AMERICAN UNIVERSITY OF BEIRUT

HOW DID POLICY RESPONSES AND RESILIENCE AID THE EMERGING ECONOMIES IN THE MENA REGION TO COPE WITH THE GLOBAL CRISIS?

by
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AN ABSTRACT OF THE PROJECT OF

Sarah Ahmad Al Dirani for Master of Arts in Financial Economics
Major: Financial Economics

Title: How Did Policy Responses and Resilience Aid the Emerging Economies in the MENA Region to Cope with the Global Crisis?

This project discusses the impact of the global financial crisis on the Arab counties during the period of 2008-2009. The project proves that increasing the international connections between the world's economic and financial markets will ultimately increase the effects of such crisis especially in countries with higher contacts with the outer world.

Throughout the project we will find out that several Arab countries were influenced by the crisis. The effects of this crisis differed from one country to another depending on the nature of its economy, its level of openness, and its level of involvement in the international economy and global market. Several administrations in the MENA region have worked to restore confidence for depositors through proving that their money is safe, so there is no valuable reason for them to worry. As well, many other economic reforms that they've carried out to rescue their economic systems. The project categorizes the Arab countries into three groups relying on their economic formation.

The impacts of the crisis extended to the Arab countries due to several local and global factors. The project figured out that the direct influence of the crisis was somehow less striking for the financial sectors for a number of Arab countries because of the squat level of inter-connections between the universal global systems. Finally the most important lesson that can be drawn from the crisis is to avert financial corruptions from obstructing their local financial banking and non-banking sectors. In addition, they are asked to work on reinstating their macroeconomic steadiness and prospective development in order to be able to face the present and future economic and financial crises.

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INTRODUCTION

The global financial crisis of 2008-2009 is considered to be one of the most wide-ranging and complicated crises that distressed the entire world since the Great Depression (Almunia, Bénétrix, Eichengreen, O'Rourke and Rua 2009). The collapse of Lehman Brothers in September 2008 was the turning point in this crisis. After this incident, the crisis uncontrollably spread to other institutions, markets and companies (Gourinchas and Rey 2012). Enormous crashes took place in international financial bodies and a breakdown in asset values was an ultimate result for all what is going on (Gourinchas and Rey 2012). These prompt changes in international financial markets signed the beginning of tough recession years that we almost have forgotten after the mid-2000s booming years (Gourinchas and Rey 2012).

Although all countries in the world; regardless of their GDP level or economic status, were highly distressed by the 2008-09 depression (Almunia *et al*. 2009). However, there was a common perception which claims that emerging economies in MENA region suffered less than other emerging economies during the last depression. That was clearly stated by the World Bank senior economist Eichengreen, who stated that "there was clear evidences that proves the perception that Arab countries fared, on average, substantially better than the rest of the emerging economies during the global downturn of 2008-2009" (2009). Many other economic researchers supported Eichengreen's claim, either explicitly or implicitly; through providing as a proof a negative correlation between several indicators of economic performance and the level of GDP per capita during the crisis period (Gourinchas and Rey 2012).

In addition, Claessens, Dell’Ariccia, Igan and Laeven argued that Arab economies were able cope in this crisis better than other emerging countries not because their economies are stronger or their coping policies were more efficient (2010). This was the fact because the extent at which the country could rebound after the crisis repercussion depends actually on how much they collapsed (Claessens *et al.* 2010). In order to understand the reason behind the Middle East ability to cope in the crisis; it's merely important to keep in mind the fact that 2008 crisis was purely a financial crisis that affected mainly international financial markets.

Now since most of the Middle East economies are barely active participants in the world financial markets compared to other emerging economies; it's obvious that they will suffer less than other integrated emerging economies (Claessens *et al.* 2010). Therefore, Rose and Spiegel argued that being a weak participator (i.e. country) in the global financial market under usual conditions is considered a disadvantage that will affect growth and development (2010a). However, in cases similar to 2008 crisis, this could be an advantage that works in the state's favor since it's capable to protect its economy “when the global economy sinks into a severe financial crisis” (Rose and Spiegel 2010a).

