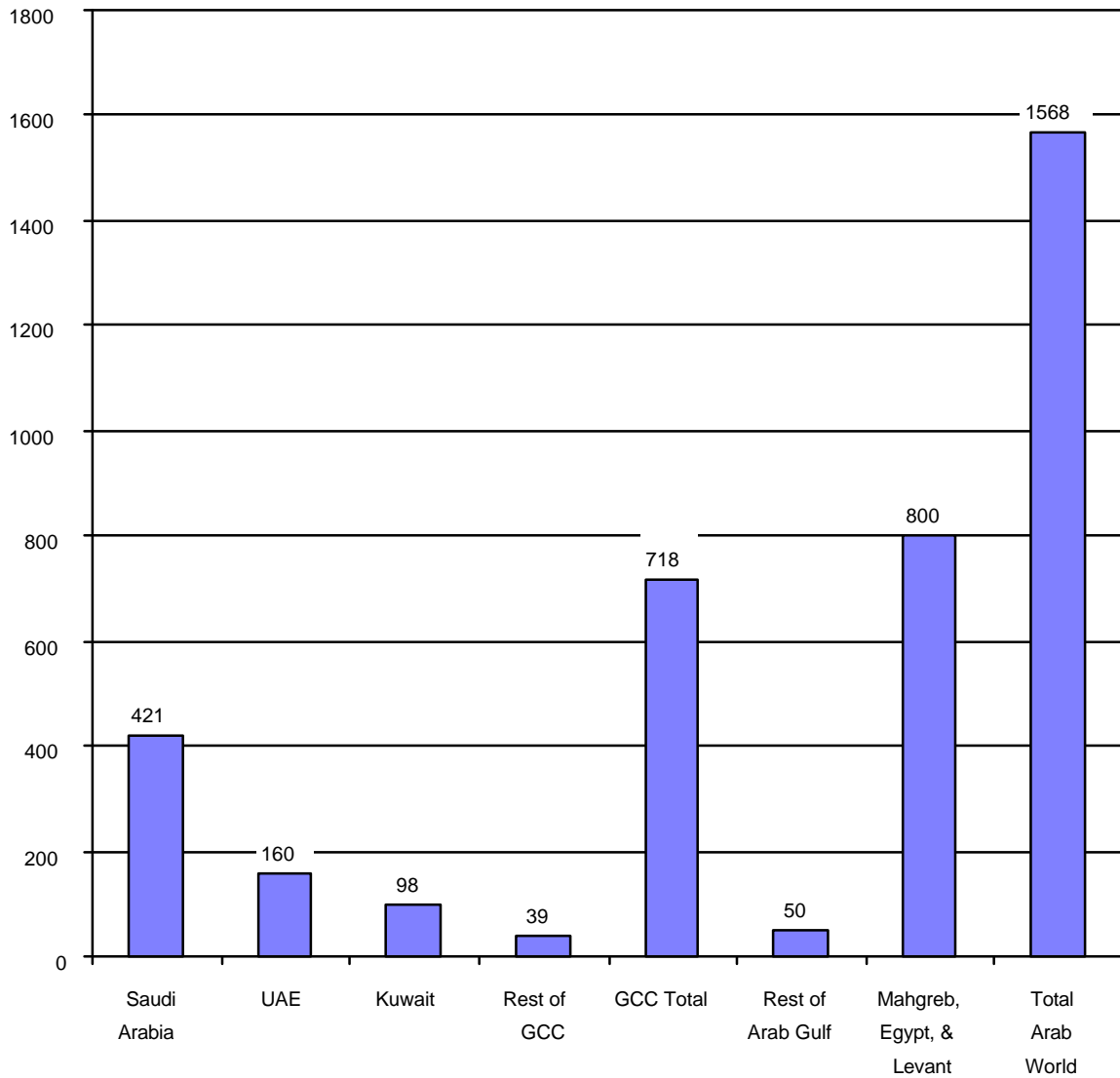
(Transfer of Productive Assets from State to Private Investors: \$US Current Millions)



	90	91	92	93	94	95	96	97	98	99
■ MENA	0	3	19	183	246	16	126	623	43	747
■ South Asia	11	4	44	16	997	38	528	1043	11	104
■ Sub-Saharan	38	5	66	566	453	275	299	1969	694	418
■ E.Asia/Pacific	1	102	1556	4156	4036	2026	1990	3775	1082	4982
■ Latin America	6358	7384	4037	3765	5058	2206	6448	12486	21535	19567

Source: Adapted by Anthony H. Cordesman from World Bank, Global Development Finance, 2001, Washington, World Bank, 2001, p. 190.

**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	Saudi Arabia	UAE	Kuwait	Rest of GCC	GCC Total	Rest of Arab Gulf	Mahgreb, Egypt, & Levant	Total Arab World
	78,000	59,000	36,000	12,000	185,000	15,000	-	-

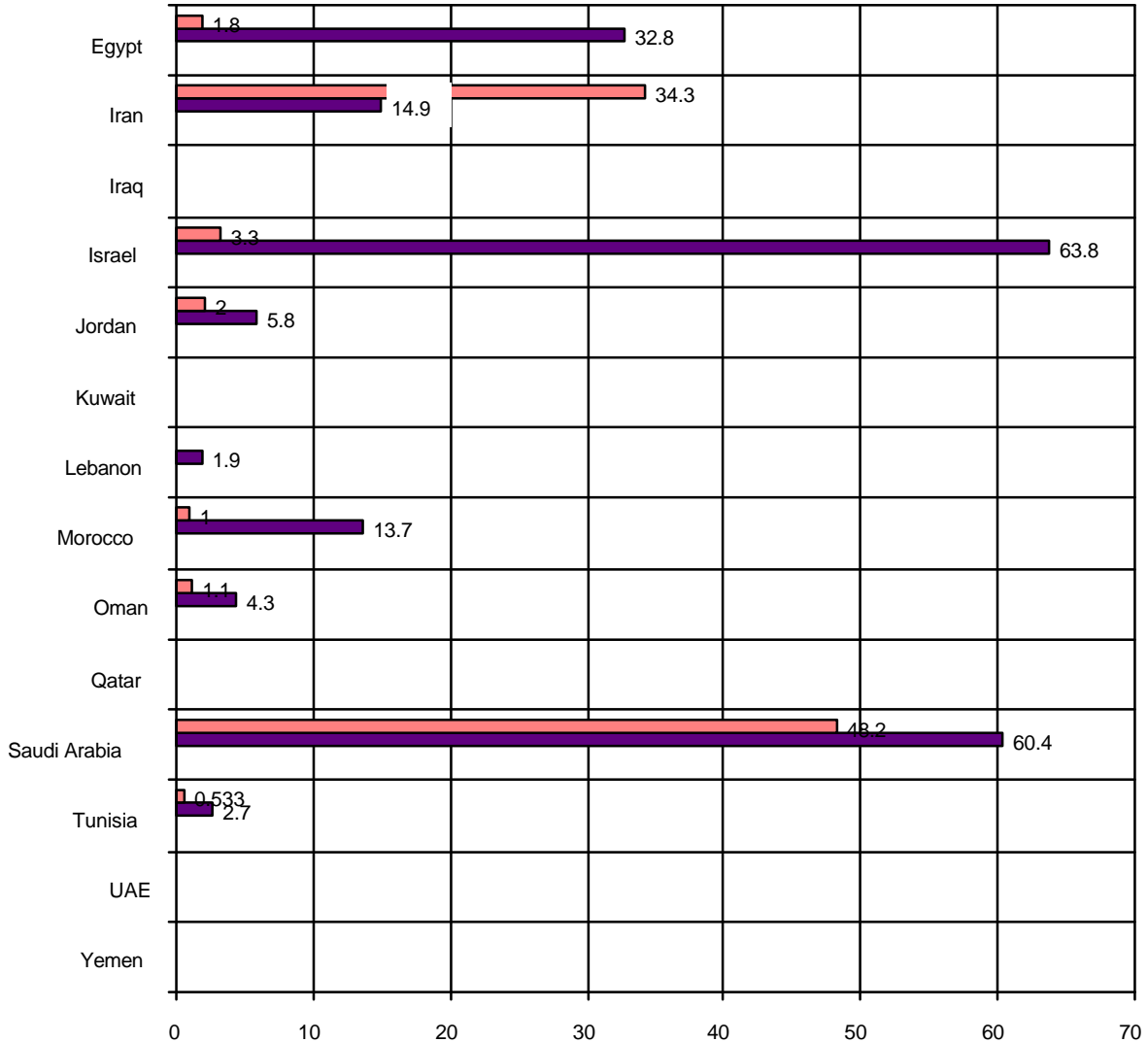
Note: Total region does not include Lebanon and Mahgreb. Merrill Lynch estimates private wealth in these countries at \$800 billion.

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.

## Stock Markets Grew During 1990-1998, Where the Private Sector Was Allowed to Operate

(\$US Current Billions)

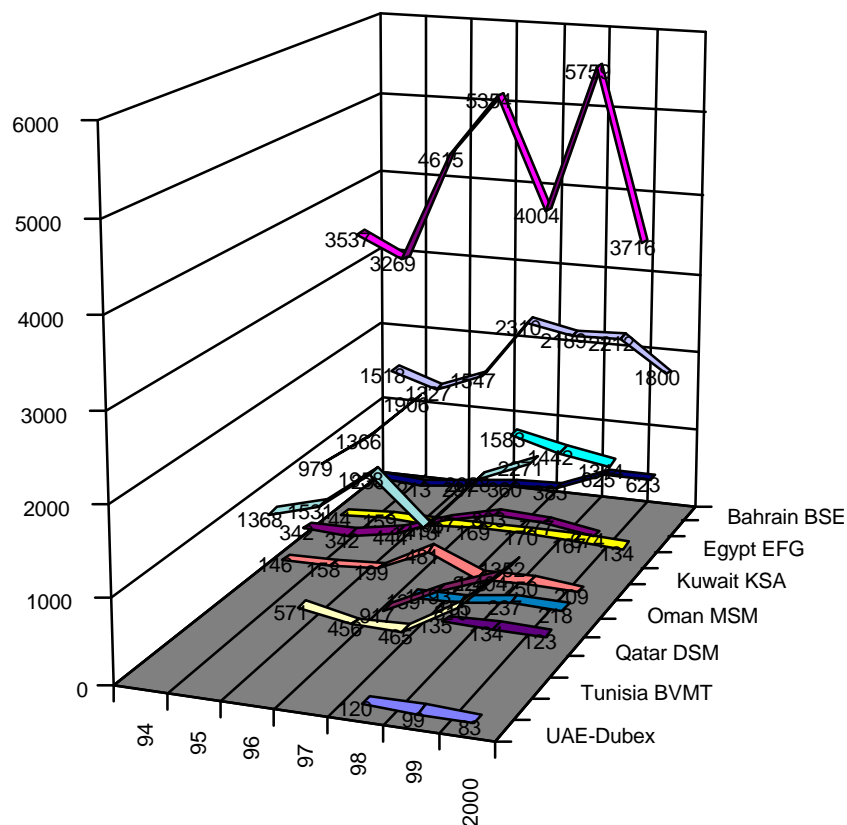


	Yemen	UAE	Tunisia	Saudi Arabia	Qatar	Oman	Morocco	Lebanon	Kuwait	Jordan	Israel	Iraq	Iran	Egypt
■ Capitalization in 90	-	-	0.533	48.2	-	1.1	1	-	-	2	3.3	-	34.3	1.8
■ Capitalization in 99	-	-	2.7	60.4	-	4.3	13.7	1.9	-	5.8	63.8	-	14.9	32.8
■ % of GNP in 99	-	-	*11.4	*33	-	*29.4	*44.1	*13.8	-	*79	*39.5	-	*13.1	*29.5
■ % if GNP in 90	-	-	*4.2	*40.8	-	*9.4	*3.7	-	-	*49.8	*6.3	-	-	*4.1

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

## However, Most National Trends in MENA Stock Markets Fell Far Below the Rise in US and European Markets During 1994-2000

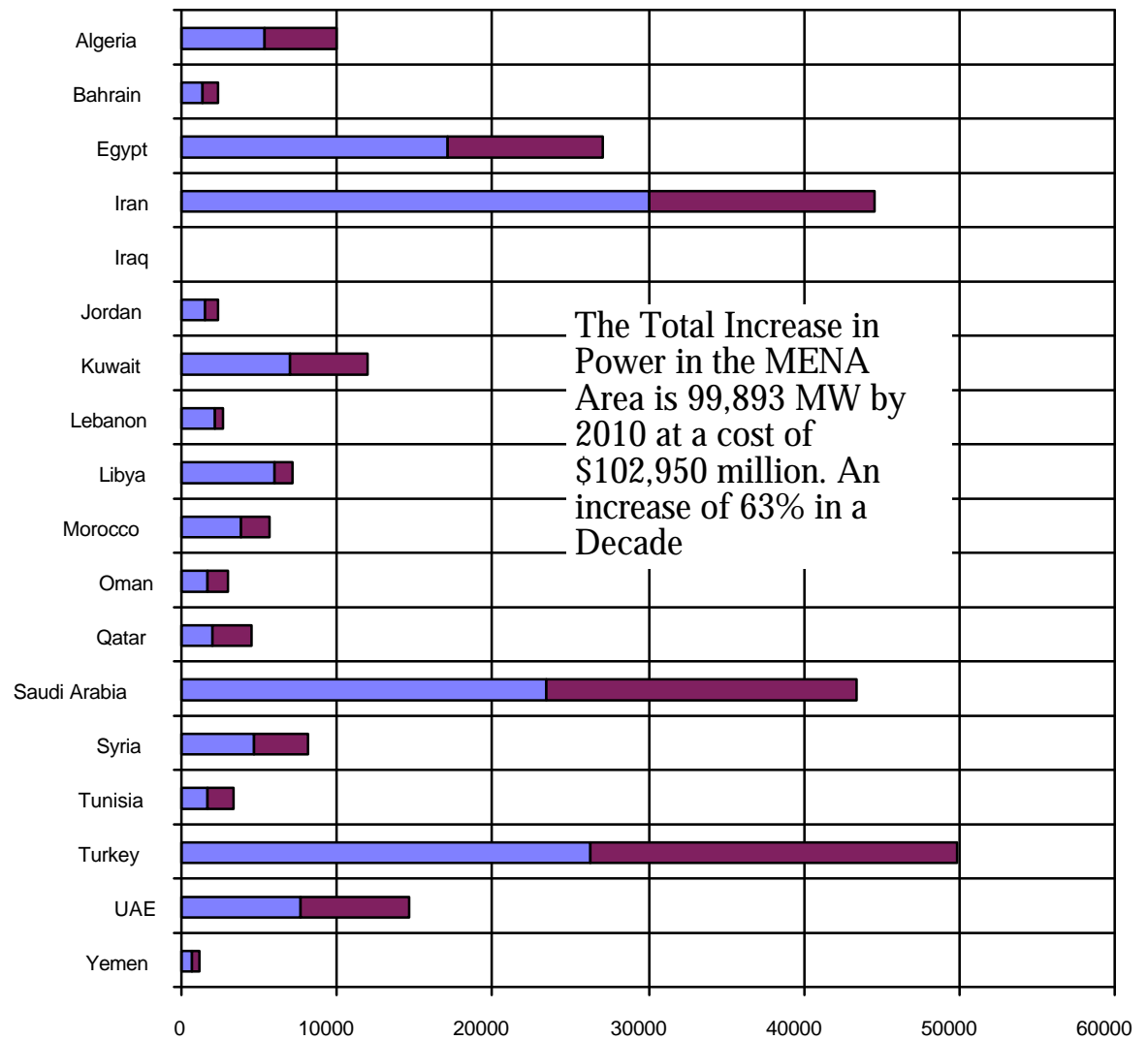
(Capitalization in Local Currency)



	94	95	96	97	98	99	2000
■ UAE-Dubex	-	-	-	-	120	99	83
■ Tunindex	-	-	-	-	917	1193	1,404
■ Tunisia BVMT	-	-	571	456	465	810	1352
■ Saudi NCFEI	-	1368	1531	1958	1413	2028	2271
■ Qatar DSM	-	-	-	-	135	134	123
■ Palestine Al-Quds	-	-	-	139	155	237	218
■ Oman MSM	146	158	199	481	228	250	209
■ Morocco CSE	342	342	444	667	803	777	674
■ Kuwait KSA	979	1366	1906	-	1583	1442	1344
■ Jordan ASE	144	159	154	169	170	167	134
■ Egypt EFG	3537	3269	4615	5354	4004	5759	3716
■ Egypt CMA	238	213	297	360	383	625	623
■ Bahrain BSE	1518	1327	1547	2310	2189	2212	1800

Adapted by Anthony H. Cordesman from Middle East Economic Digest, December 15, 2000.

