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Coronavirus Crisis and the Middle East

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1. Overview of the Coronavirus Crisis

Since the Coronavirus, also known as Covid-19, spread outside of China in January 2020 it quickly turned into a global crisis of unprecedented scale, taking a high toll on human life and laying bare the fragility of battle-hardened economies that had not seen a shock alike since the financial crisis in 2009. Travel restrictions, cancelled events, closures, and curfews put a severe strain on Middle Eastern economies that were already seeing a slow-down in oil demand and a free fall in oil prices. The crisis wreaked havoc on economic and societal levels, producing supply, demand, and asset-side shocks. Most severely feeling the impact of the uncontrollable expansion of the infectious disease in the Arabian Peninsula are failed states, conflict regions, poverty-stricken dense societies, and oil-dependent economies of the Gulf region.

2. Geo-economics in the Middle East

In essence, the fast pace of globalization post-1990s resulted in a hyper-connected world opening doors to new opportunities for trade but also urging actors to stay vigilant in the face of emerging threats in all walks of life. If the perceived threat to basic or important values and interests has a surprise element, about when or where the incident will occur, and a finite time for response, then the situation today can be defined as a crisis.¹

The health crisis revealed by the Covid-19 pandemic has a significant impact on political, economic, and social life on a global scale. It has affected more than 1.3 million people in 200+ countries with casualties soaring day by day particularly in Iran, mainland Europe, and the Americas.² The Middle East, except for Iran, has taken albeit a smaller share of the viral spread with confirmed cases of only 2,752 in Saudi Arabia, 2076 in the UAE and 1,322 in Egypt,³ with actual numbers possible higher than reported. This should not, however, obscure severe economic and structural dislocations, and destruction of wealth due to the virus. A new policy brief by the UN Economic and Social Commission for Western Asia paints a grim picture where, due to increased food insecurity, joblessness, and supply-chain disruptions, 8.3 million people will fall into poverty in Arabia due to Covid-19.⁴

The worldwide economic recession is expected to be profoundly deep, long, and painful for countries dependent on commodity exports, tourism, and construction, many of which have unsustainable debt levels or budget deficits. Although the Middle East is relatively isolated from main areas under impact, thanks to its sunlit geographic location, it feels the negative spill-over effects of business operations, logistics, and trade on all facets of life. PMIs have declined at quickest rates ever. Majority of countries are ill-prepared for a multi-layered economic earthquake of this magnitude, let alone have a post-crisis mitigation strategy to sooth the impact

¹ Robert L. Pfaltzgraff Jr., *Crisis Definitions/Characteristics*, Security Studies and Crisis Management, GMAP, The Fletcher School of Law and Diplomacy, Tufts University, 2014.

² Johns Hopkins University, *Covid-19 Global Cases by the Center of Systems Science and Engineering (CSSE)*, Live Updates, April 5, 2020 (accessed April 5, 2020); available from <https://gisanddata.maps.arcgis.com/apps/opsdashboard/index.html#/bda7594740fd40299423467b48e9ecf6>.

³ Ibid.

⁴ UN Economic and Societal Commission for Western Asia, *New ESCWA Brief*, Beirut, Lebanon, April 1, 2020 (accessed April 5, 2020); available from <https://www.unescwa.org/news/new-escwa-brief-83-million-people-will-fall-poverty-arab-region-due-covid-19>.

on a collective scale. As revenues dry up and dollar liquidity crunch looms,⁵ it will become an uphill struggle to service massive debt loads. Even if life snaps back to normal, or anywhere close to pre-crisis days, it will clearly entail a powerful activism of the state apparatus to intervene on and regulate markets akin to the post Great Depression days of 1930s. The potential new status quo on the horizon even leads some to question “if the end of capitalism is in sight”.