Although the global crisis didn't impact the MENA region harmfully as it did in many other advanced and developed countries. Yet its impact has been considerable limited to certain areas in MENA region (Blanchard, Faruqee and Das 2010). Accordingly, the oil countries in the region were the most affect ones since they were influenced by the oil market fluctuations. Specifically Gulf States since they are linked to the global financial markets through oil investing economic linkages. In addition, these rich-oil Arab countries were impacted more than any other country in the region because they used to accumulate large financial portfolios and equity investments from developed countries (Blanchard *et al.*2010). The most renowned example in this case could be Emirate of Dubai that has been virtually disclosed to global market streams. Beside the Gulf States, some North African countries suffered catastrophic economic crashes due to their trade and investment relationships with European countries (Blanchard *et al.*2010). Thus, these factors and some others boosted their economies' downturns during the financial crisis.

Consequently, the economic crisis was emitted to the Arab region notably through various tracks. Shocks in regional financial markets were the preliminary path for crisis transmission since regional stock markets encountered years of towering price volatility (Lane and Milesi-Ferretti 2010). The global crisis sorely lessened the foreign investment influx of real estate and ultimately as a result it declined the real estate prices (Lane and Milesi-Ferretti 2010). This situation unfortunately remained until the end of 2008, which was the turning point in the crisis (Habibi 2009). In addition, the real estate contemplation ended up bluntly by prompting mortgage defaults; as a result numerous accredited commercial banks suffered from stressful financial tribulations (Lane and Milesi-Ferretti 2010). These expansions along with severe breakdowns in oil prices caused, after June 2008, instinct reduces in stock prices that were substantially transformed into sharp volatilities in stock prices (Habibi 2009). This was extremely severe to GCC economies as compared to the rest of Arab economies; as shown in Figure 1. Referring back to this systematic chart we can notice that the GCC stock indexes encountered sharp turn downs within a range of 40% up to 65% of their original prices between January 2008 and April 2009 (Wajid and Philipp 2014).

Fig. 1. Systematic Chart for GCC Stock Markets Index
Source: SHUAA Capital PSC, Reproduced with permission.

These cut-offs were fairly part of the financial institutions pecuniary disturbances and the banks' financial losses that led ultimately this vicious cycle (Habibi 2009). Subsequently, when stock prices witnessed its enormous price diminishing during the peak of the crisis, numerous leading banks underwent bulky default losses in loans and assets values (Habibi 2009; Lane and Milesi-Ferretti 2010). These massive losses were quietly a serious issue for GCC countries and eventually, their governments were asked to take prompt and strict regulations to tackle the issue and lessen its effects on their banking systems and stock markets (Habibi 2009; Lane and Milesi-Ferretti 2010). The situation of the North African countries wasn't better than that of the GCC countries during the economic crisis (Kawach 2012).

The former countries were harmed mostly by the rigorous recession in Europe that minimized their export movement, tourism prosperity and remittance profits (Kawach 2012). In order to cope with the ongoing situation, their governments were forced to impose certain economic measures that will stimulate their economy and eventually boost up their domestic demand levels (Kawach 2012). These executed steps were able to ease the adverse influence of the global crisis for a certain extent since they were capable for protecting the North African countries from further diminishing their economic growth (Kawach 2012).

These steps were enough to sustain thousands of jobs in tourism sector from being lost and they helped in having mild export relations with Europe regardless of the crisis (Kawach 2012). However, all this didn't stop the waves of poverty from invading the region, especially, after hundred thousand workers had lost their jobs due to the crisis (Frankel and Saravelos 2011). For that, one of the most central challenges that faced the Arab governments during this period was how to cautiously monitor the vulnerable circumstances of low income households (Frankel and Saravelos 2011). As well, they were highly concerned about establishing suitable ways to provide their citizens with additional sufficient economic assistance during this catastrophe (Frankel and Saravelos 2011).

Furthermore, the MENA region ability was limited in addressing the recent global crisis due the preexisting economic, political and social challenges that the region was suffering from even before the crisis (Halawi 2010). Therefore, although the effect of the global crisis on most Arab countries was fairly moderate; yet its influence on households or individuals incomes and employment rates was significantly high in many Arab countries (Halawi 2010). To illustrate, the International Labor Organization (ILO) speculated that in MENA region the unemployment rate raised by 25% to 30% in the period between 2008 and 2010 (ILO 2010). In the regular yearly assessment that is done by the International Labor Organization; the economists estimated that household's incomes in the Arab countries has decreased by 9%–13% just in 2008 right after the crisis had reached its climax (ILO 2010). In addition, the Arab Labor Organization (ALO) found out in December 2009 that unemployment rate in the Arab region is absolutely above 19% and they caught the crisis liable for the loss of millions of Arabs for their jobs (Kawach 2012).