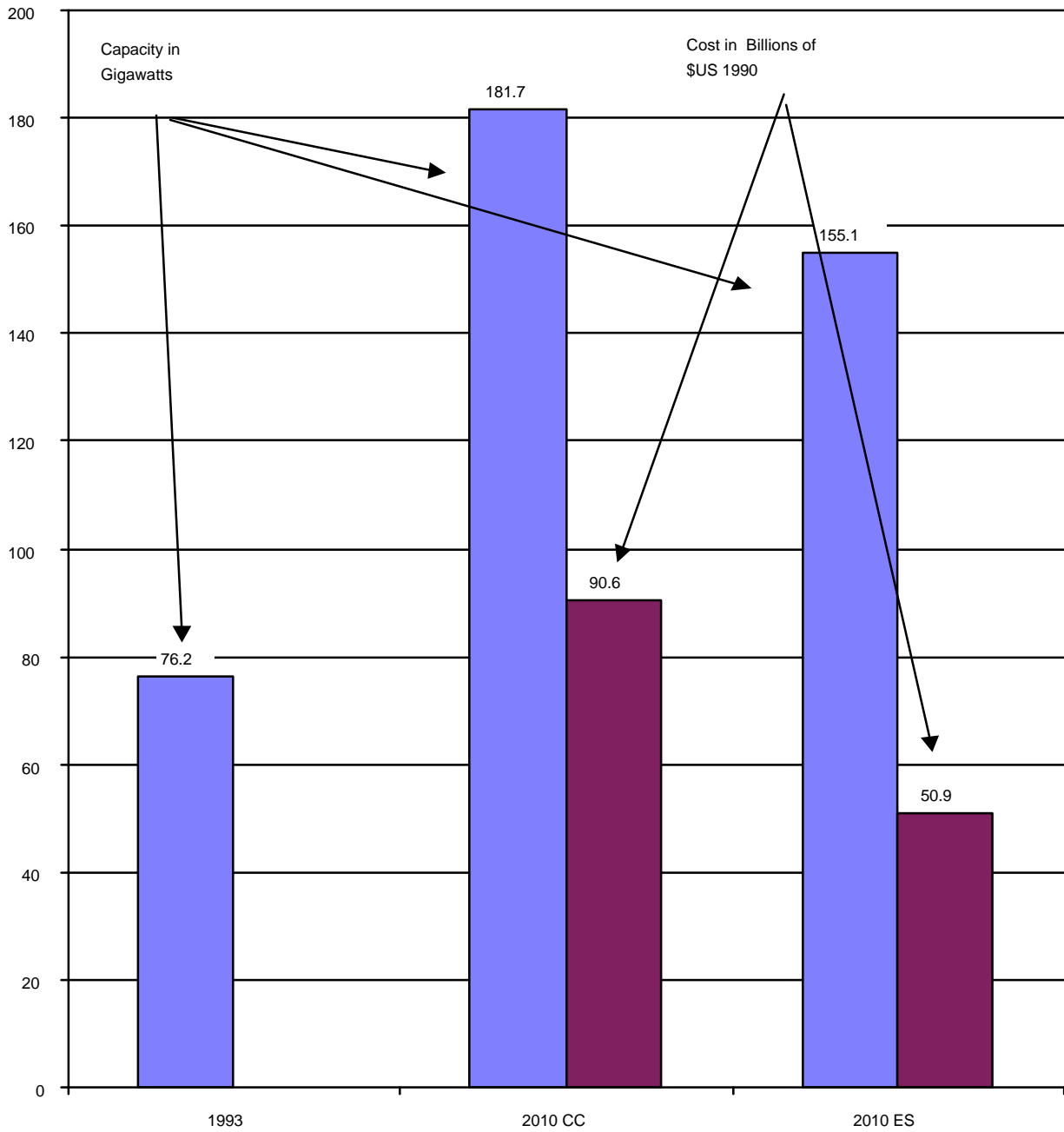
## The Infrastructure Challenge will Be Acute During the Coming Decades: Electric Power as a Case Example



	Ye men	UA E	Tur key	Tun isia	Syri a	Sau di Ara	Qat ar	Om an	Mor occ o	Lib ya	Leb ano n	Kuw ait	Jord an	Iraq	Iran	Egy pt	Bah rain	Alg eria
■ Demand Growth Rate in %	-	7.1	8.1	7	7	5.5	10	4.5	6	6	7	7	6.4	-	7	7	5	5
□ Projectede Cost in \$ Million	*600	*800	*275	*100	*250	*300	*300	*800	*290	*180	*250	*360	*100	-	*750	*750	*100	*400
■ Additional MW Needed by 2010	500	7000	2360	1700	3600	2000	2500	1250	1900	1200	500	5000	900	-	1450	1000	1000	4740
■ Installed Capacity in MW	700	7600	2622	1600	4600	2343	1933	1735	3750	6000	2200	6900	1500	-	3000	1715	1260	5300

Adapted by Anthony H. Cordesman from Middle East Economic Digest, January 26, 2001, p. 24.

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

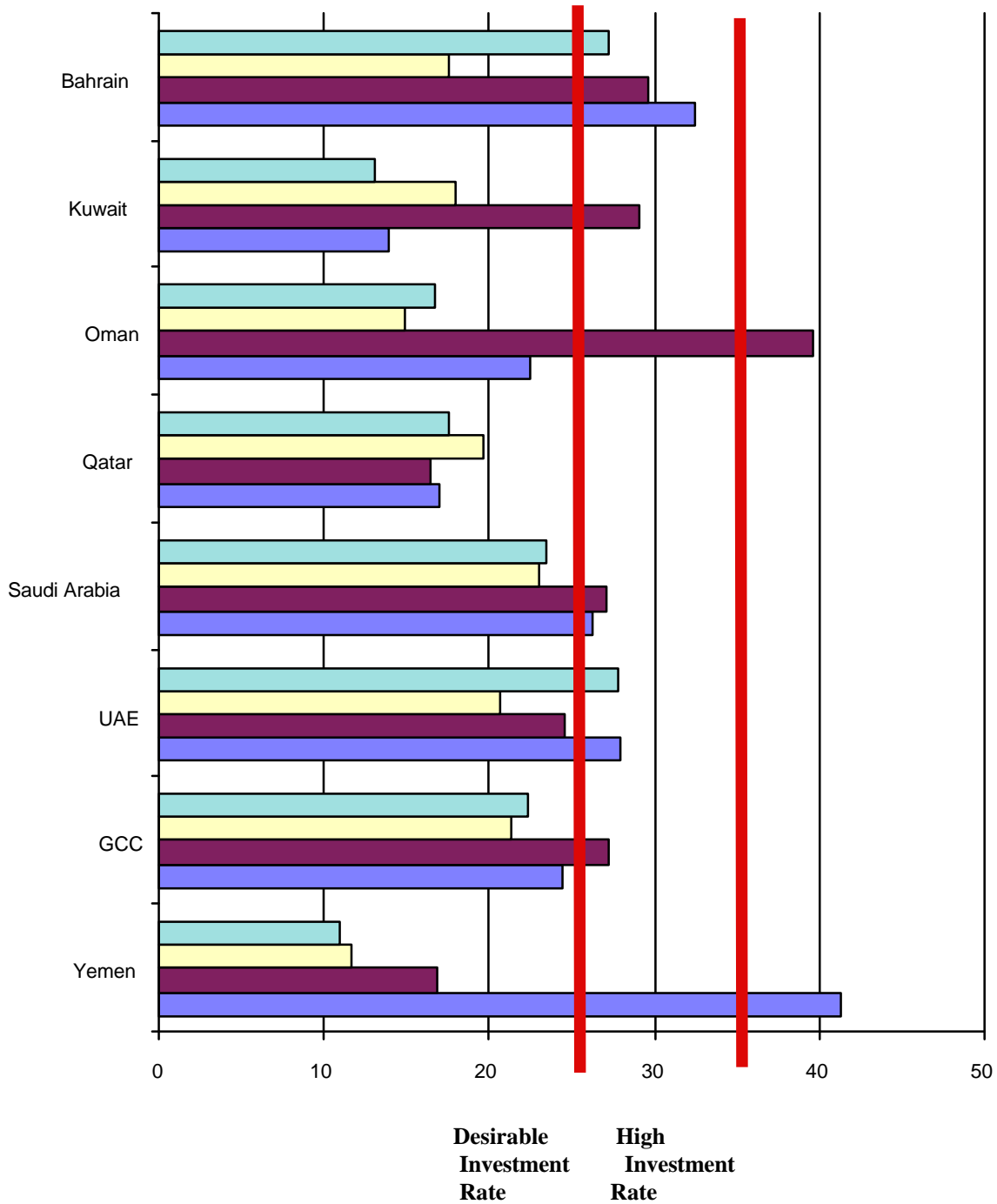


CC = Capacity Constrained or maximum production ES = Energy Savings, or reduced energy use.

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.

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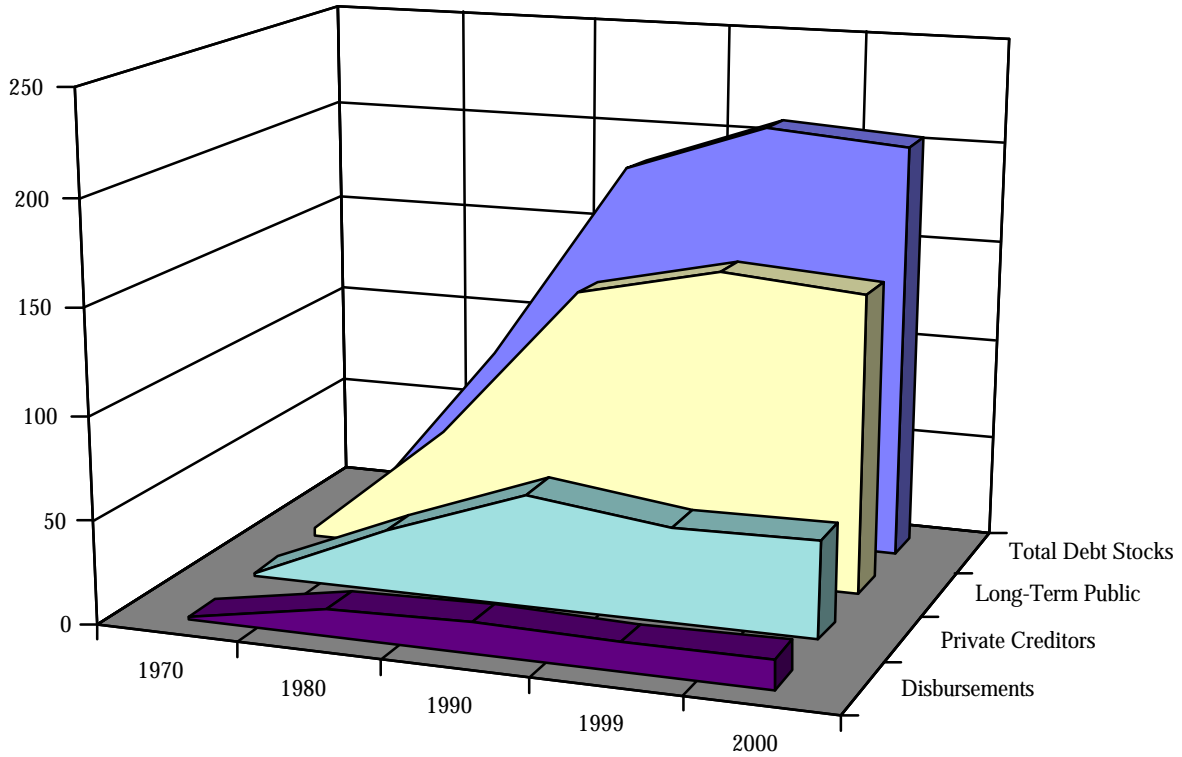


## **Debt Performance is Mixed**

- **Total debt has risen in many countries, 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.**

## Total MENA Debt Burdens Have Not Increased Sharply Since 1990

(\$US Current Billions)

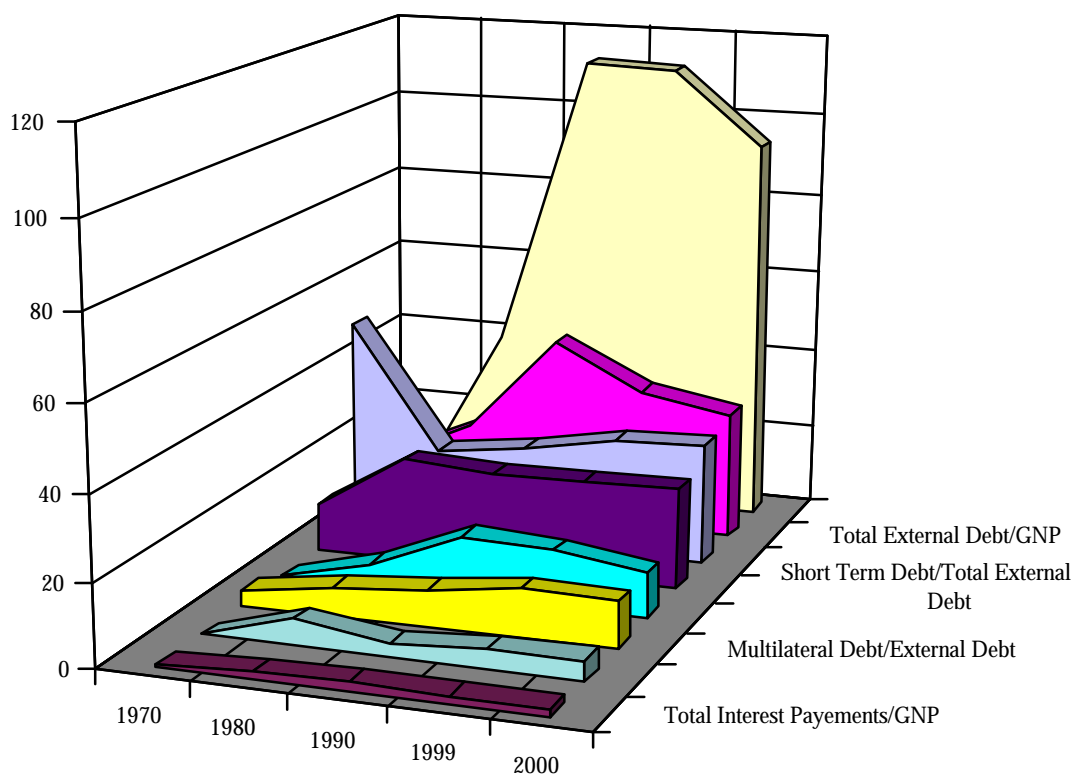


	1970	1980	1990	1999	2000
■ Disbursements	0.9	12.3	14.7	13	13.9
■ Private Creditors	1.1	29.7	55.1	46.1	47.3
■ Long-Term Public	4.1	61.3	136.1	151.1	146.8
■ Total Debt Stocks		83.9	183.8	208.5	203.6

Source: Adapted by Anthony H. Cordesman from World Bank, Global Development Finance, 2001, Washington, World Bank, 2001, pp. 254-255.

## MENA Debt Burdens Are At Acceptable Levels as Measured in Debt Indicators

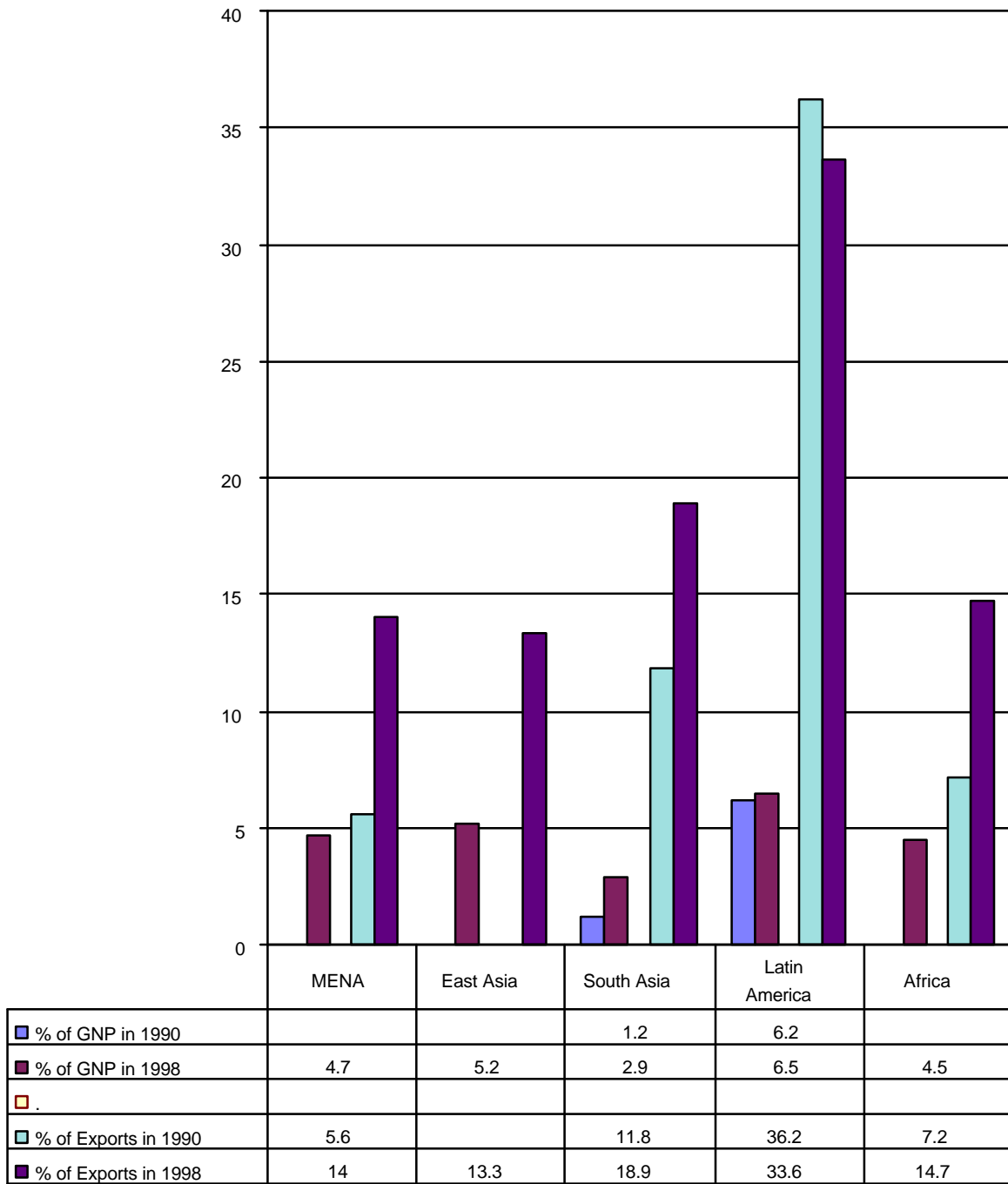
(In Percent)



	1970	1980	1990	1999	2000
■ Total Interest Payments/GNP	0.3	1.7	2.1	1.6	1.5
■ International Reserves/Imports		6.3	3.3	4.8	4.8
■ Multilateral Debt/External Debt	3.7	6.7	8.6	11.4	11.1
■ Total Debt Service/Exports		5.6	14.9	13.7	10.9
■ Short Term Debt/Total External Debt	11.5	25.2	24.1	24.3	24.3
■ Concessional Debt/External Debt	51.8	21.6	24.2	28.2	29.3
■ Total External Debt/GNP	12.2	22.1	45.7	34.9	31.2
■ Total External Debt/Exports of Goods & Services	-	40.4	112.5	111.5	93.8

Source: Adapted by Anthony H. Cordesman from World Bank, *Global Development Finance, 2001*, Washington, World Bank, 2001, pp. 254-255.

