

ECONOMY, TRADE & INVESTMENT

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ISSUES

- Middle Eastern governments are currently grappling with the devastating impact of the COVID-19 pandemic on their economies and a massive external economic shock as a result of a deep global recession. This has severely affected trade and financial flows and caused a major decline in oil prices, leading to a sharp deterioration in the macroeconomic situation.
- According to the IMF's latest estimates, real GDP in the region declined by about 3.2% in 2020. The job-rich manufacturing, tourism, and hospitality sectors, as well as the informal sector, have been particularly hard hit.
- Poor performance, however, is nothing new as the region has been suffering from low growth and rising extreme poverty and youth unemployment for a decade. Around two-thirds of citizens are considered either poor or vulnerable, and as of 2019, youth unemployment rates, which averaged around 20% for males and more than 40% for females, were already among the highest in the world.
- The region is in dire need of a new economic growth engine; it needs more sustainable and inclusive growth that can create jobs for the youth and take full advantage of the skills and talents of women, who continue to suffer from the lowest labor force participation rate in the world.
- The region also faces a potentially huge impact from climate change as recent research predicts increased temperatures and severe droughts as the century progresses; it already has the largest water deficit and the least food self-sufficiency. Protracted crises in urban areas present a growing challenge for water supply and sanitation service providers, governments, and the international organizations that support them.
- As climate change begins to have significant negative effects on global wellbeing, the likelihood of an accelerated shift from fossil fuels to renewable energy and taxation of carbon will

rise, leading to a substantial decline in the real price of oil over the coming years. This is likely to have devastating economic and financial impacts on the region's oil exporters unless they diversify their economies.

- Before the region can start on a new growth path that is both sustainable and more inclusive, it must make an all-out effort to demilitarize, through diplomacy and common security pacts, opening the way for meaningful regional economic cooperation. The saved resources could be used to finance the necessary investments (particularly reconstruction, human capital, and the digital economy) to accelerate economic growth, increase intra-regional connectivity, boost trade in goods and services, and make progress toward achieving the Sustainable Development Goals.
- More immediately, further resurgence of COVID-19 or delayed vaccination rollouts are significant risks. The outbreak's socio-economic consequences, including increases in inequality, joblessness, food insecurity, and poverty, as well as their potential impact on political instability, constitute a major downside risk.

US INTERESTS

- The U.S.'s long-term interest is to ensure political and economic stability in the region as its economies need to adapt to an era of relatively low oil prices and a steady decline in the global demand for fossil fuels over the next three decades.
- During this transition period, the U.S. interest will be to strengthen its trading and financial links with the region, focusing on the needs of its new growth engine as well as the challenges of water shortages and food insecurity, through the transfer of new technologies, green infrastructure, and digitalization investments, as well as by building intra-regional trading links and connectivity, with a focus on job creation for youth and women. It will also need to strongly discourage further militarization.

- The U.S. has an interest in maintaining stable energy prices and preventing energy supply disruptions, thus keeping inflationary pressures in check.
- The U.S. has an interest in encouraging U.S. businesses that lead globally in sustainable energy, green infrastructure, IT projects and digital technologies, electric cars, and mass transit to focus on the needs of the region by de-risking their investments as they face growing competition from industrial giants in East Asia and Europe.
- The U.S. has an interest in maintaining the value of the U.S. dollar vis-à-vis other key currencies and build confidence for investing public and private funds in the U.S. financial markets, as the dollar is likely to continue to be the currency in which internationally traded goods and commodities are priced.
- Economic confidence-building measures
 - Urgently assisting MENA countries with an effective COVID-19 vaccination rollout.
 - Restoring aid to the Palestinian territories and helping reverse the rising trend of poverty.
 - Removing restrictions on trade and finance, including multilateral and bilateral aid and lending, related to health/pandemic, education, social safety net, clean energy, and promotion of gender equality in affected countries, including Iran and Yemen.
 - Working with international financial institutions and the G20 to provide financial assistance, debt service suspension, and relief to highly indebted countries.
 - Assisting countries in preparing to deal with climate change and taking advantage of digitalization and other new technologies as they work to diversify and modernize their economies, including improving the quality and quantity of human capital.

POLICY RECOMMENDATIONS

The Biden administration is well placed to take the lead in assisting MENA countries to improve their economic prospects. Dealing with the following issues is likely to reduce tensions, mitigate downside risks, and result in positive spillovers:

- Peace-building initiatives — quick win confidence-building measures
 - Helping to bring an end to the war in Yemen and pivot toward recovery and economic revival.
 - Encouraging resumption of political and economic dialogue between the Palestinian Authority and Israel.
 - Helping to ease tensions between Qatar, Saudi Arabia, and the UAE and encourage economic synergies.
 - Opening up pathways to ease tensions with Iran and revive the nuclear deal, and encouraging less regional investment in the military sector and more investment in economic and development sectors.
- Humanitarian confidence building measures
 - Encouraging freedom of the press.
 - Advocating for human rights and gender equality.
 - Discouraging corruption.