Moreover, Arab countries are used to economic shocks since it is not new for them, but the intensity of the current economic shock on some of Arab countries was the unusual matter (Frankel and Saravelos 2011). The global economy recession that some Arab countries had suffered from is sufficient to prove that these economies are closely connected to other foreign economies and global economic markets (Frankel and Saravelos 2011). To clarify, the effects of the crisis on these countries existed due to a number of exterior and interior factors that was enforced. (1) the openness of GCC countries to international financial and economic markets; and (2) the reliance of these Arab countries on oil revenues to enrich their economic activities; were the most prominent reasons for crisis to be transmitted directly into those economies (Khamis and Senhadji 2012).

In contrary, the non-oil countries, such as Morocco, Mauritania, Tunisia, Egypt, Syria, Lebanon and Jordan didn't severely suffer from the global crisis as it was the case for the Gulf States (Didier, Hevia and Schmukler 2011). But still they weren't completely prevented from this crisis. They faced momentum contractions in their external demand in major trading partners; particularly with the European Union countries (Didier *et al.* 2011). In addition, the reductions in financial revenues; that are usually gained by tourism and remittances, from citizens working abroad and from direct foreign investments, are another major factor that prolonged the crisis to these countries (Didier *et al.* 2011).

On the other hand, there are certain factors that aided the Arab economies in reducing the baneful consequences of this global crisis. These factors could be (1) the readiness to take all compulsory measures in order to cope with ongoing external shocks; (2) avoiding slowdowns their financial and economic activities; (3) taking into consideration the risks that may cause threat to their systemic banking sector stability; and (4) the general economic reforms that were executed by several non-oil Arab economies since the late 80s and the 90s of the twentieth century (Gourinchas and Rey 2012). In brief, all this helped to push back the adverse outcomes of this crisis and to facilitate their ability to deal with the consequences of the crisis based on financial conditions and payments' balance (Gourinchas and Rey 2012).

Despite of the immeasurable negative consequences of the global crisis; it had one positive outcome which is that the MENA region is "the reversal of rising inflationary trends" (Khamis and Senhadji 2012). The prompt intromissions of measurable high oil revenue records beside fiscal expansions during 2006 and 2008 have placed upward pressure on local prices in all Arab countries (Khamis and Senhadji 2012). Yet this upward pressure was mainly detectable in GCC countries (i.e. oil exporting countries) that customarily reveled to low inflation levels (Khamis and Senhadji 2012). Their economies were obviously overheating and the majority of employees were worried about their wages since they aren't convenient with the prices of purchaser goods (Khamis and Senhadji 2012).

This is clearly shown in Figure 2 that shed light on the GCC Macroeconomic Indicator. To illustrate, Qatar; which is the richest Arab country, enjoys a temperate 2.5% average for annual inflation rate between 2001 and 2005 (Khamis and Senhadji 2012). However, in 2008 its inflation rate rises unpredictably to become 15% at the end of that year (Khamis and Senhadji 2012). As well, Saudi Arabia had an annual inflation that was on average –0.2%; negative rate, between 2001 and 2005 (Khamis and

Senhadji 2012). Yet its rate also shifts suddenly from s negative annual rate to a recordable positive rate of 9.9% by 2008 (Khamis and Senhadji 2012).