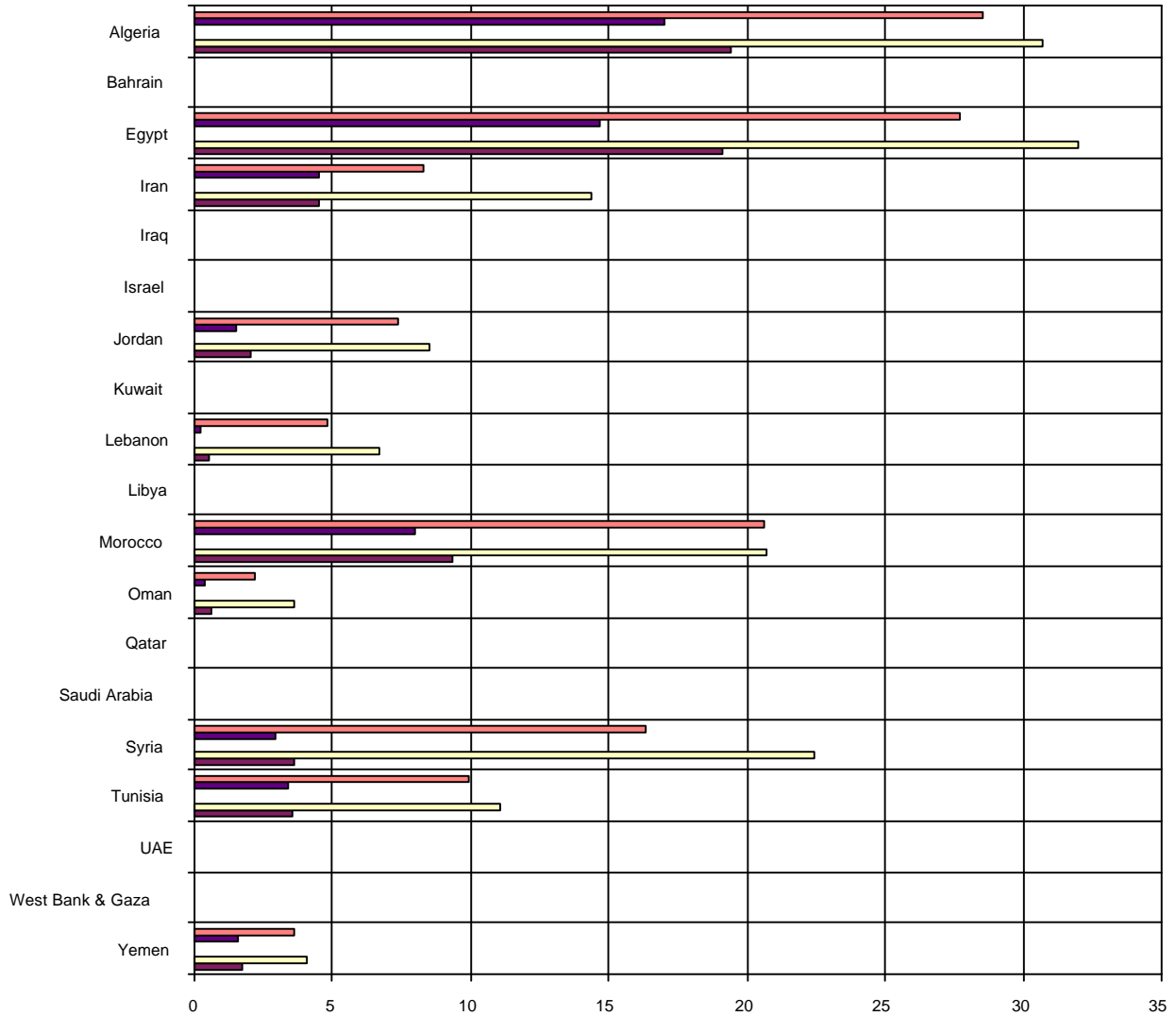
## Debt Burden Trends in the Middle East are Not Comparatively High as Percent of GNP or as Percent of Exports



Adapted by Anthony H. Cordesman from World Bank, *World Development Indicators, 2000*, Washington, World Bank, pp. 252-254

## However, Debt Performance by Country is Mixed and Has Increased Sharply Since 1990

(In \$US Current Billions)



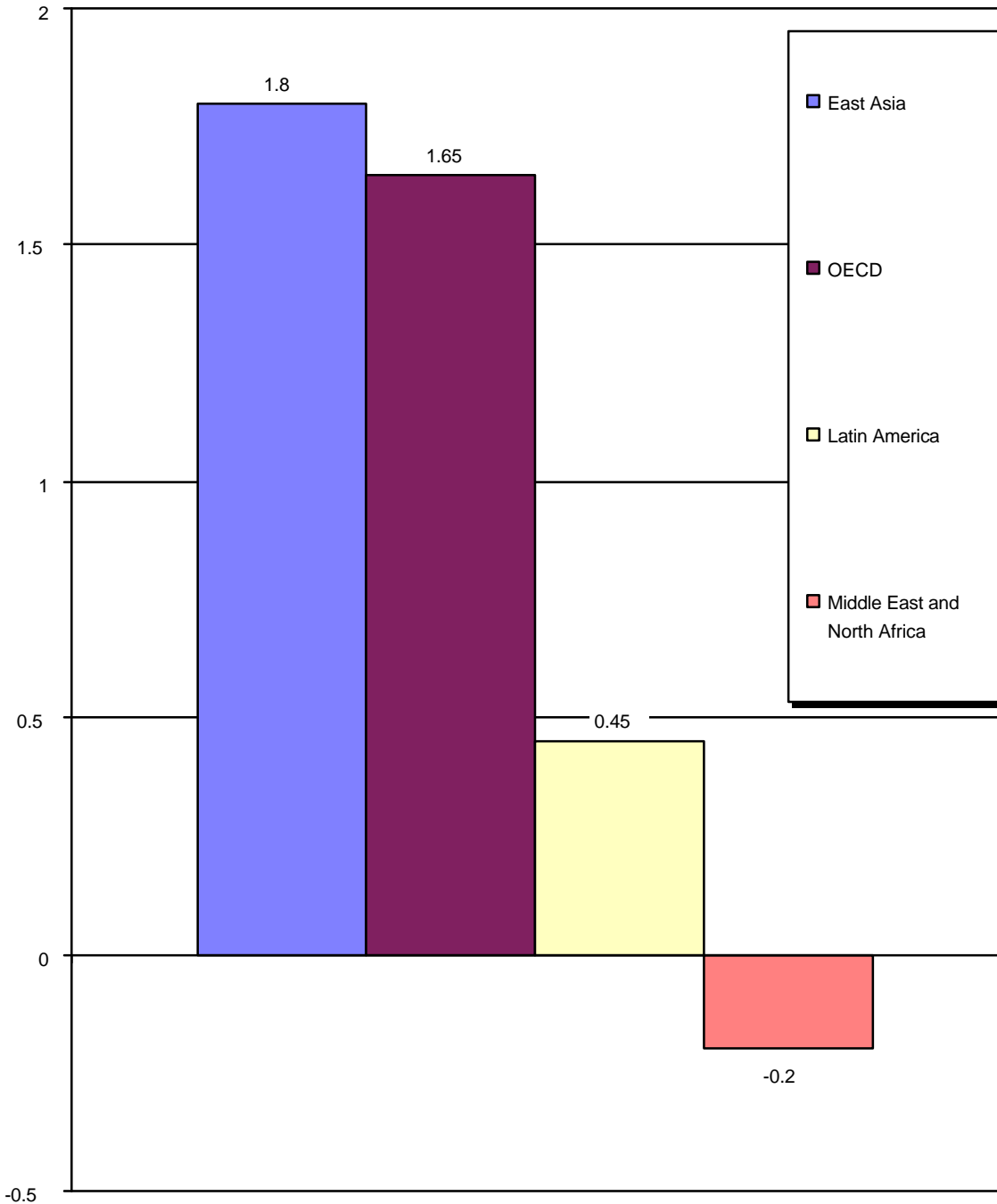
	Yemen	West Bank & Gaza	UAE	Tunisia	Syria	Saudi Arabia	Qatar	Oman	Morocco	Libya	Lebanon	Kuwait	Jordan	Israel	Iraq	Iran	Egypt	Bahrain	Algeria
Long Term in 98	3.6	-	-	9.9	16.3	-	-	2.2	20.6	-	4.8	-	7.4	-	-	8.3	27.7	-	28.5
Long Term in 90	1.6	-	-	3.4	2.9	-	-	0.4	8	-	0.2	-	1.5	-	-	4.5	14.7	-	17
Total in 98	4.1	-	-	11.1	22.4	-	-	3.6	20.7	-	6.7	-	8.5	-	-	14.4	32	-	30.7
Total in 90	1.7	-	-	3.5	3.6	-	-	0.6	9.3	-	0.5	-	2	-	-	4.5	19.1	-	19.4

Adapted by Anthony H. Cordesman from World Bank, World Development Indicators, 2000, Washington, World Bank, pp. 248-254.

## **The Region 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**

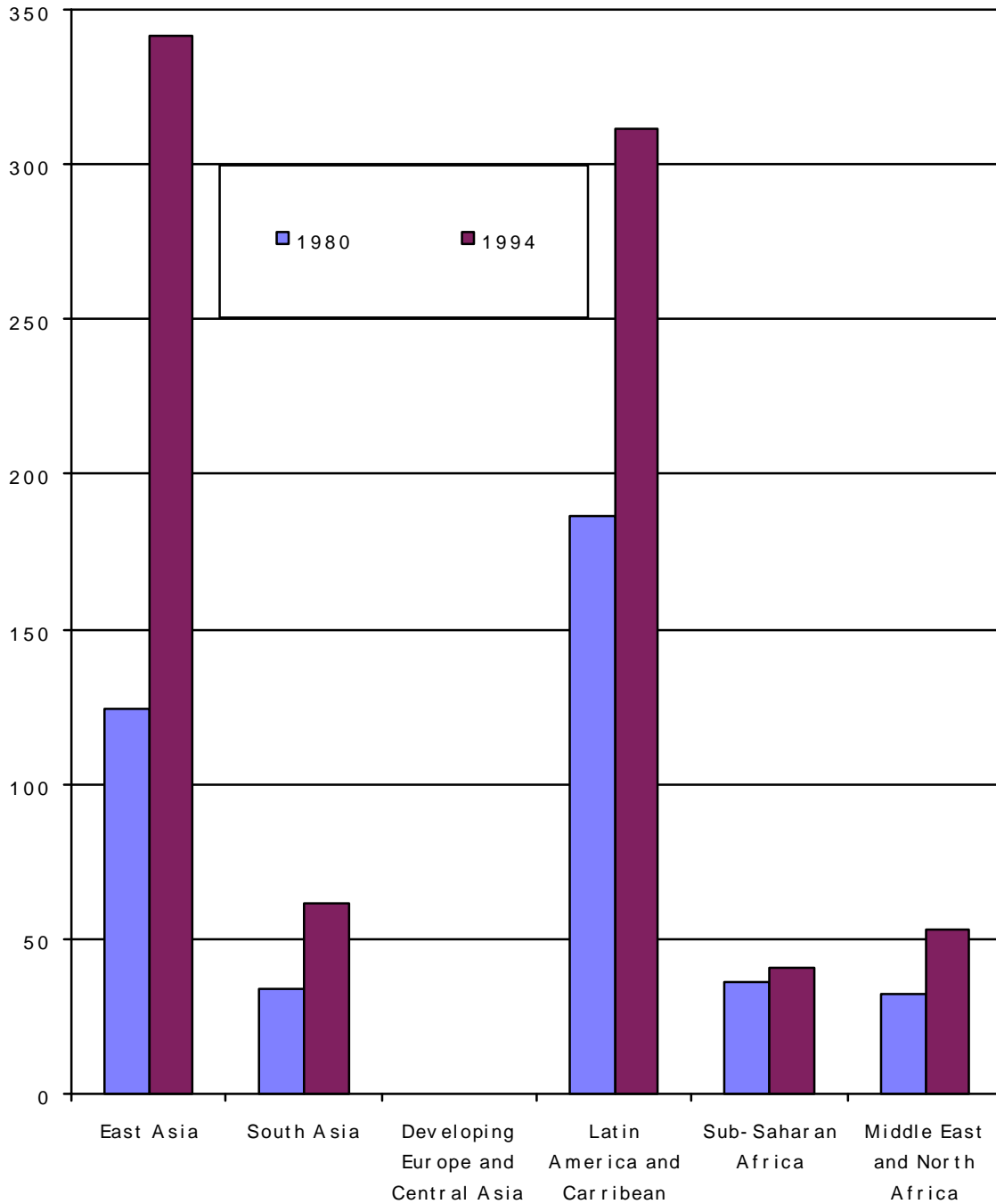
### Productivity Dropped While Rising in Other Regions: Average Annual Change in Total Factor Productivity: 1960-1990



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



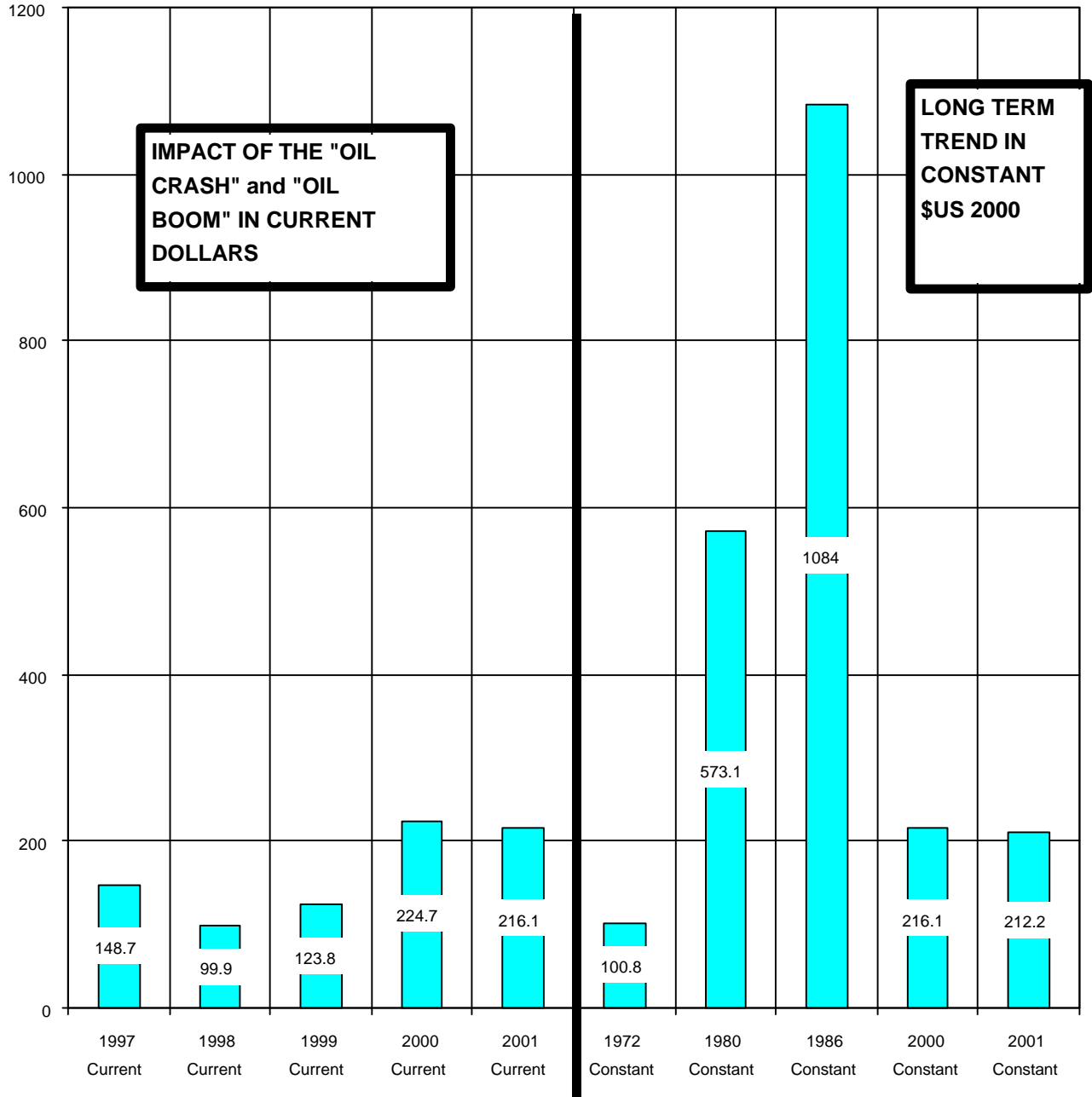
## **The Economics of “Oil Crash” and “Oil Boom”**

- **The “Oil Shock” of 1997 did not create an economic crisis; a structural crisis was building up ever 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.**

## Oil Wealth is Increasingly Relative and is Subject to Massive “Booms” and “Busts”

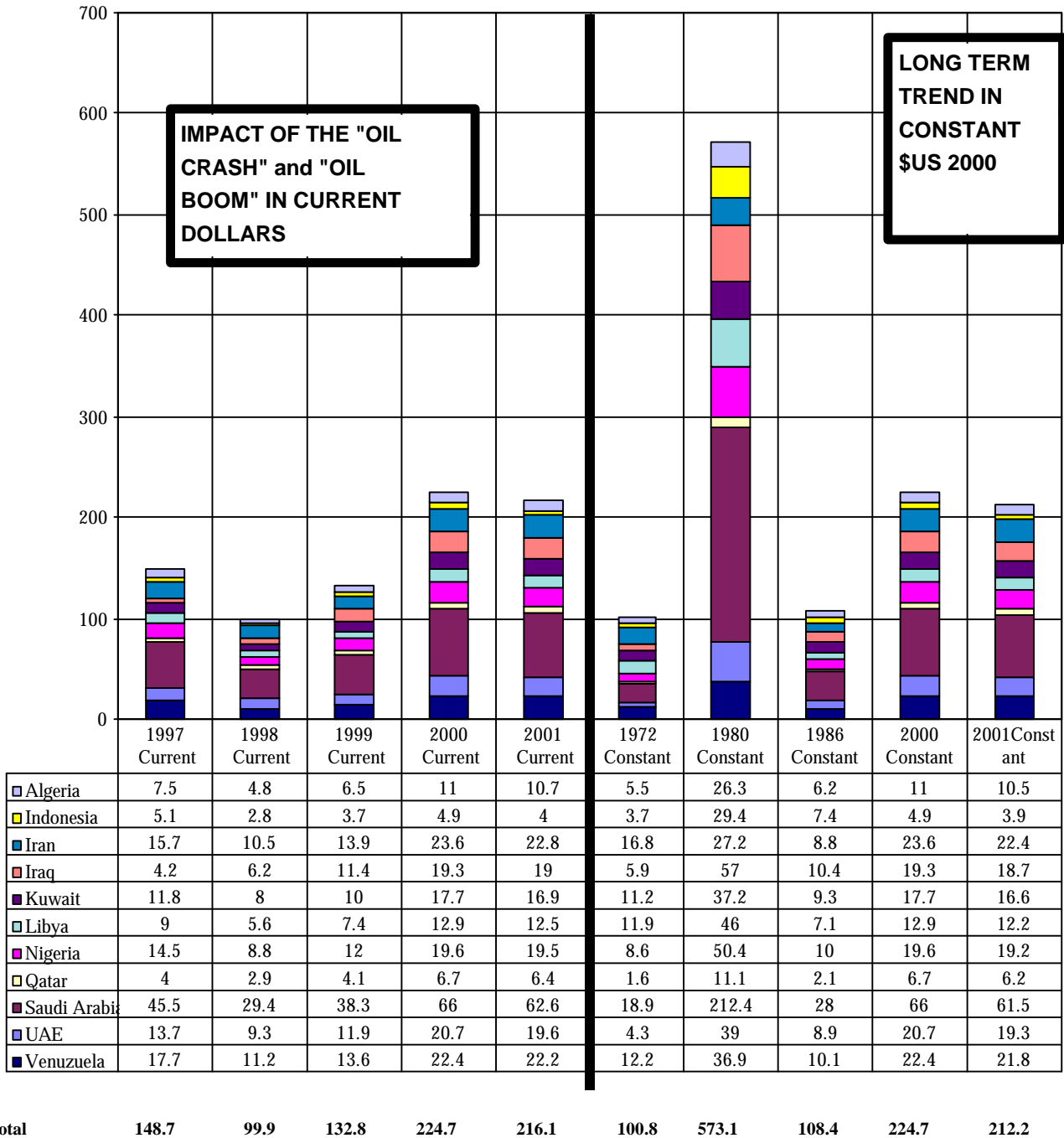
(OPEC Oil Export Revenues in \$US Current and 1990 Constant Billions)



Source: Adapted by Anthony H. Cordesman from data provided by the EIA as of March 2001 ([www.eia.gov/emeu/cabs/opecrev2.html](http://www.eia.gov/emeu/cabs/opecrev2.html).)