The problem is that in the Middle East, state is still the prime diverter of wealth. Despite bold reforms and incentives put in place, the private sector consists mostly of state-backed enterprises or cash-strapped SMEs with little shield against intensified global economic headwinds.⁶ A World Bank report even before the crisis, in late 2019, confirms that the tiny 0.6% regional growth rate is “only a fraction of what is needed to create enough jobs for the fast-growing, working-age population”.⁷ Facing the prospect of a sharp rise in fiscal deficits, governments have also started to scale back state projects, undercutting the impact of stimulus measures.⁸

Take the UAE as an example, which is supposedly best positioned to withstand the crisis: Abu Dhabi enacted the Vision 2021 program to diversify its economy; yet, the country’s GDP is 40% comprised of oil exports and the remaining on financial services, tourism, construction – all of which are one way or other hard-hit by the global downturn. Its fiscal break-even price is \$70 per barrel. Conversely, take Saudi Arabia: Saudi Vision 2030 is the code-name of the national transformation program that Riyadh enacted to reform and prepare the country for the post-oil era, but the success has been mixed thus far. The break-even oil price in 2017 had dropped from \$92.90⁹ per barrel to \$79.70, but now stands at a far-off \$83,¹⁰ much higher than Russia’s \$43. This is hardly suited to defend against a sustained economic shock elevated by oil prices as low as \$20. On top, oil-backed collateralized loans of private operators have dropped in value by over 60% in three months putting tremendous strain on the global energy sector.¹¹

Any recovery is bound to take an extended period of time, witnessing survival of the fittest and consolidation of power. Perhaps the most difficult aspect of it is this dual-shock nature for Middle East oil producers, to be caught off-guard with shrinking budgets and falling demand for exports. The world’s third largest oil producer, Saudi Arabia, expects windfalls however

⁵ Reuters, “Gulf banks put brakes on lending as dollar liquidity crunch looms,” Dubai/Riyadh, April 1, 2020 (accessed April 7, 2020); available from <https://www.reuters.com/article/us-health-coronavirus-gulf-banks/gulf-banks-put-brakes-on-lending-as-dollar-liquidity-crunch-looms-idUSKBN21J5HR>.

⁶ The World Bank, “MENA Faces Another Year of Subdued Growth, with Bolder Reforms Needed to Boost Private Sector,” Washington D.C., October 9, 2019 (accessed April 5, 2020); available from <https://www.worldbank.org/en/news/press-release/2019/10/09/middle-east-north-africa-faces-another-year-of-subdued-growth-with-bolder-reforms-needed-to-boost-private-sector>.

⁷ Ibid.

⁸ Reuters, “Gulf banks put brakes on lending as dollar liquidity crunch looms,” Dubai/Riyadh, April 1, 2020 (accessed April 7, 2020); available from <https://www.reuters.com/article/us-health-coronavirus-gulf-banks/gulf-banks-put-brakes-on-lending-as-dollar-liquidity-crunch-looms-idUSKBN21J5HR>.

⁹ TESPAM, “Energy Geopolitics in the Middle East after the OPEC Summit,” May 2017 (accessed April 5, 2020); available from <http://dergipark.gov.tr/download/issue-file/6557>.

¹⁰ IMF, “Breakeven Oil Prices,” IMF 2020 Projections, 2019 (accessed April 5, 2020); available from <https://data.imf.org/regular.aspx?key=60214246>.

¹¹ Oil.com, “Advice for Investors Looking for ‘Bargains’ In A Distressed Energy Sector,” Daily Brief, April 6, 2020.

from higher volumes of production and exports,¹² but skeptics say this is unsustainable in the long-term.

3. Developments alongside the Coronavirus Crisis

On the positive side, the Covid-19 crisis enabled public and private entities to accelerate their digital transformation and embrace knowledge economy. Home-office working, remote conferences, and using collaboration tools, which authorities would previously disapprove of, became the norm within days. The economic impact of the crisis, although varied by country, is generally grouped into three categories: Supply-side, demand-side, and asset-side effects. On the supply-side, skilled workers being sick or working from home, shortage of raw materials or critical parts prompt service providers to re-schedule delivery dates, refrain from new initiatives, and take a wait-and-see approach to unfolding events. Companies hold off on investing in plant, equipment, and infrastructure to save cash for rainy days. On the other hand, service jobs in construction, hospitality, and tourism see a reduction in demand. On the asset-side; pension funds, stocks and bonds decline in value, thus hitting profitability and wiping off accumulated wealth.¹³ Central banks and government ministries rush to roll out stimulus measures to contain the damage, the UAE having contributed \$70 billion¹⁴ and Saudi Arabia \$32 billion.¹⁵