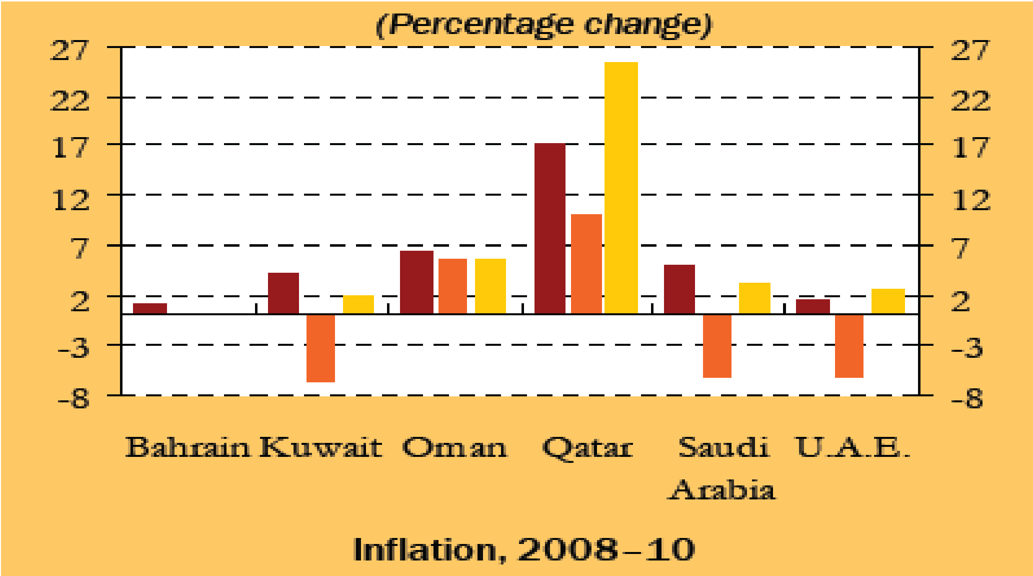


Fig. 2. GCC Macroeconomic Indicator, 2008-2010
Source: IMF. "Middle East and Central Asia Department". International Monetary Fund.

It is important to keep in mind that although this global financial crisis was enormously a harsh crisis that impacted the whole region negatively. Yet an important lesson for the Arab governments could be grasped from it (Didier, Hevia and Schmukler 2011). This vital lesson is that capital markets, at the national level, should be substituted by more systematic institutions that provide supervisory recommendations for banking and financial apparatuses (Didier *et al.* 2011). This was highly recommended because "the global regulatory and supervisory to oversee the banking and financial system globally," wasn't available (Didier *et al.* 2011). To clarify, whenever a central financial institution collapses causing major fluctuations in global financial markets (Didier *et al.* 2011). The regulator is accountable for taking all necessary measures; whether on the global or national level, to eliminate the undesirable impacts of systemic risk (Didier *et al.* 2011). Since this may impose actual threat on other central financial institutions that are present in other regions of the world.

Accordingly, this paper attempts to evaluate the effects of the global financial and economic crisis on the economies of Arab countries. In order to achieve this, the paper will be divided as following. The first chapter will be devoted to introduce the 2008 financial crisis by focusing mainly on the general consequences that it imposed on the economies of the Middle East and North Africa region. Chapter 2 will be an extensive literature that provides an assessment for the impact of the crisis on the Arab states. In this part all available evidences and data on the impact of the financial and economic crisis on MENA region will be gathered to illustrate the situation before and after the crisis. It will focus mainly on issues related to economic growth, employment, inflation, remittances, poverty and other social policies. Chapter 3 provides a review for the main channels that the crisis exercised to spread through it to the economies of the Arab region. This review will be done in a comparative analysis that systematically explains the impacts of the crisis and the actions taken to address the outcomes of the crisis. The paper in chapter 4 sums up by providing some learned lessons from the crisis and the necessary potential work to reinstate sustainable growth and assure macro-economic stability in the Arab region. Chapter 5 concludes the argument and provides general lessons that should be carried out from this complex financial crisis in order to be able to manage successfully future similar crisis that would encountered the MENA region.

CHAPTER 2

IMPACT OF FINANCIAL CRISIS ON MENA'S ECONOMIC PERFORMANCE

The global economic crisis started in early 2008 after the financial collapse that took place in USA and Europe at first and then within a short period it invaded the rest of the world (Lahart 2009). The exploding of USA housing bubble in 2006 caused a strike drop that stood for approximately 15% of the United States total residential mortgages in securities' values; that are tied to the USA equity and real estate pricing (Lahart 2009). Nevertheless, the total residential mortgages accounts approximately for 25% of the total debt in the United States (Gourinchas and Rey 2012). This eventually led to clashes in primary financial institutions all over the world. For example, it led to Lehman Brothers' collapse in September 2008 that was a watershed in this crisis (Gourinchas and Rey 2012). After this incident, the crisis uncontrollably spread to other institutions, markets and companies signing for a harsh crisis that will attack the whole world (Gourinchas and Rey 2012). Therefore, enormous crashes took place in international financial bodies, so a breakdown in asset values was an ultimate result for all what is going on.

The Western governments were up to it, so they immediately intervened in order to protect their economies from shutting into another great depression (Firzli and Bazi 2011). The acute decrease in customers and business spending threw the USA and European economies into the most terrible depression since the great depression in 1930s (Firzli and Bazi 2011). This universal economic shutdown caused sharp decays mainly in demanding food and oil beside other commodities. To illustrate, the prices of all necessary commodities; such as food, oil, natural gases, row materials and many others, boosted constantly leading to enormous profits at the beginning of 2008 (Firzli and Bazi 2011). For that the USA and European governments were asked urgently to deal with this issue by providing subsidies to minimize the impacts of this insane situation (Firzli and Bazi 2011). Otherwise, this uncontrolled increases price would endanger their economic persistence and social stability.