## Swings in Oil Export Revenues are Even Greater by Country

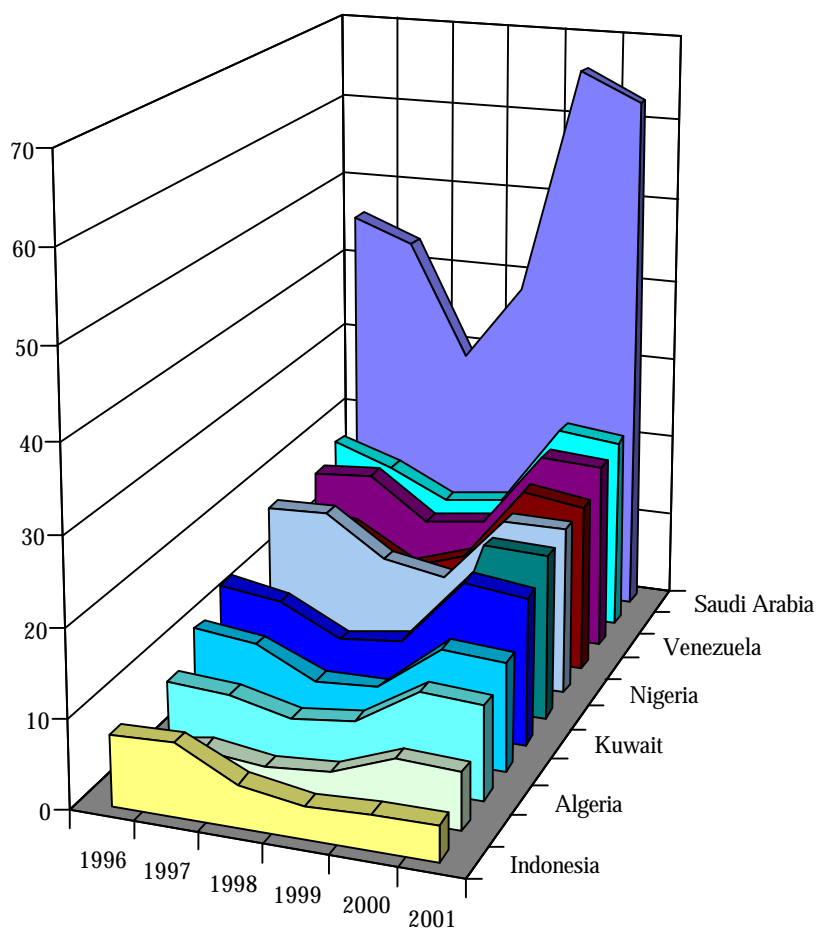
(in \$US Current and 2000 Constant Billions)



Source: Adapted by Anthony H. Cordesman from data provided by the EIA as of March 2001 ([www.eia.gov/emeu/cabs/opecrev2.html](http://www.eia.gov/emeu/cabs/opecrev2.html).)

## A More Detailed Look at Swings in Oil Revenues by Country During the Recent “Oil Boom” and “Oil Bust”

(in US \$Current Billions)

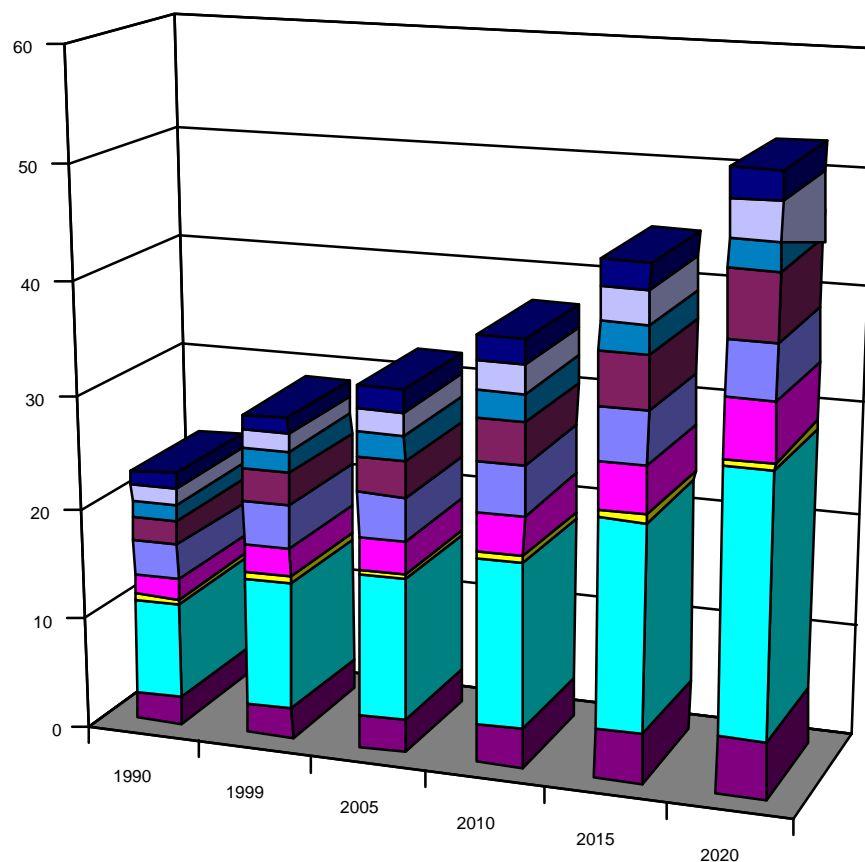


	1996	1997	1998	1999	2000	2001
Indonesia	7.9	8.1	4.8	3.7	4	4
Qatar	3.3	4.3	3.4	4.1	6.7	6.4
Algeria	7.9	7.5	5.7	6.5	11	10.7
Libya	11.1	10.2	7.1	7.4	12.9	12.5
Kuwait	13.5	12.4	9.1	10	17.7	16.9
Iraq	na	na	na	na	19.3	19
Nigeria	17.5	17.8	13.2	12	19.6	19.5
UAE	14.5	13.5	9.5	11.9	20.7	19.6
Venezuela	17.1	17.5	12.7	13.6	22.6	22.2
Iran	18.7	16.3	12.8	13.9	23.6	22.8
Saudi Arabia	45.7	42.9	29.2	38.3	66	62.6

Source: Adapted by Anthony H. Cordesman from projections by the EIA in various editions of its “OPEC Revenues Sheet”.

## The US Projects Massive Increases in MENA Oil Production Capacity and in Implied Oil Export Earnings

(In Millions of Barrels Per Day)



	1990	1999	2005	2010	2015	2020
Algeria	1.3	1.4	1.9	2.1	2.3	2.5
Libya	1.5	1.5	2.1	2.5	2.8	3.2
Other ME	1.4	1.9	2.2	2.4	2.5	2.4
Iraq	2.2	2.8	3.1	3.8	4.7	5.8
Iran	3.2	3.9	4	4.3	4.6	4.8
Kuwait	1.7	2.6	2.8	3.5	4.1	5
Qatar	0.5	0.6	0.5	0.6	0.7	0.7
Saudi Arabia	8.6	11.4	12.6	14.7	18.4	23.1
UAE	2.5	2.7	3	3.5	4.4	5.1

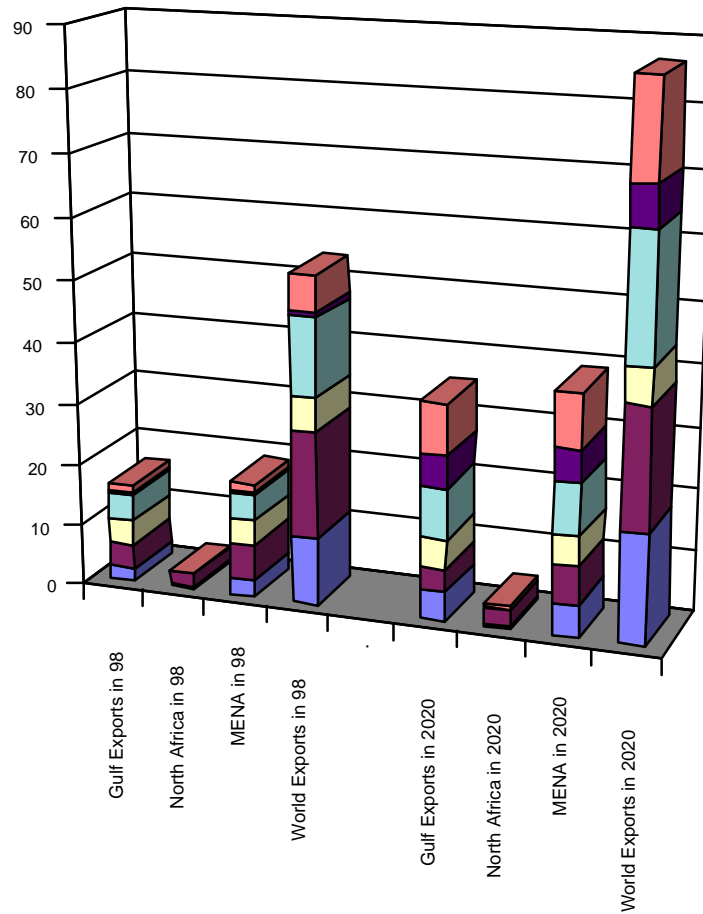
Total Gulf	27.2	34.2	38.5	44.3	52.5	62.4
North Africa	2.8	2.9	4.0	4.6	5.1	5.7
Other ME	1.4	1.9	2.2	2.4	2.5	2.4
Total MENA	31.4	39.0	44.7	51.3	60.1	70.5
Total World	69.4	78.7	87.9	97.4	109.2	122.4
Gulf as % of World	39%	43%	44%	45%	48%	51%
MENA as % of World						

Source: Adapted by Anthony H. Cordesman from US Department of Energy, International Energy Outlook, 2001,

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Washington, Energy Information Agency, April 2001, Appendix D

## The Same is True of US Projections of Actual MENA Oil Exports (In Millions of Barrels Per Day)



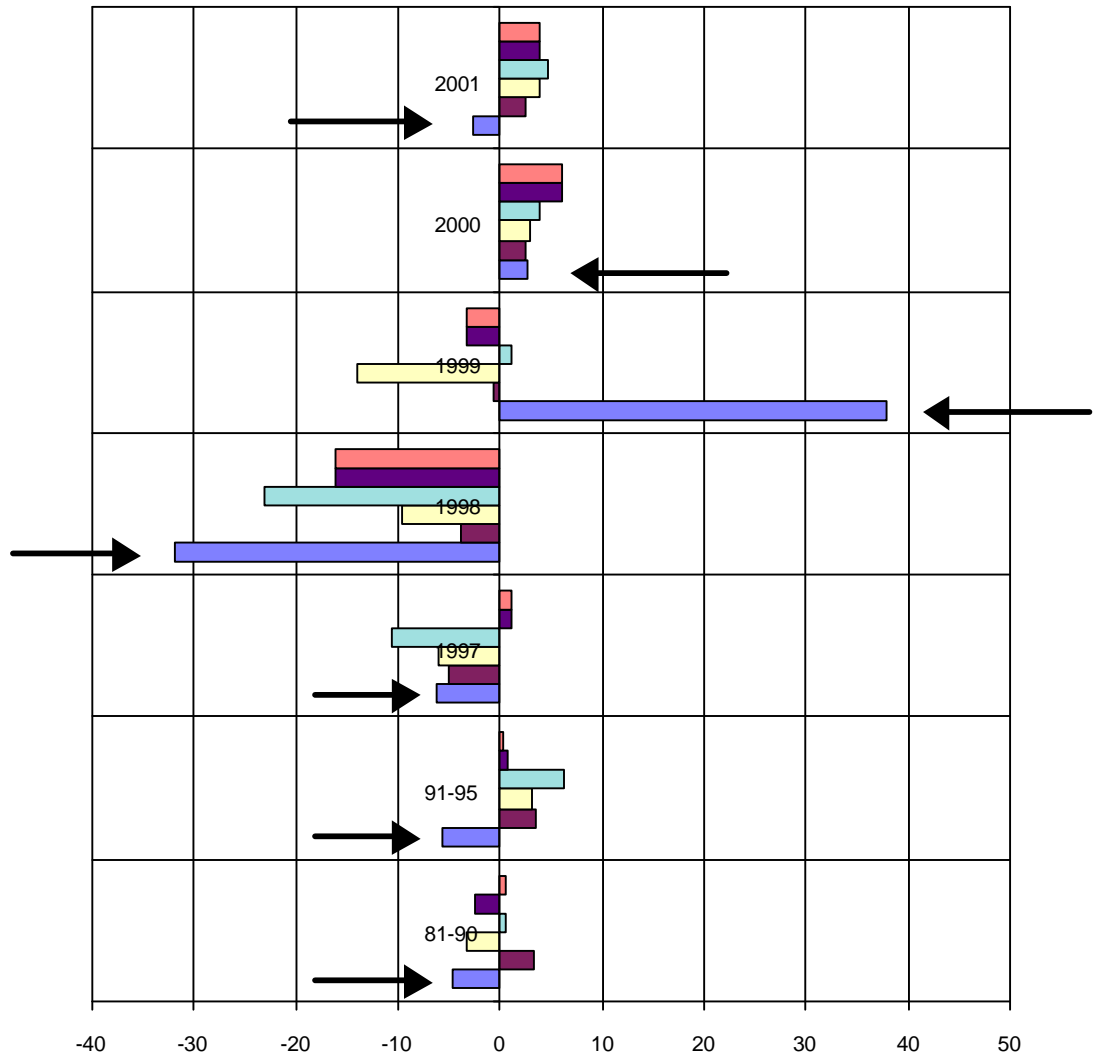
	Gulf Exports in 98	North Africa in 98	MENA in 98	World Exports in 98		Gulf Exports in 2020	North Africa in 2020	MENA in 2020	World Exports in 2020
Rest of World	1.3	0.1	1.4	5.9		8.3	0.6	8.9	15.7
China	0.4	0	0.4	0.9		5.3	0	5.3	6.7
Pacific Rim	4.2	0	4.2	12.6		8.2	0.1	8.3	20.4
Industrial Asia	4.1	0	4.1	5.5		4.8	0	4.8	5.9
Western Europe	4	2	6	17.4		3.7	2.6	6.3	19.8
North America	2.2	0.4	2.6	11		4.7	0.5	5.2	18

Total Region	16.2	2.5	18.7		35.0	3.8	38.8	
Total World				53.3				86.5
Region as % of World	30.4%	4.7%	35.1%		40.5%	4.4%	44.9%	

Source: Adapted by Anthony H. Cordesman from US Department of Energy, International Energy Outlook, 2001, Washington, Energy Information Agency, April 2001, Table 13, p. 39



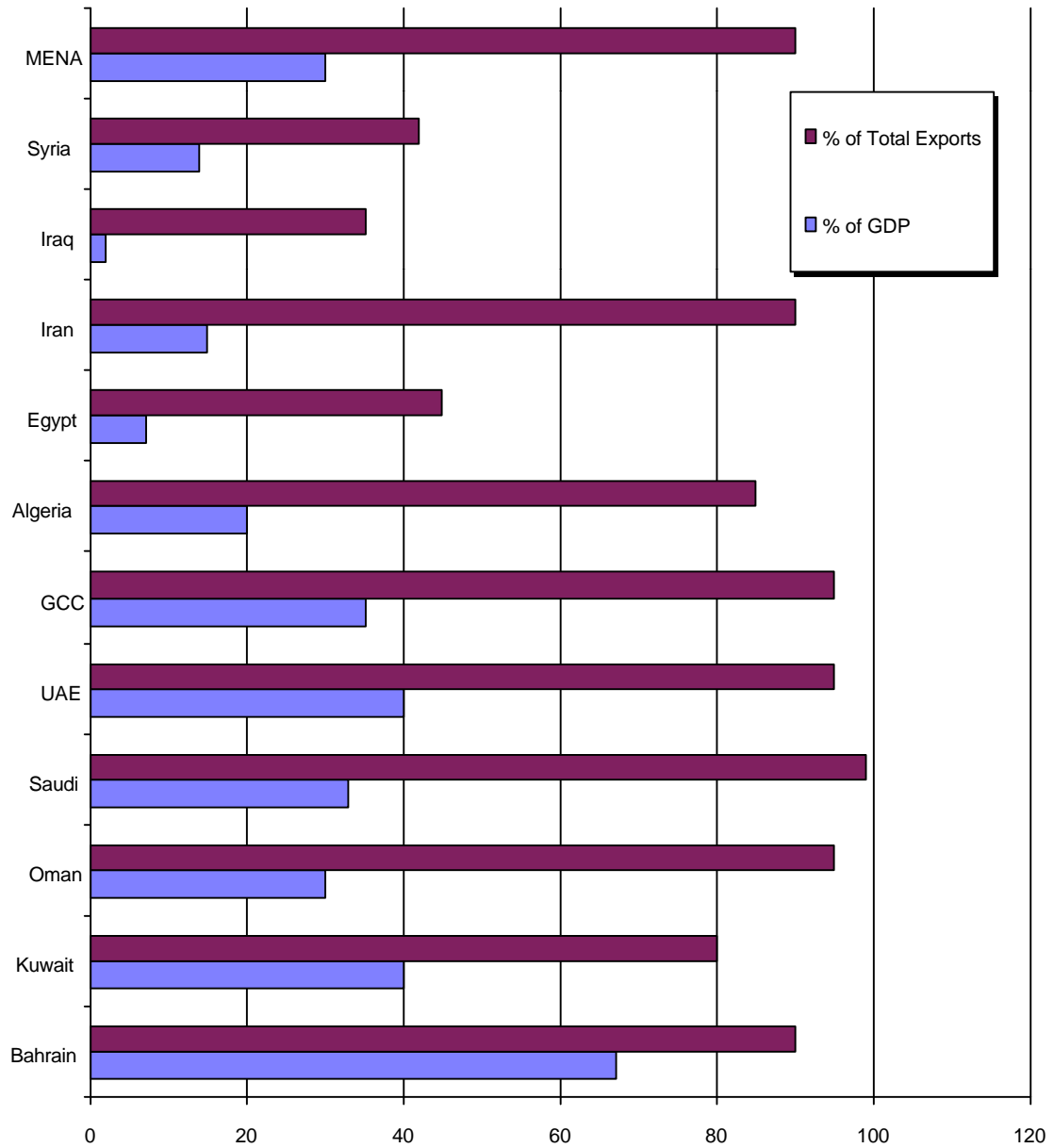
## Oil and Petroleum Exports are a Highly Volatile Commodity and Far More Volatile than Manufactures