Finally, in conflict regions, prospects for resolution seem as distant as ever, but fortunately there is relative calm to be hopeful for and to serve as a catalyst for regional diplomacy.¹⁶ What impact the pandemic will have on an array of wars rolling in the region is unknown. Regional rivals Iran, Israel, Saudi Arabia, and Turkey all appear to crumble under the distress and focus inward while proxy wars continue after short-lived cease fires in Libya and Yemen. The calamity caused by severe market disruption, instability, and social chaos creates a window of opportunity to re-energize UN-led peacemaking missions and at least pause the high intensity conflicts in Syria, Libya and Yemen.¹⁷ The UAE, for instance, took the lead to cite “founding humanitarian principles” to extend medical aid a much needed time to Iran, as a sign to ease tensions across the Gulf region.¹⁸

¹² CNBC, “Saudi Arabia Announces \$32 billion in emergency funds to mitigate oil, coronavirus impact,” March 20, 2020 (accessed April 6, 2020); available from <https://www.cnbc.com/2020/03/20/coronavirus-and-oil-saudi-arabia-announces-32-billion-stimulus.html>.

¹³ *Neden?*, “Koronavirüs,” Prof. Dr. Erhan Aslanoğlu (Haber Global, İstanbul, 2020) 21:00; available from <https://haberglobal.com.tr/program/neden>.

¹⁴ Bangkok Post, “UAE doubles stimulus to counter coronavirus impact,” April 5, 2020 (accessed April 6, 2020); available from <https://www.bangkokpost.com/world/1893575/uae-doubles-stimulus-to-counter-coronavirus-impact>.

¹⁵ CNBC, “Saudi Arabia Announces \$32 billion in emergency funds to mitigate oil, coronavirus impact,” March 20, 2020 (accessed April 6, 2020); available from <https://www.cnbc.com/2020/03/20/coronavirus-and-oil-saudi-arabia-announces-32-billion-stimulus.html>.

¹⁶ Al-Monitor, “How the pandemic, plummeting oil prices could reshape the Middle East,” Week in Review, April 3, 2020 (accessed April 5, 2020); available from <https://www.al-monitor.com/pulse/home.html>.

¹⁷ Ibid.

¹⁸ Al-Monitor, “The Takeaway: March 18, 2020,” March 18, 2020 (accessed April 5, 2020); available from <https://www.al-monitor.com/pulse/originals/2020/03/the-takeaway-march-18-2020.html>.

4. Conclusion

The Covid-19 outbreak brought world-trade almost to a grinding halt as countries adopted unprecedented measures to stop spread of the pandemic. To counter its impact, governments necessarily took bolder steps to implement social-distancing rules, to scramble the health sector, and to turn the market sentiment. Gulf monarchies have strong war chests to shoulder the burden, thanks to oil windfalls and thick sovereign wealth funds, but this is not a *carte-blanche* for indefinite expansion. Global demand has weakened, and supply chain links are broken, so bar any significant increase in consumption, the resultant oil glut from the collapse of OPEC+ talks will hit back at Gulf monarchies forcing a severe market correction.

Other Middle Eastern countries such as Turkey, Iran, and Egypt have their own economic woes to varying degrees that makes it harder to wave off an impending global contraction. Tourism, construction, logistics, and catering sectors are most vulnerable to regional and international factors due to heavy reliance on material support, customer sentiment, and government spending. Governments have plenty of space to intervene in terms of fiscal stimulus, regulatory arrangements, and benefits to instigate confidence, mitigate financial impact, and boost demand in most affected areas in industries. The key is to cooperate with each other in a common endeavor and release a tailored package to each sector's case rather than adopting a piece-meal approach for the economy overall.