However, by July 2008, the situation became even worse than before because it is not only the ominous financial crisis which is causing threat to the world's economy (Marx 2009). But also people's expectations that the situation is going to be even more destructive in future; i.e. expecting that the global growth is going to be even lower than nowadays, led to the huge fall down in oil prices (Marx 2009). For instance, the study done by the Organization of the Petroleum Exporting Countries (OPEC), in the period between June and December 2008; a basket of goods was taken in order to follow up price movements. Thus, they revealed that food prices increased sharply by a rate of 58% to reach its highest values ever; especially for basic foods such as wheat, flour, sugar, etc… (OPEC 2008) However, oil prices worked moved in the opposite direction, so it fell by 72 % of its original price that was over $130 per barrel to rest finally at $40 per barrel at the peak of the crisis (OPEC 2008). As a consequence of this oil price fall down, all Arab countries that are oil exporters witnessed a sudden and unexpected reduction in hydrocarbon receipts, dropping surpluses of balance payments and impairments in trading relationships (Marx 2009; OPEC 2008).

Moreover, it is well known that banks in the Arab region are not well exposed to the USA options or mortgage markets (Kamil and Rai 2010). However sovereign prosperity subsidizes and other equity holders were suffering from large defeats (Kamil and Rai 2010). The options and derivatives markets in the MENA countries faced many harsh difficulties along with others countries all over the world. So it took them a long time to recap. After eight-months of the crisis; meaning February 2009, Saudi Arabia's stock market dropped by 49%, Dubai fell also by 72% and finally Egypt dropped by 61% (Kamil and Rai 2010). Hence, these immense losses along with the several breakdowns in chief Arab institutions lead to a remarkable reduction in consumption and frustrated investment (Kamil and Rai 2010).

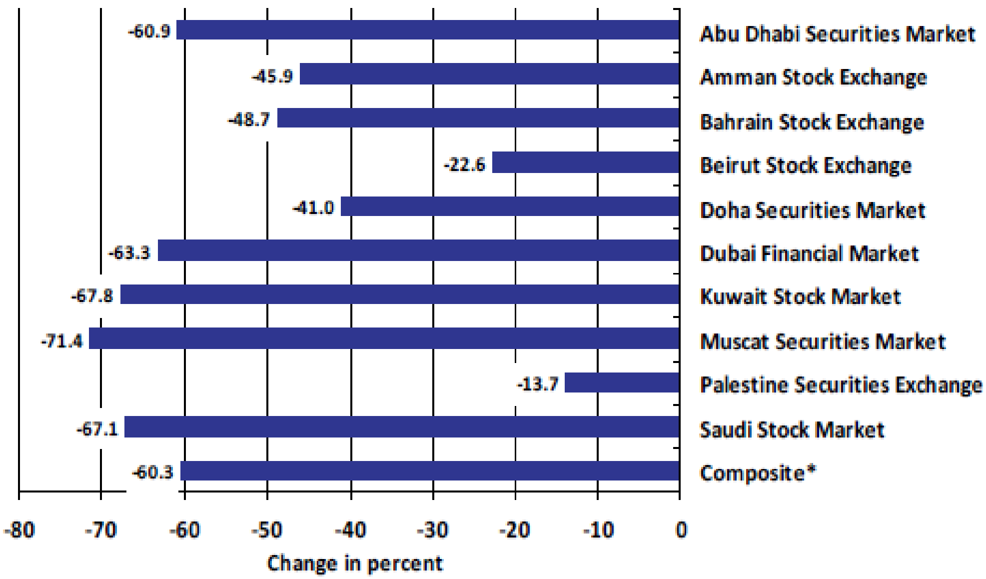
The Gulf countries; mainly Dubai, were one of the first countries to noticed the toughness of the coming financial crisis. For that, these countries reacted faster than other non–oil Arab countries through embracing an open strategy with their citizens regarding the crisis implications (Kamil and Rai 2010). Many authoritarians in the Gulf States were eager to inform their citizens about the newly adopted measures (Kamil and Rai 2010). On the other hand, countries of AL Maghreb Al Arabi (Tunisia, Libya, Morocco and Algeria) along with the countries of AL Mashreq AL Arabi (Syria, Lebanon, Jordan, Egypt and Yemen) are turning in a detrimental circle of subjective and illogical policy decisions (Kamil and Rai 2010). Therefore, they were challenging their fragile institutions and since they have limited resources this was making the situation even worse; especially in regards of allocating “potential rescue packages” (Kamil and Rai 2010).