	81-90	91-95	1997	1998	1999	2000	2001
Metals & Minerals	0.5	0.3	1.2	-16.1	-3.2	6	4
Fertilizers	-2.5	0.7	1.2	-16.1	-3.2	6	4
Raw Materials	0.5	6.2	-10.5	-23.2	1.2	3.9	4.7
Food	-3.3	3.2	-6.1	-9.6	-14	2.9	4
G-5 Value of Manufacturers	3.3	3.6	-5.1	-3.9	-0.6	2.5	2.5
Petroleum	-4.7	-5.6	-6.2	-31.9	37.8	2.8	-2.7

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

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

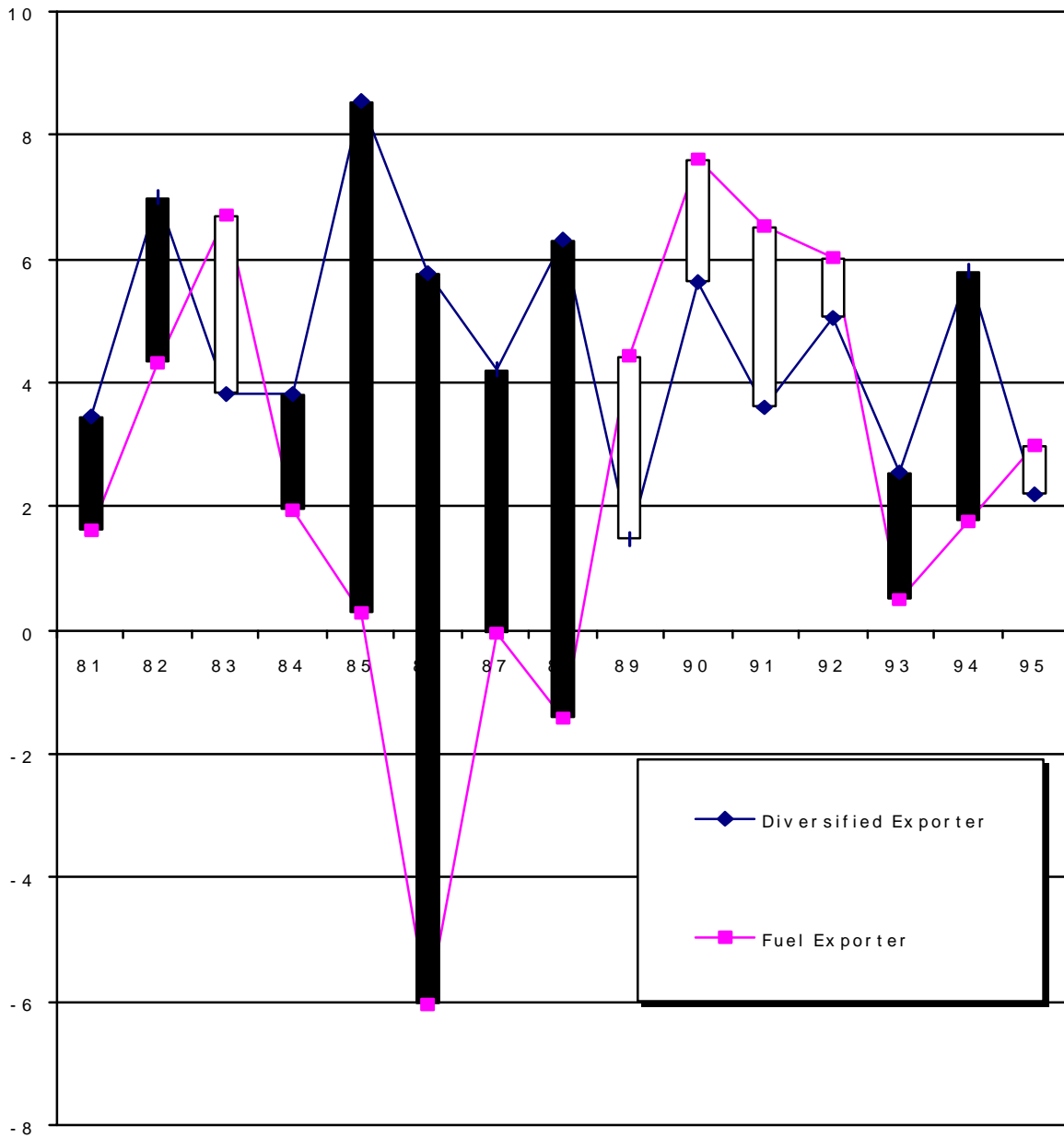


	Bahrain	Kuwait	Oman	Saudi	UAE	GCC	Algeria	Egypt	Iran	Iraq	Syria	MENA
<b>% of Total Exports</b>	90	80	95	99	95	95	85	45	90	35	42	90
<b>% of GDP</b>	67	40	30	33	40	35	20	7	15	2	14	30

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

## Oil State Growth Was Lower than that of Diversified Exporters and More Vulnerable to Oil Prices During 1981-1995

(Percent of GDP Growth)



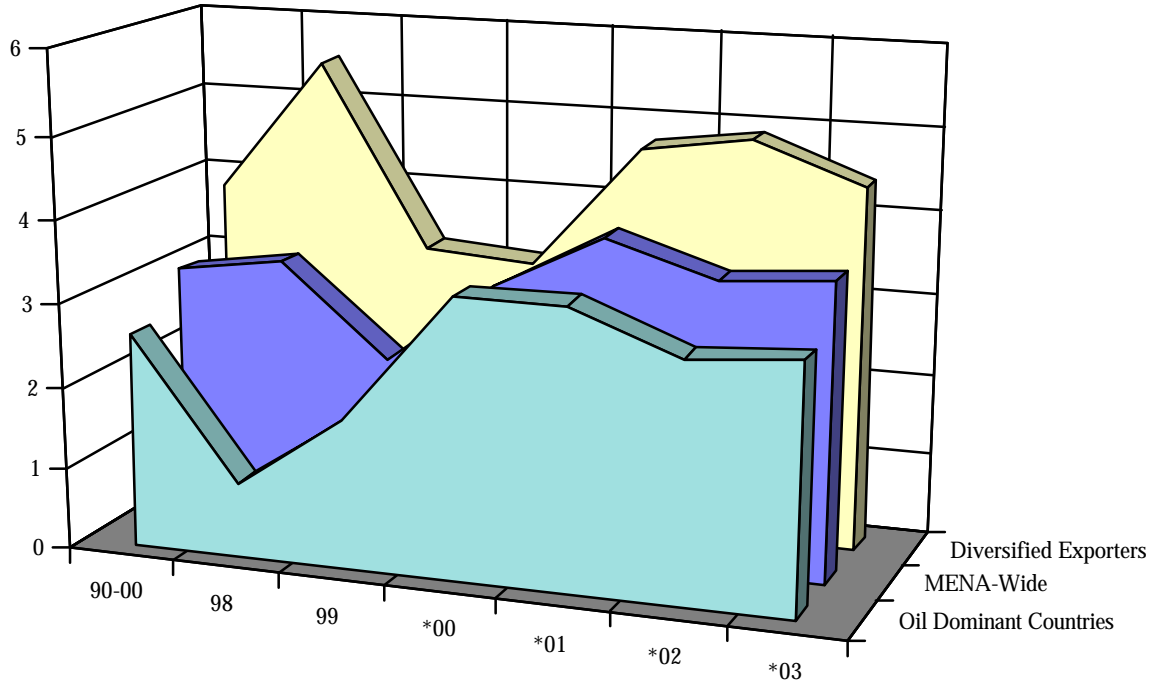
Diversified exporter = Egypt, Israel, Jordan, Morocco, Syria, and Tunisia.

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.

## This is Projected to Remain True Through 2003

(Growth as a Percent of Real GDP)



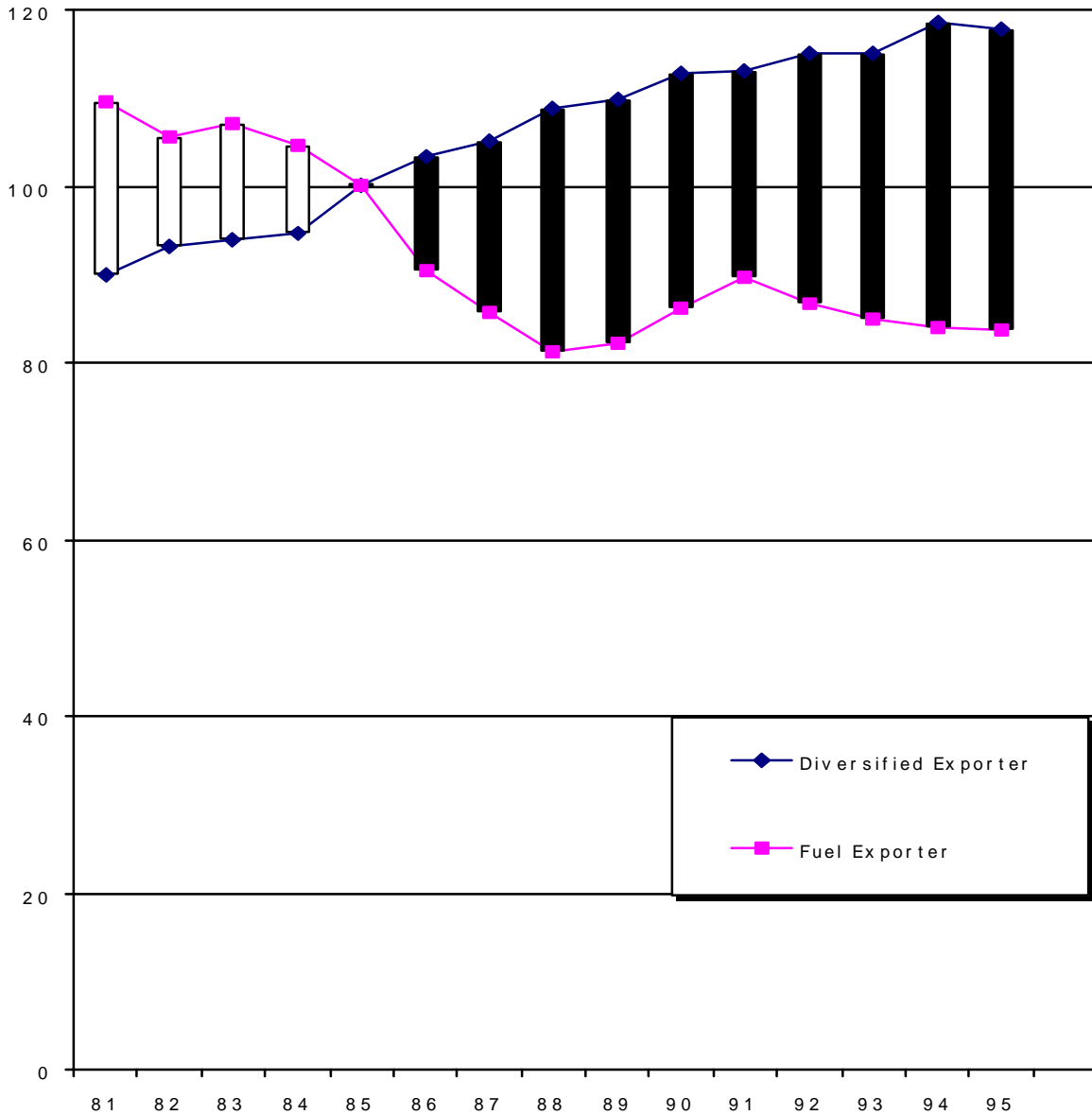
	90-00	98	99	*00	*01	*02	*03
Oil Dominant Countries	2.6	0.9	1.8	3.4	3.4	2.9	3
MENA-Wide	3.1	3.3	2.2	3.2	3.9	3.5	3.6
Diversified Exporters	3.9	5.5	3.3	3.2	4.7	4.9	4.4

\*Forecasts

Source: Adapted by Anthony H. Cordesman from World Bank, Global Development Finance, 2001, Washington, World Bank, 2001, pp. 202-207

## 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)



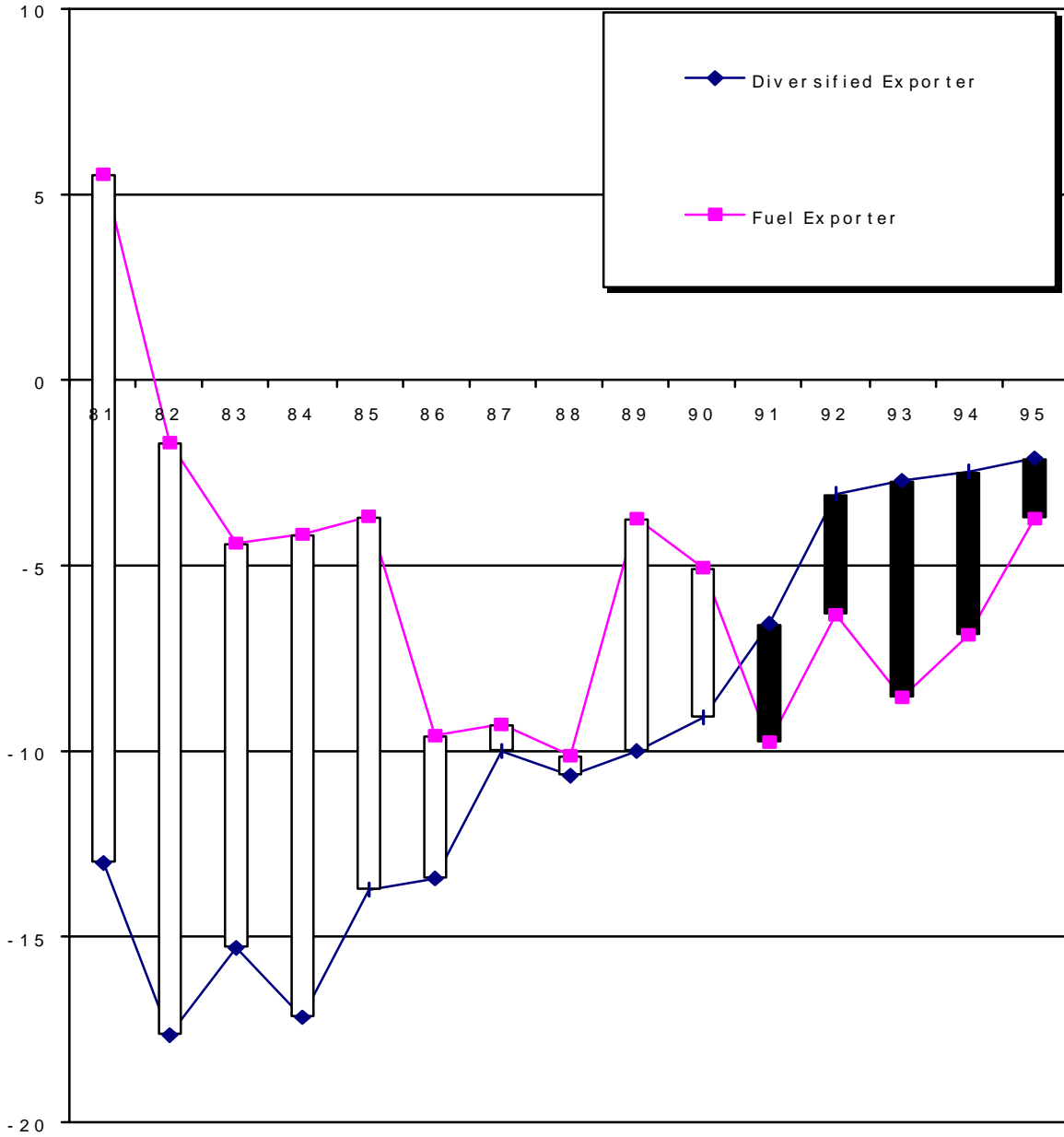
Diversified exporter = Egypt, Israel, Jordan, Morocco, Syria, and Tunisia.

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)

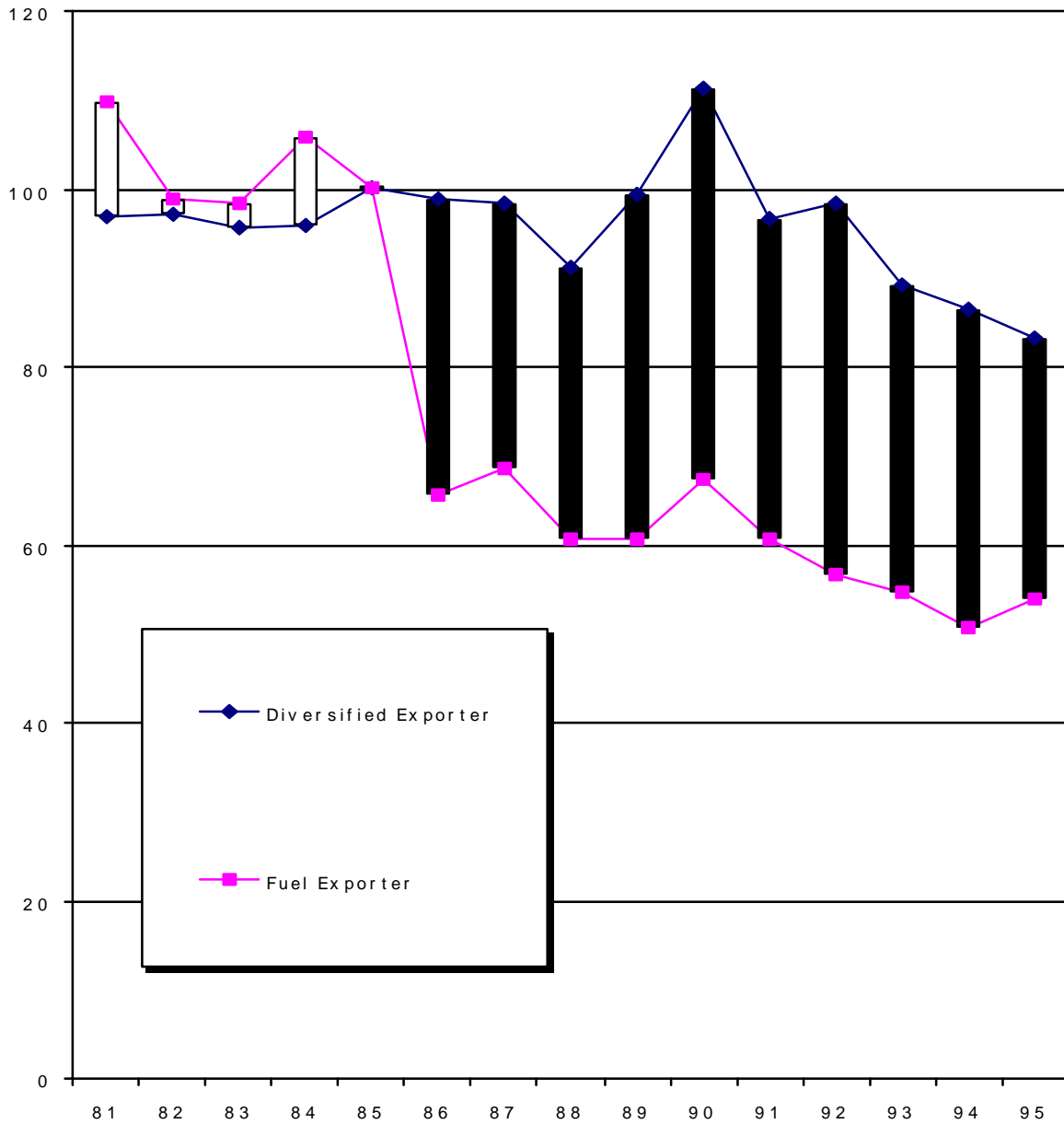


Diversified exporter = Egypt, Israel, Jordan, Morocco, Syria, and Tunisia.

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)



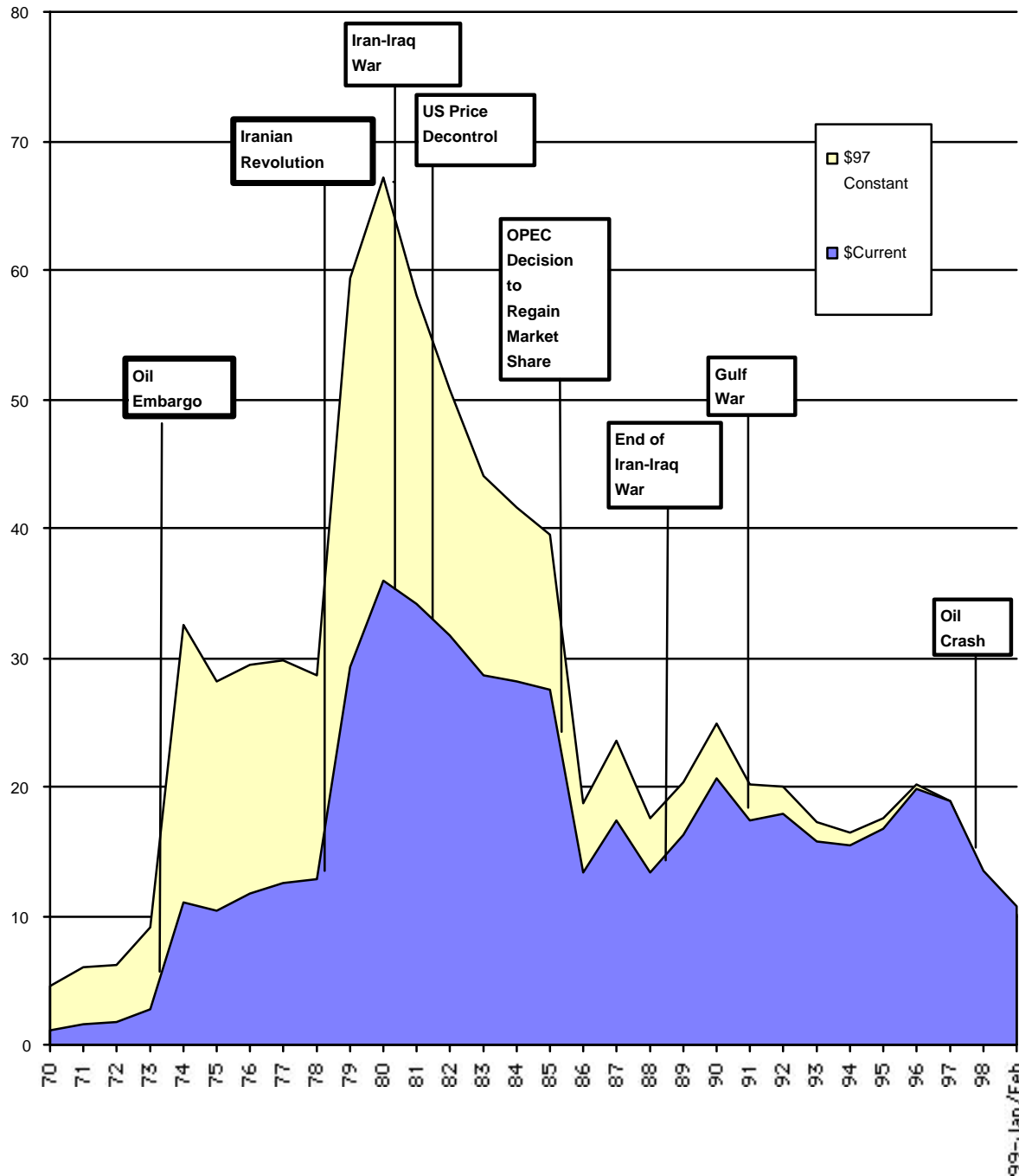
Diversified exporter = Egypt, Israel, Jordan, Morocco, Syria, and Tunisia.

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.

## Politics and War Sharply Affect Oil Prices: Trends in the Price of Saudi Arabia Light Crude: 1970-1999

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



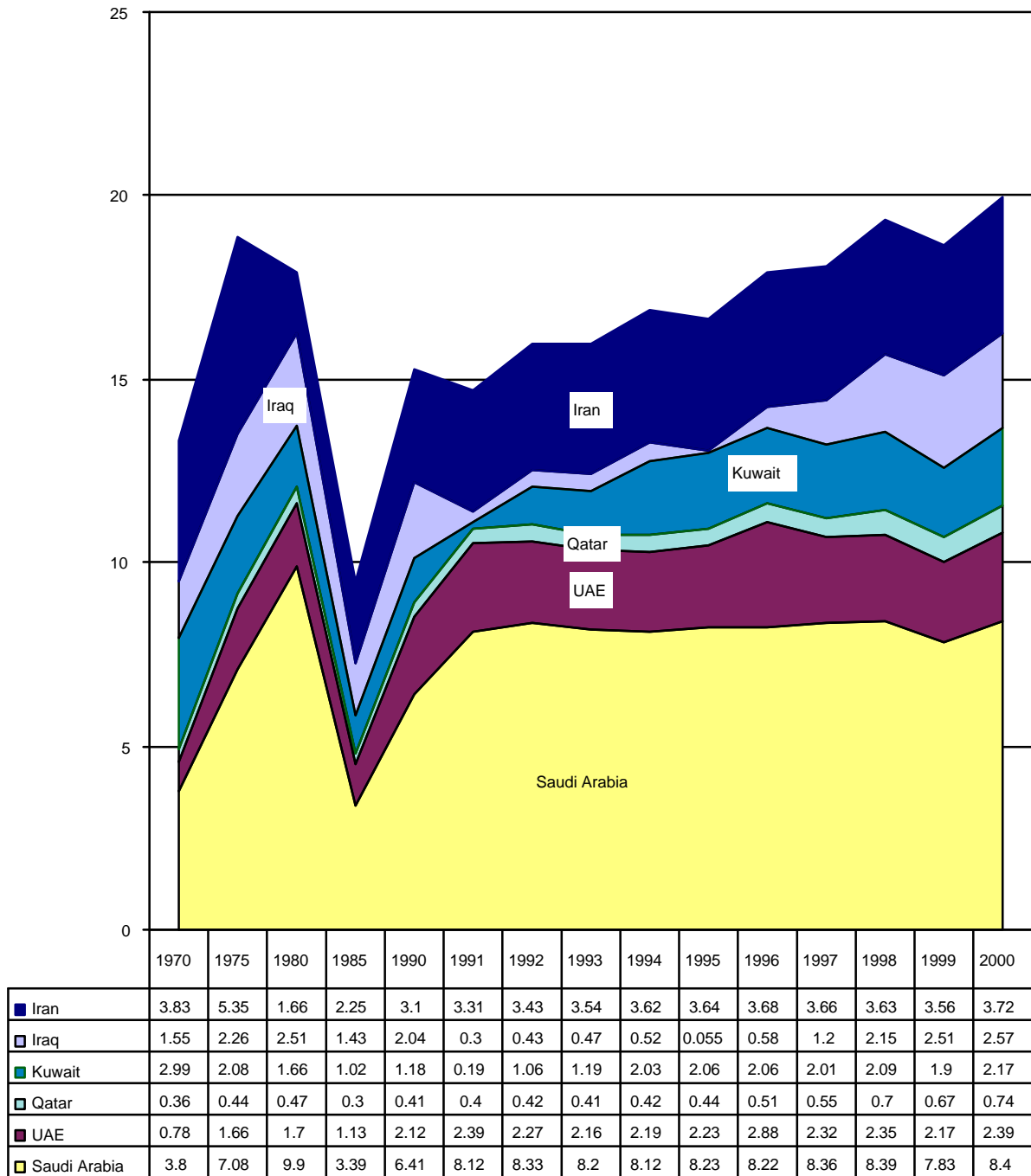
Total ME												
OPEC	13/31	18/87	17/91	9/53	15/19	14.77	15.99	16.75	16.84	16.99	17.18	18.30
Total ME	13.95	19.57	18.40	10.25	16.49	16.19	17.43	18.34	18.59	18.84	19.08	20.16

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



## Oil Production Has Been Highly Volatile: Historical Trends in Gulf Oil Production: 1970-2000

Thousands of Barrels per Day Including Condensate)

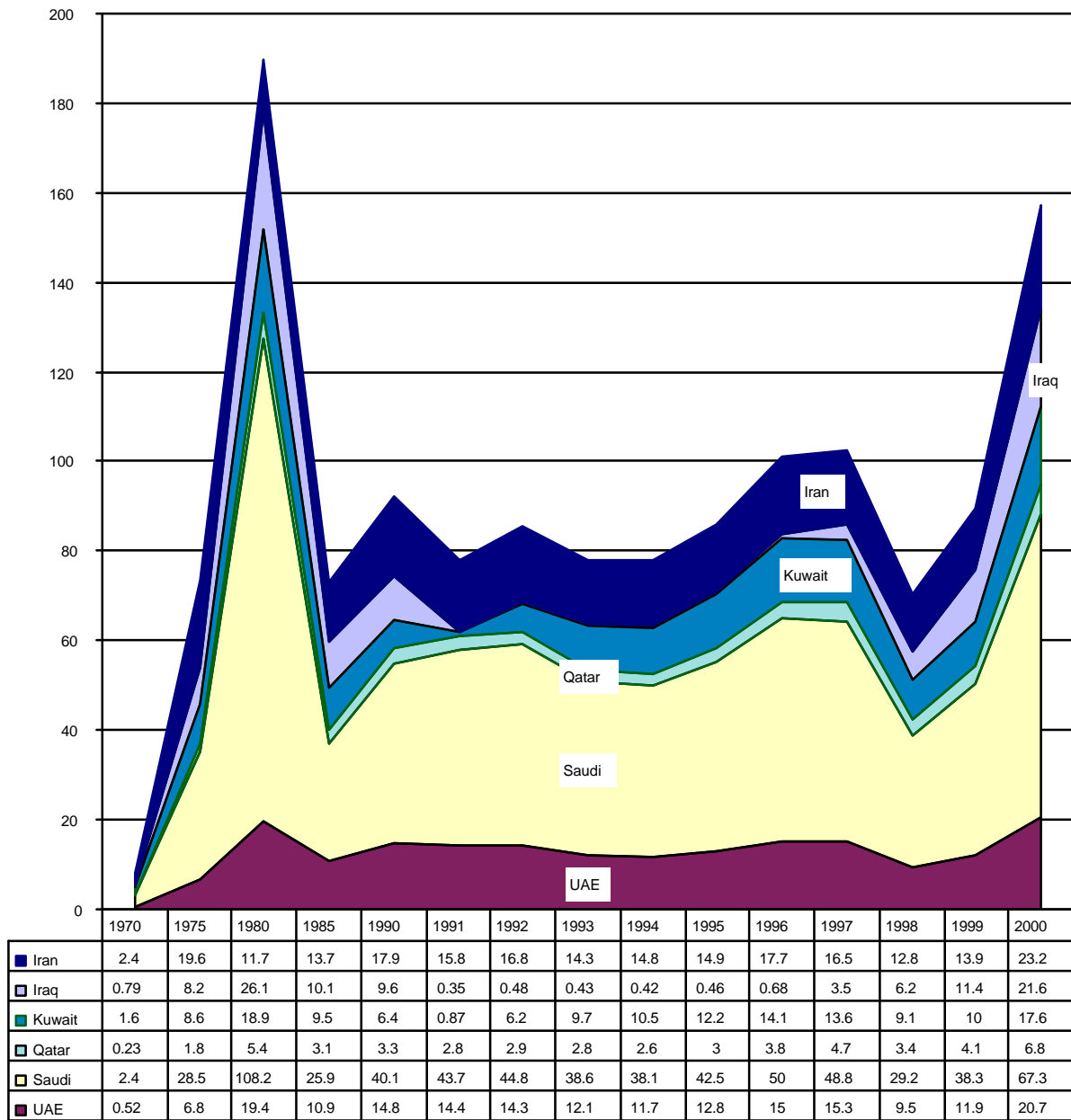


OPEC - - - - 23.20 23.28 24.40 25.119 25.51 26.00 26.46 27.71 28.77 27.58 29.11

Adapted by Anthony H. Cordesman from Energy Information Agency, March 7, 2001, [www.eia.doe.gov/emeu/ipsr/t11a.txt](http://www.eia.doe.gov/emeu/ipsr/t11a.txt)

## Politics, War, and Oil Prices Have Had A Drastic Impact on the Historical Trends in Gulf Oil Revenues as Well: 1970-2000

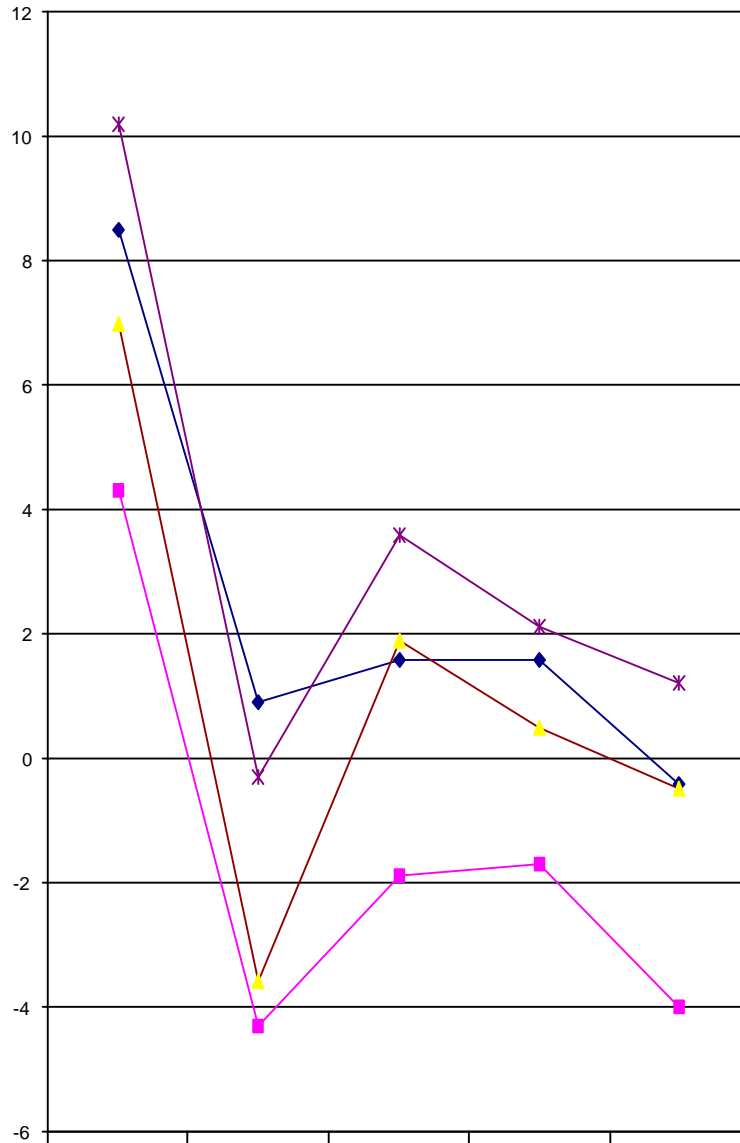
(\$Current Billions)



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	99.9	132.8	226.6
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	77.0	103.5	180.3

Adapted by Anthony H. Cordesman from Cambridge Energy Associates, *World Oil Trends, 1998*, Cambridge, Mass., 1998, pp. 26-27, and from projections by Energy Information Agency based on various editions of the "OPEC Revenues Fact Sheet," [www.eia.doe.gov/emeu/cabs/opecrev2.html](http://www.eia.doe.gov/emeu/cabs/opecrev2.html).

## Over-Dependence on Oil Economies Nearly “Flatlined” Two Key Countries in the Gulf: World Bank Economic Trend Profiles of Saudi Arabia and Iran

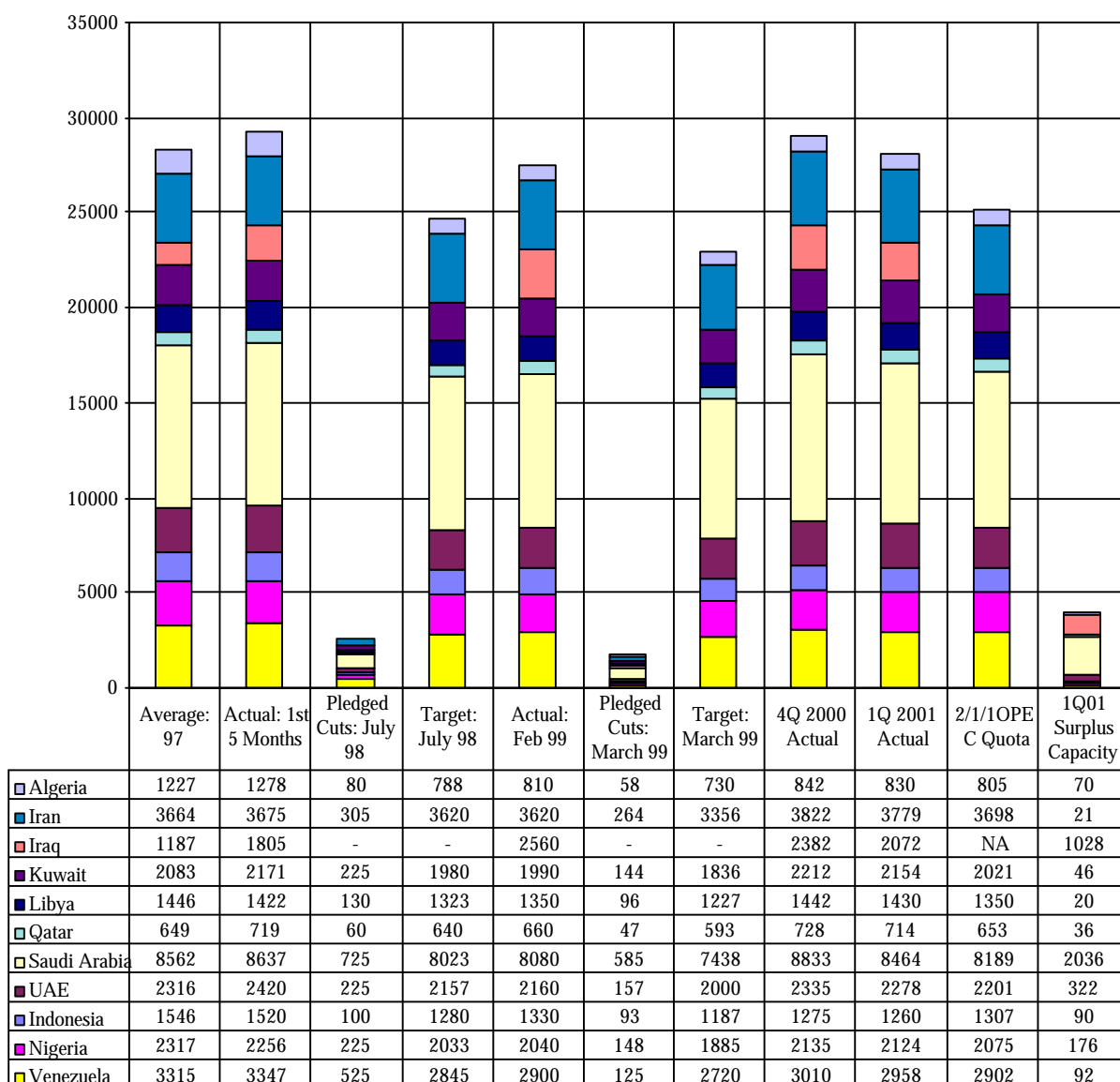


	1966-73	1974-90	1991-1998	1998	1999
◆ Saudi GDP Growth	8.5	0.9	1.6	1.6	-0.4
■ Saudi Per Capita Growth	4.3	-4.3	-1.9	-1.7	-4
* Iranian GDP Growth	10.2	-0.3	3.6	2.1	1.2
▲ Iranian Per Capita Growth	7	-3.6	1.9	0.5	-0.5