In brief, the last global financial and economic crisis added several serious complexities to the Arab region. However, these complications can be summed up as following (1) crashes in economic Growths and Financial Markets (2) Spread of Poverty and rises of unemployment levels (3) insane drops in oil and commodity Prices (4) catastrophes in migrants' labor (5) uncontrolled shifts in remittances (6) lacking social protection mechanisms (7) insufficient local assistance and shortages in international aids.

2.1. Economic Growth and Financial Markets

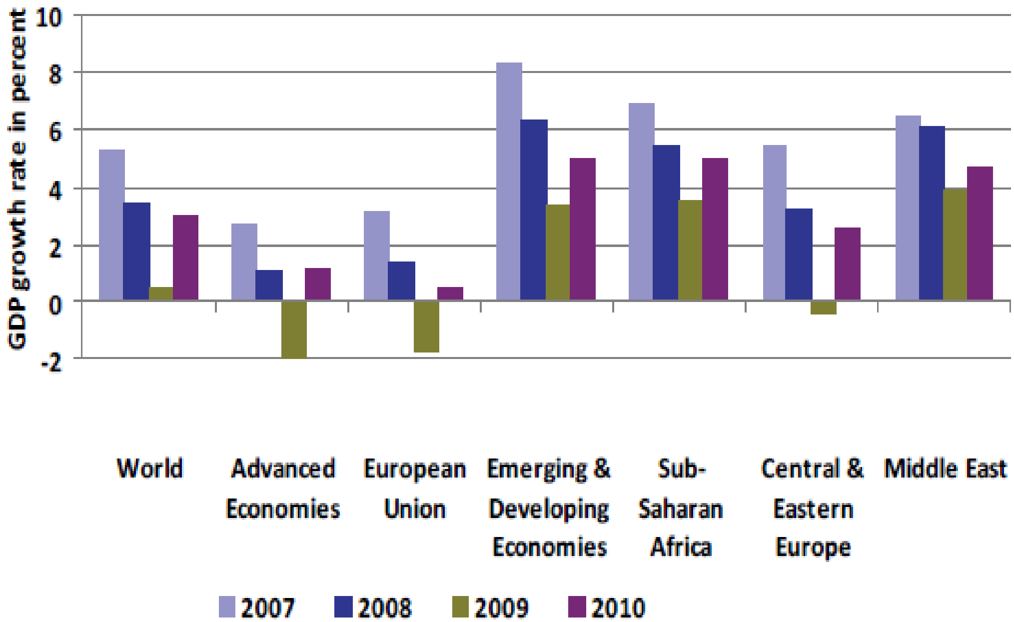
The financial zone was the original trail for the crisis. The earliest financial shock signal was notified in the local stock markets that experienced usually high levels of instability (Behrendt, Haq and Kamel 2009). After the attack of September 2001 the Arab private investors extradited huge amounts of newly established investments in these markets during 2004 and 2007; as an outcome of the high-documentation for oil revenues influx and outlandish investments repatriation (Behrendt *et al*. 2009). Several countries, including Egypt and Jordan that have already liberalized their financial markets, encountered considerable inflows from various foreign investments (Behrendt *et al*. 2009). Until our recent days, the Arab stock and equity markets are still confronting high degrees of volatility.

All the stock and financial markets' indices in the MENA region were deteriorated since there was a measurable decay in their composite index (Behrendt *et al*. 2009). In addition, this is clearly shown in Figure 3, which predicts that the indices degraded by more than 60% in February 2009 in comparison to the same composite index for February of the previous year (ILO 2008). Thus, the global crisis robustly influenced the MENA region financial markets. The pernicious impact of the crisis on the region's economic growth is forecasted to be figured out mostly in 2009, relying on the International Monetary Fund’s reviewed estimates of economic growth (2011). The GDP growth rates of different regions in the world are estimated in Figure 4. Accordingly, it shows that the GDP growth rates are declining to an abstract of 0.5% in 2009.



* The composite index also includes three North African Market indices: the Casablanca Stock Exchange, Egypt Capital Market, and the Tunis Stock Exchange.

Fig. 3. Markets Indices in MENA Region (Feb 2008-Feb 2009 in per cent)
Source: AMF. March 1, 2009. Arab Monetary Fund.



Note: The IMF World Economic Outlook classification of the Middle East region includes Egypt, Iran, and Libya.