Adapted by Anthony H. Cordesman from World Bank, *Global Economic Prospects: 2000*, Washington, World Bank, pp. 152-153

## The OPEC Game Sharply Limits the Ability of Any Exporting Country to Manage Its Economy and Development: Production Targets and Actual Output: 1998-2001

(In MMBD)



Total Gulf OPEC

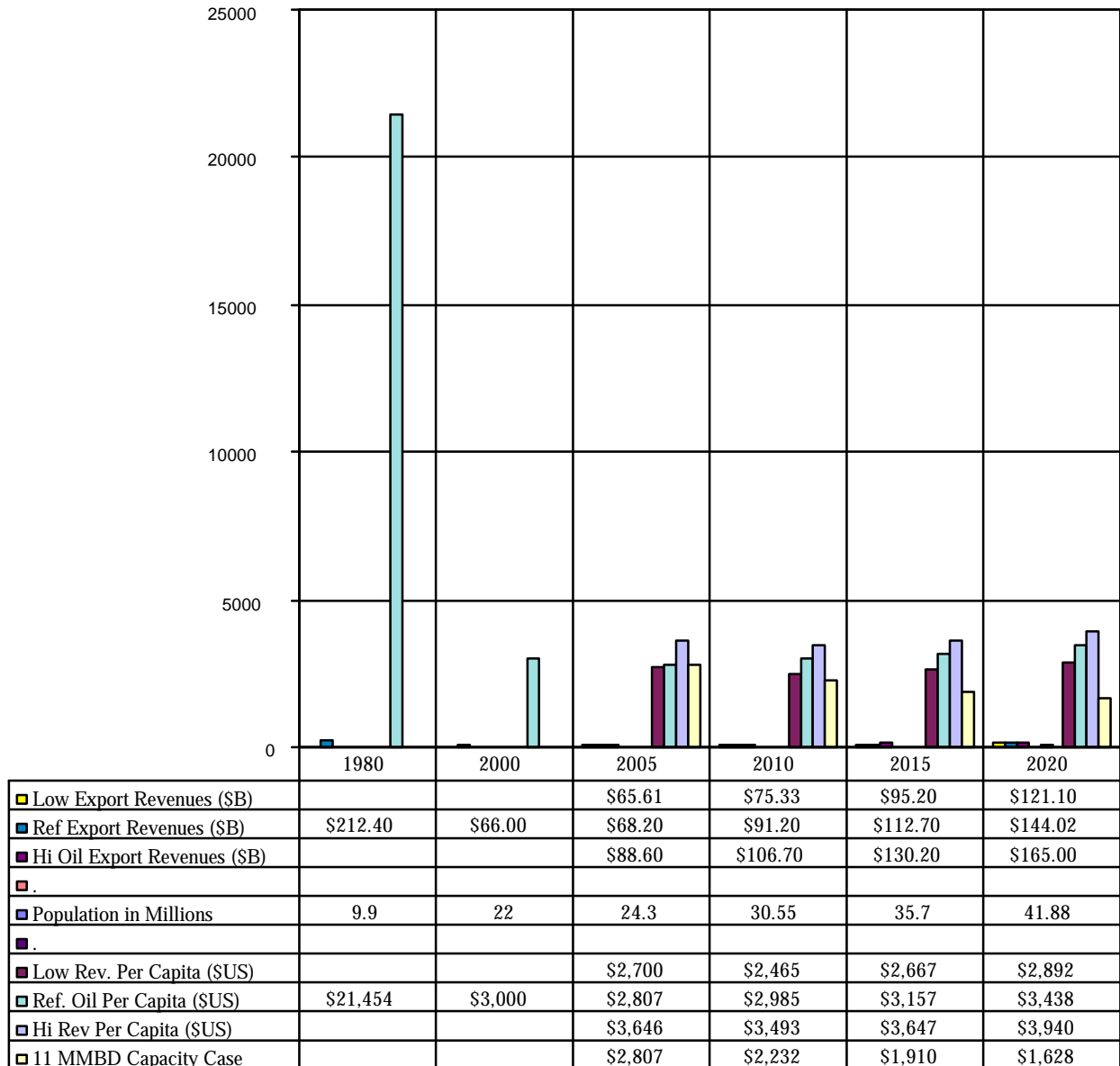
Total MENA OPEC

18.7	20.9	21.6	24.4	28.6	38.4	49.8	-	-	-	-
21.5	23.8	24.7	27.9	32.5	42.1	53.3	31.7	30.8	-	-

Source: Adapted from *Middle East Economic Digest*, March 26, 1999, p. 5; EIA, *Monthly Energy Review*, various editions, and [www.eia.doe.gov/emeu/cabs/ope2.html](http://www.eia.doe.gov/emeu/cabs/ope2.html) as of April 3, 2001.

## Population Growth will More than Offset Probable Increase in Oil Export Revenues: Rough Estimates of Future Saudi Oil Revenues, Population, and Exports Per Capita: US Census Bureau Data Population Data

(EIA Cases. Revenues Equal Daily MMBD X 365 X oil price. Export Revenues equal 0.81 X Total Revenues. Prices in Constant \$US2000. Revenues per capita are Total export Revenues Divided by Population)

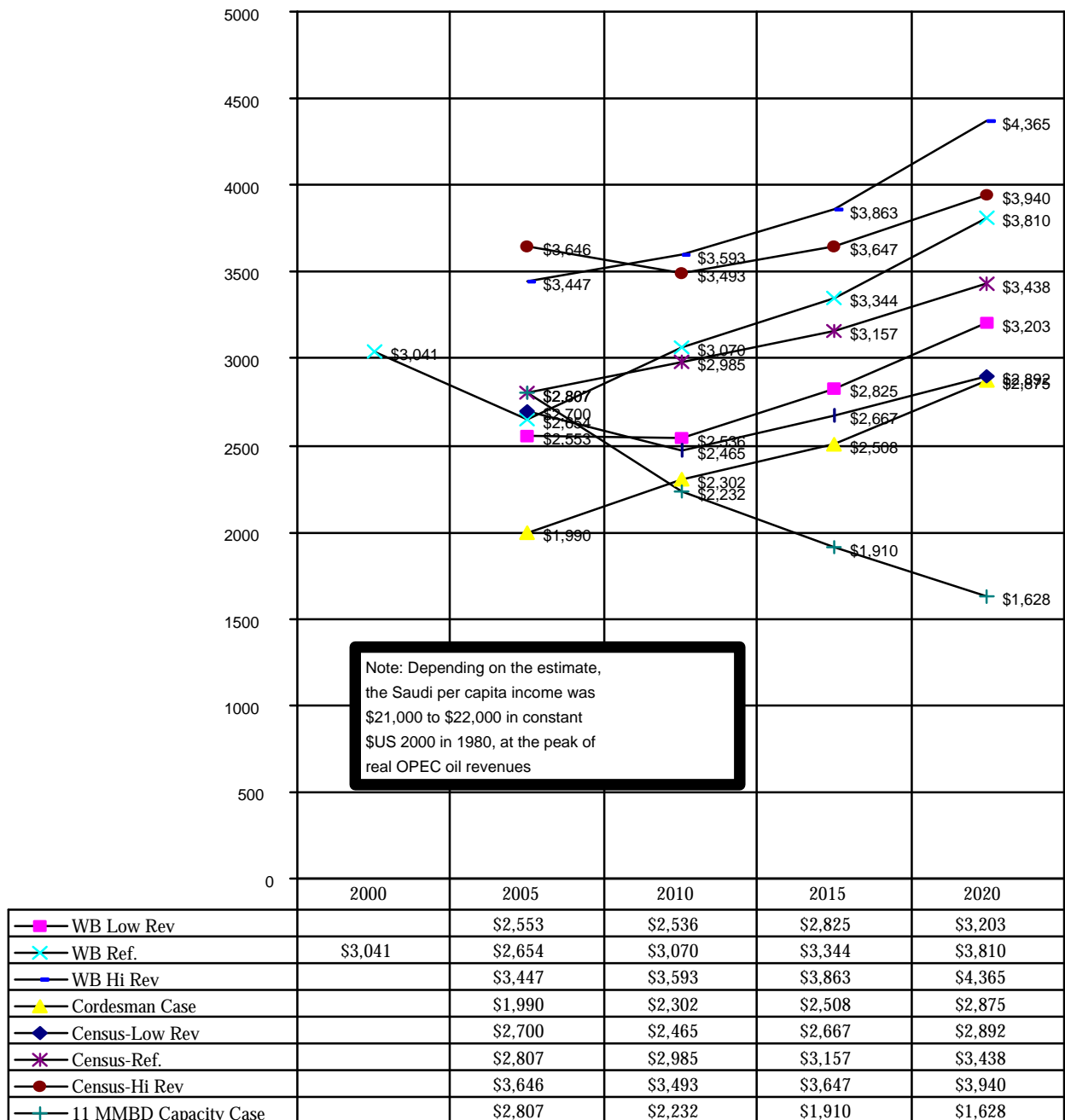


Source: Adapted by Anthony H. Cordesman from EIA, International Energy Outlook, DOE/EIA, DOE/EIA-0484 (2000), March 2000, pp. 38, 39, and Table D.

## Oil “Wealth” Equals Oil “Adequacy” or Oil “Poverty”: Future Saudi Oil Exports Per Capita: 2000-2020

(EIA Cases. Revenues Equal Daily MMBD X 365 X oil price. Export Revenues equal 0.81 X Total Revenues. Prices in Constant \$US2000.

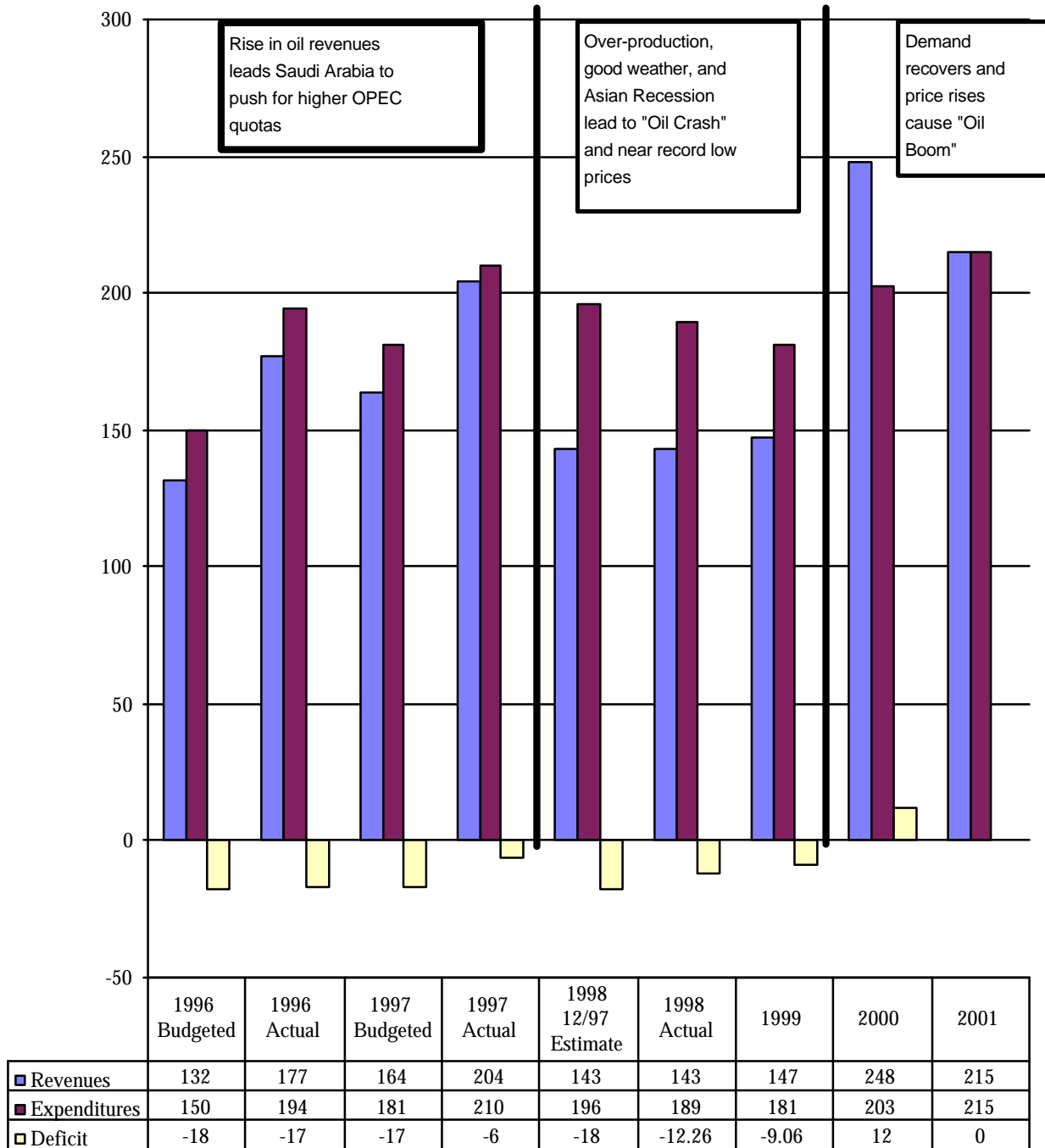
Revenues per capita are Total export Revenues Divided by Population. Cordesman case is 75% of Reference Case)



Source: Adapted by Anthony H. Cordesman from EIA, International Energy Outlook, DOE/EIA, DOE/EIA-0484 (2000), March 2000, pp. 38, 39, and Table D.

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

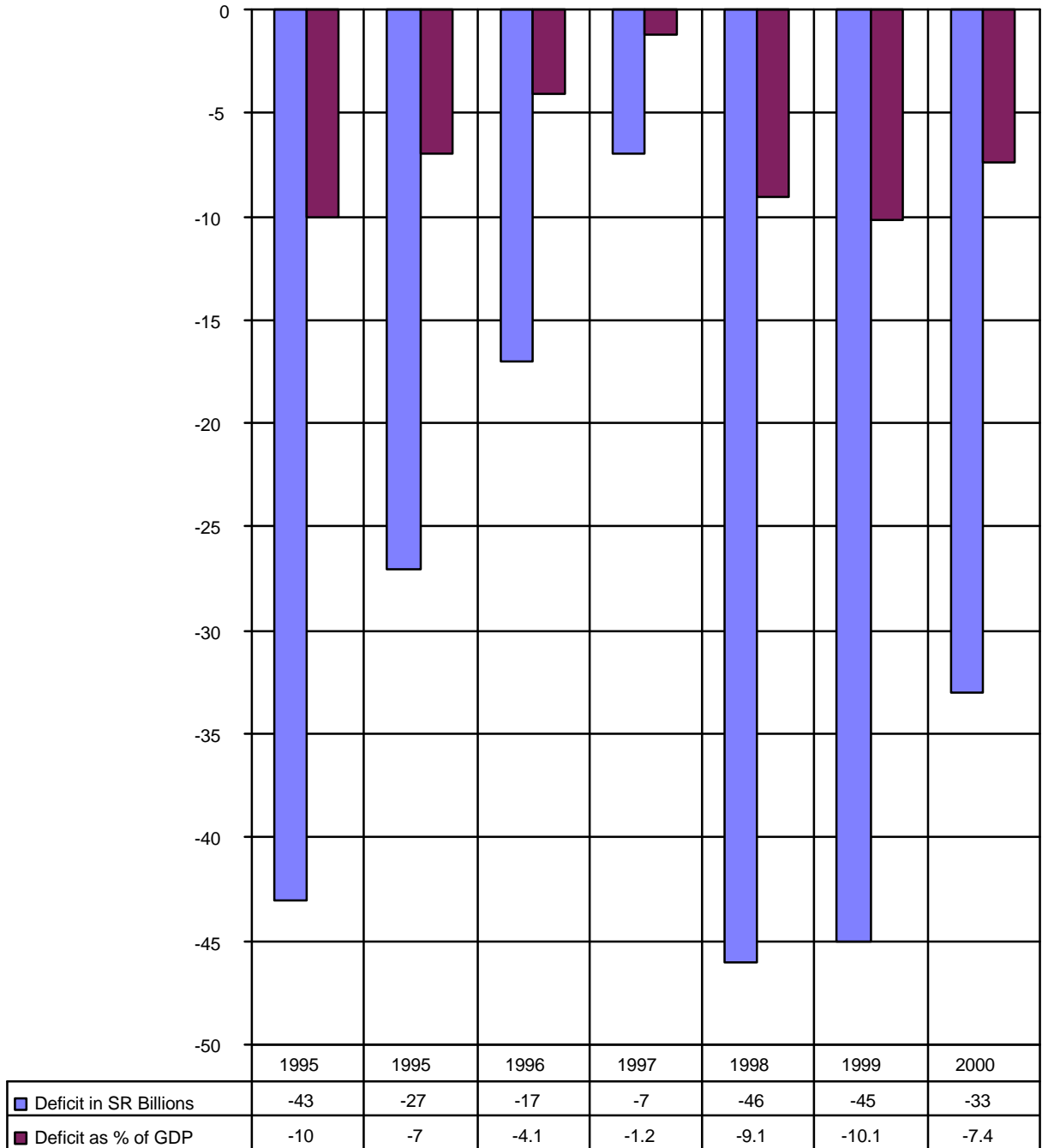
(In billions of Saudi Riyals)



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 Longer-Term Structural Challenge

(Deficit in billions of Saudi Riyals and as Percent of GDP)