Fig. 4. Regional GDP Growth Rates in Purchasing Power Parity Terms (2007-2010)
Source: IMF. "World Economic Outlook Update". International Monetary Fund, January.

This is significantly less than that of 2008 that was 3.5% and unfortunately less than that of 2007 that was around 7.5% (Billmeier and Massa 2011). As well, from the same graph we can figure out that the advanced economies, the European Union and the Central and Eastern European countries are all estimated to encounter a harsh economic contraction during 2009 (Billmeier and Massa 2011). However, the GDP growth rates in the Middle East region are estimated to decrease by 0.4% between 2007 and 2008. Then it's estimated to decrease sharply by more than 2.5% to be 4% GDP growth rate in 2009; starting from approximately 7.5% of GDP growth in 2007 (Billmeier and Massa 2011). Yet the estimated GDP growth rate in the Middle East is still greater than that of any other region in the same year. For that, considerable economic upgrading in the MENA region GDP growth rates is anticipated in 2010 (Billmeier and Massa 2011).

However, if we go in depth in distinguishing the GDP growth rates in different Arab States based on the IMF expected real GDP growth rates in Arab States (2007-2010); see Figure 5. Accordingly, we find out that majority of Arab states have higher rates of real GDP growth in 2008 as compared to 2009; with the exemption of Yemen, Syria and Qatar that are estimated to grow at a faster in 2009 (Figure 5; Billmeier and Massa 2011). Now focusing at the GCC countries we figure out that Saudi Arabia is estimated to encounter on of the largest real dragging that would reach more than 1.5%. This will probably bring its real GDP growth rate to its lowest value between 2008 and 2010, which will be 4% in 2009 (Billmeier and Massa 2011). As well it's essential to mention that this value of real GDP growth rate is the lowest value that would be forecasted among the rest of the Arab states. In contrast, the real GDP growth rates, in both Qatar and Yemen, are estimated to rise by a value of 5 % between the year of 2008 and 2009, but their real GDP growth rates are expected to decrease later on in 2010 (Billmeier and Massa 2011).

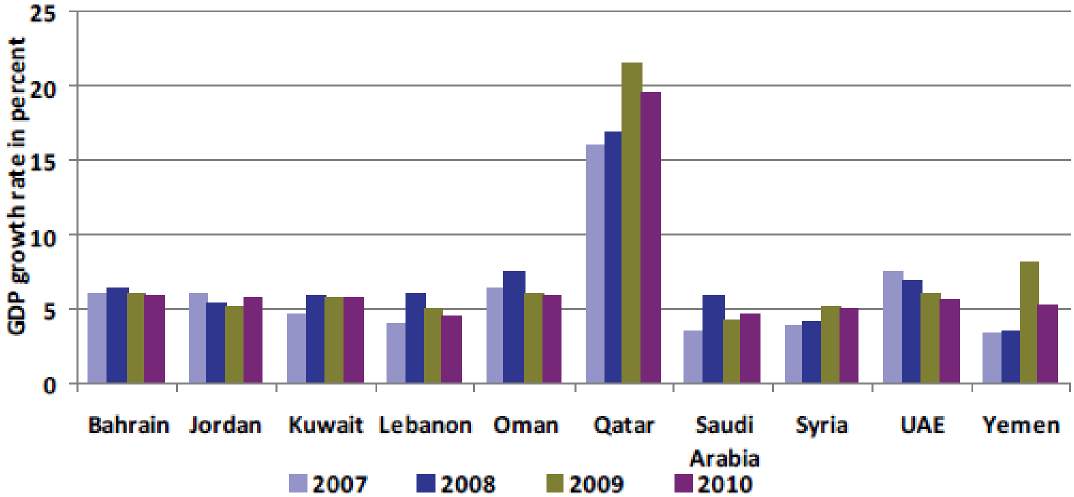


Fig. 5. Real GDP Growth Rates in Different Arab States (2007-2010)
Source: IMF. “World Economic Outlook Update”. International Monetary Fund, January.

The crisis arrived at remarkable reversals in stock markets' resources around the world. The decay in the world's equity wealth stands for trillions of dollars just in USA on its own (Senbet and Otchere 2009). Within the pre-crisis phase, emerging markets including the Arab markets had a notable performance in growth (Senbet and Otchere 2009). They established a newly conformist wisdom which is that these markets are being “decoupled” from the sequences of the more developed countries (Senbet and Otchere 2009). In reality, when the crisis took over at its beginnings, it was perceived that the Arab countries are not going to be affected by the crisis; initially in 2007 sub-prime crisis (Senbet and Otchere 2009). However, when the crisis was intensified, the MENA region was hit too by the global crisis. Also the GCC States and Russia were thought to be fully immune from the USA and European crises. However, this wasn't the reality and they were forced to suffer a theatrical crisis of confidence. Thus, these misleading facts were able to fuel the "conventional wisdom" (Senbet and Otchere 2009).