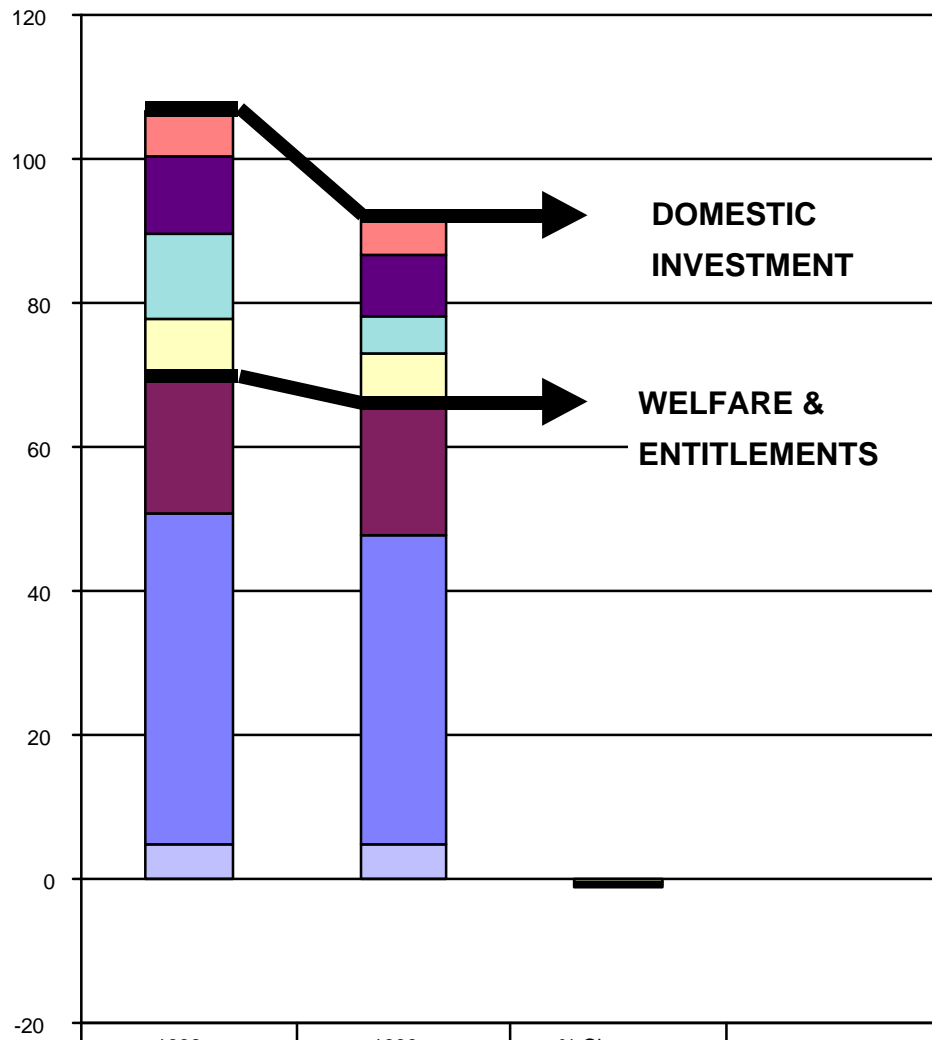


Source: Adapted by Anthony H. Cordesman from Edgard H. Habib, "Impact of the World Economic Crisis on Middle East Producers," IEA, March 24, 1999.



## Pressures on the Saudi Budget: The Entitlements Problem

(In billions of Saudi Rials)

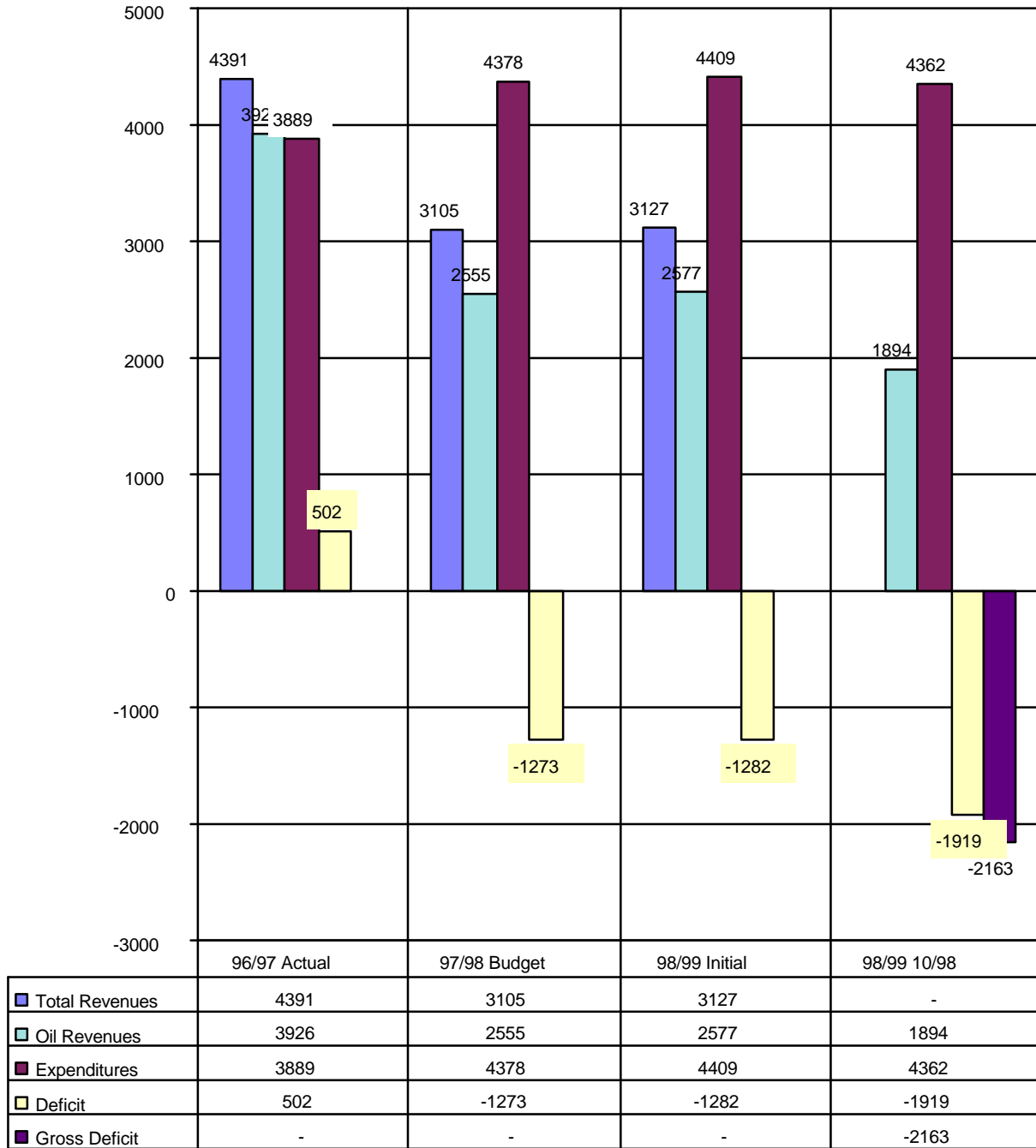


	1998	1999	% Change	
Spec. Deve Funds	6.4	5	-22%	
Indust., Elec. & Infra	10.7	8.5	-20%	
Trans & Commo	11.8	5.2	-55.90%	
Munin Services & Water	7.6	6.6	-12.70%	
Health & Community Dev.	19.7	18.7	-5%	
Education	45.6	42.9	-6%	
Aid to Social Activities	5	4.8	-4.90%	

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

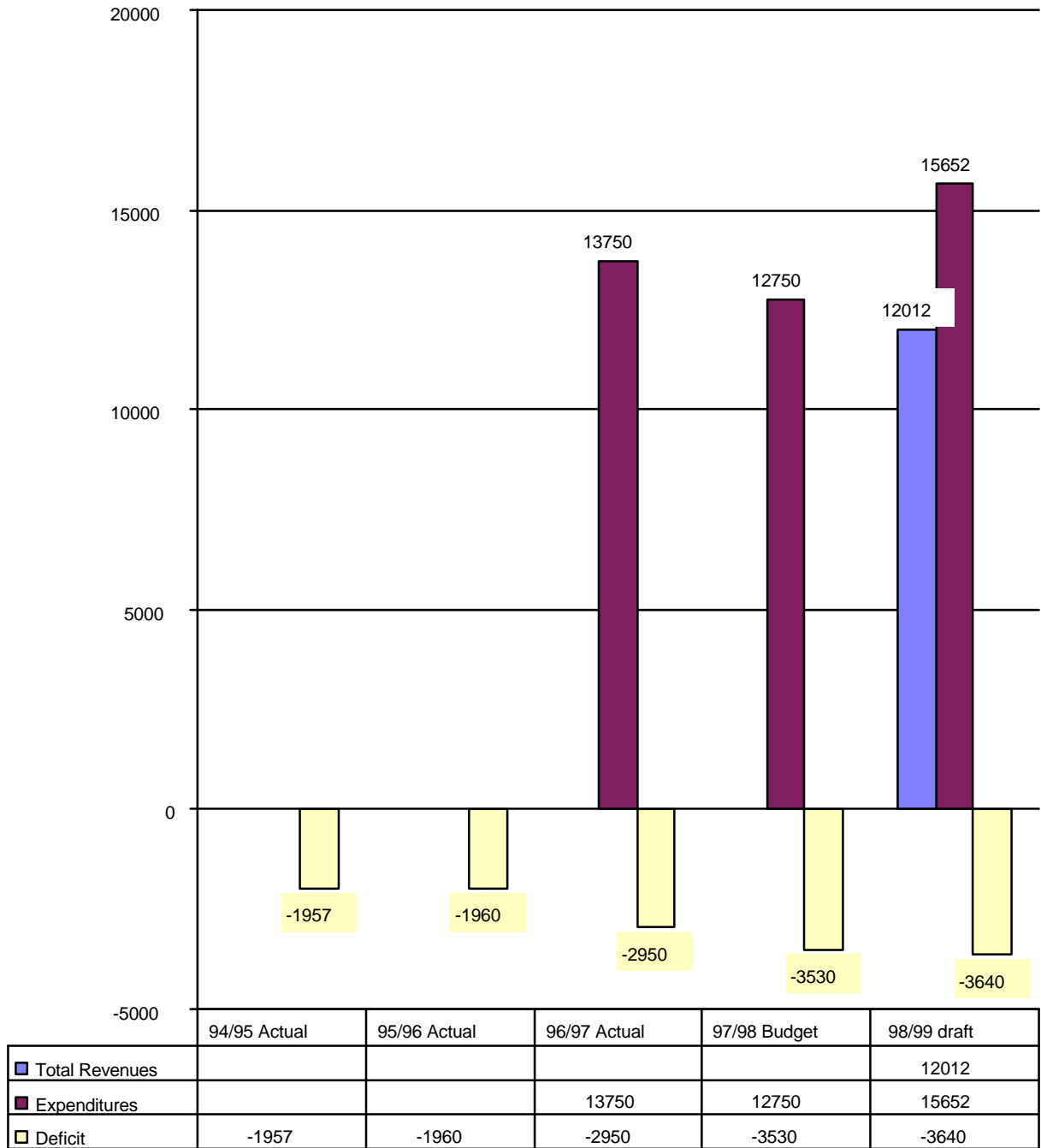
(In millions of Kuwaiti Dinars)



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

## Pressures on the Qatari Budget

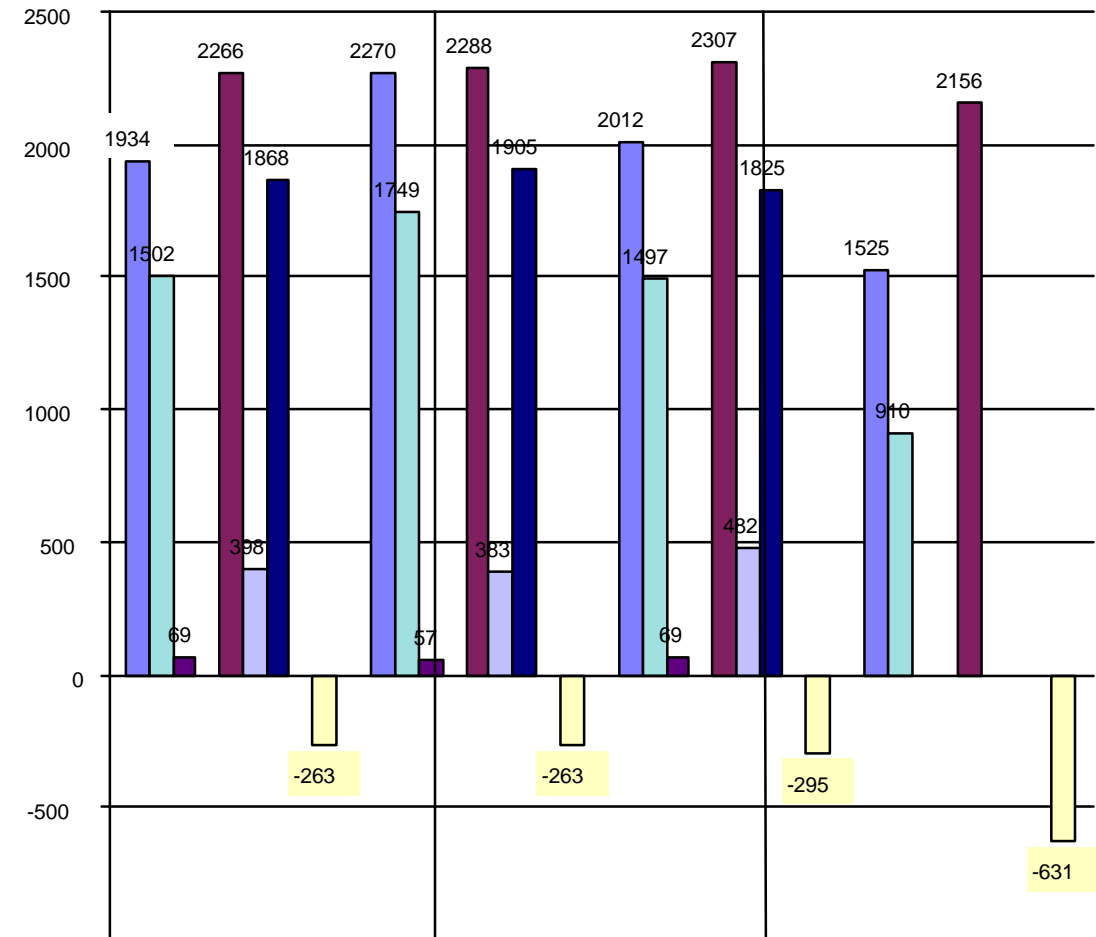
(In millions of Qatari Rials)



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

### Pressures on the Omani Budget

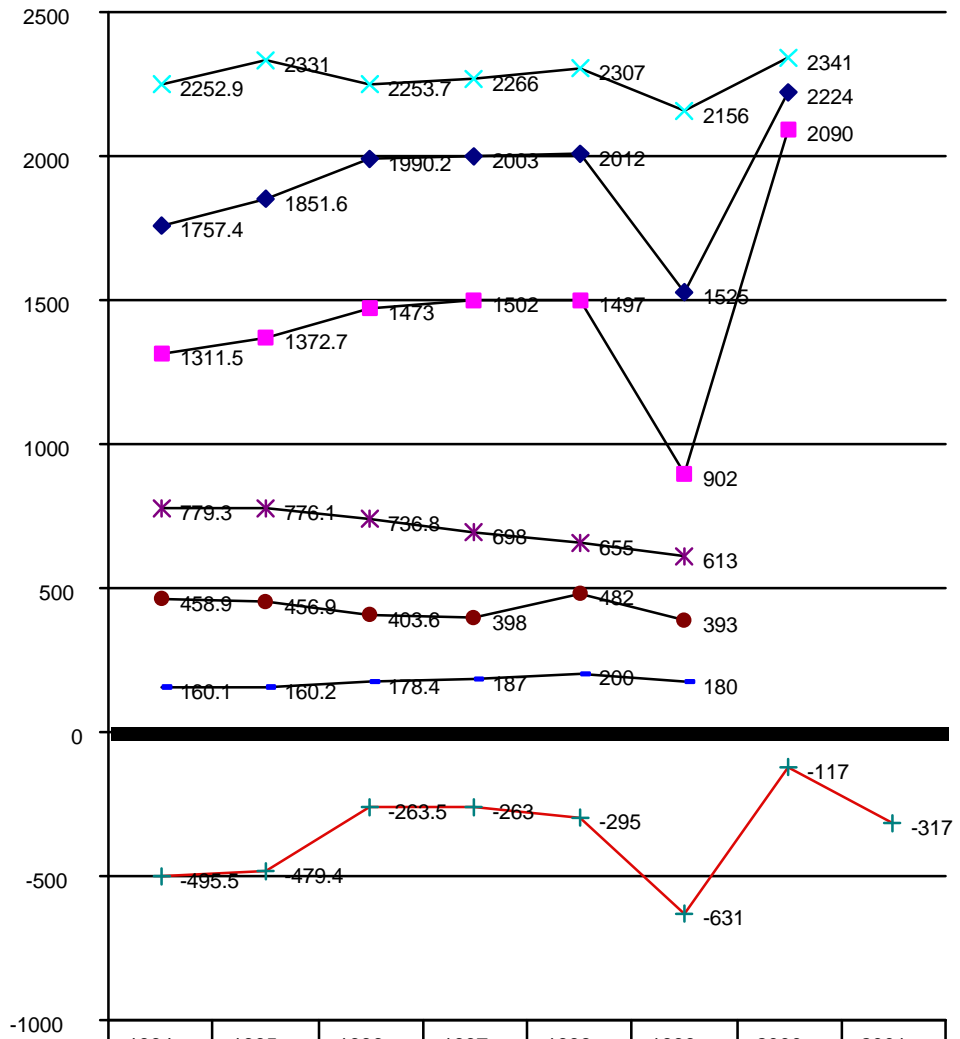
(In millions of Omani Rials)



	1997 Budget	1997 Actual	1998 Budget	1999 Budget
Total Revenues	1934	2270	2012	1525
Oil Revenues	1502	1749	1497	910
Gas Revenues	69	57	69	
.				
Budget	2266	2288	2307	2156
Investment	398	383	482	
Current/Other	1868	1905	1825	
.				
Deficit	-263	-263	-295	-631

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)



	1994	1995	1996	1997	1998	1999	2000	2001
◆ Total Revenues	1757.4	1851.6	1990.2	2003	2012	1525	2224	
■ Oil Revenues	1311.5	1372.7	1473	1502	1497	902	2090	
✕ Total Expenditure	2252.9	2331	2253.7	2266	2307	2156	2341	
✱ Defense Expenditures	779.3	776.1	736.8	698	655	613		
● Investment Expenditure	458.9	456.9	403.6	398	482	393		
— Energy Investment	160.1	160.2	178.4	187	200	180		
+ Current Deficit	-495.5	-479.4	-263.5	-263	-295	-631	-117	-317

Source: Adapted by Anthony H. Cordesman from data provided by the Omani Times and Middle East Economic Survey, January 18, 1999, pp. B-2, and, and The Peninsula, April 10, 2001, p. 18.