As discussed earlier, most of the Arab countries as many other innocent countries were forcefully thrown to suffer later on from the financial impacts of the crisis. The impact of the crisis on the real economy estate was significantly unfolded until 2012 in many regional countries (John, Saunders and Senbet 2012). Yet if we look in depth, we could easily figure out that the Arab countries were undergoing a fiscal deficit at the time of the crisis (John *et al.* 2012). Many Arab countries experienced decays in their exporting growth as a consequence of the global financial downturn or reductions in oil and natural gas prices (John *et al.* 2012). Nevertheless, internationally, the economic growth of all countries was influenced by global slowdowns. Depending upon the state's initial fiscal and monetary account position; "as well as the degree of economic integration with highly impacted regions" (John *et al.* 2012).

Regardless of the wide-ranging political, economic and social sector reforms; in specific regions genuinely improving countries, got knobbed by others that have experienced pessimistic images of war, clash, corruption, conflict, violation of human rights, hostility, etc.. (John *et al.* 2012). This information and data gap could be expensive, so it can have an effect on credit merit and value which are accessible internationally. This clearly builds and formulates a database for "reliable economic and capital market data that captures the diversity of countries and the financial circumstances of private institutions, listed companies and banks" (John *et al.* 2012). However, the timeliness and consistency of economic data are critical for launching accredited estimates for investment risks (John *et al.* 2012). The finance ecosystem information and database is a field for local co-operations through grouping resources. The additional benefit of this knowledge is that they permit for "first-rate research" to be carried out in the Arab markets by well-informed researchers and experts from all around the world (John *et al.* 2012).

2.2. Poverty and Unemployment

Even though the unpleasant impacts of the global economic crisis were moderate in many of the Arab countries, its effects on employment and household incomes were noteworthy in all Arab countries. The International Labor Organization (ILO) reported in one of its financial crisis records that the unemployment rate in MENA region increased by 27% to 30% respectively in the period between 2007 and 2009 (2010). The ILO mid-October 2009 report, on the Arab region situation during the financial crisis, indicates that the unemployment rates increased by 9% to 11% (2010). As well, the Arab Labor Organization (ALO) has evaluated the unemployment rate in the Arab countries in December 2009 and found out that the Arab unemployment rates are now higher than 17%. They admonished the ongoing global crisis for the employees' loss for millions of careers in Arab world (ALO 2009).

The reduction in industrialization and tourism "which is a labor-intensive industry in Morocco, Tunisia and Egypt—has taken a toll on low-income workers". Accordingly, a current study published by the "Center for Trade Union and Workers Services in Egypt" reported that more than 358,000 job opportunities in Egypt vanished during the post-crisis period in the end of 2008; as a result of the crisis (CTUWS 2009). However, it reported that the total unemployment rate in Egypt increased from 10.4% in the first quarter of 2008 to become 19.6% in the first quarter of 2009 (CTUWS 2009). The most up-to-date official data, conversely, demonstrates a decrease to 12.3% in the end of the third quarter of 2009 (CTUWS 2009). Thus, pointing that the gradual developments in the Egyptian labor market took place after the third quarter in 2009 (CTUWS 2009).

On another hand, Morocco had an unemployment rate that exceeded 14% of its national working force during 2008 and early 2009 (Ayadi 2013). But mild improvements existed in the industrial and agricultural sector since 2009 (Ayadi 2013). To clarify, Morocco owns convenient climate conditions for plantation. This encouraged the state to increase its agricultural activities. However, the employment rate in the agricultural and industrial sector is still considerably low and accounts to elevated urban unemployment rates that reaches values more than 12.6% (Ayadi 2013). Regardless of the government's back up for the export oriented manufactures, more than 6,500 industrial and workmanship works vanished in the first quarter of 2009; as a consequence of the dropping exports (Ayadi 2013). Nonetheless, in Tunisia, there is a greater industrial basis that allowed the overall unemployment rate to remain as it is since 2006 (Ayadi 2013). Thus, the unemployment rate in Tunisia remained 14% until the fourth quarter of 2009 (Ayadi 2013).

To be the least affected Arab state in the global crisis in terms of unemployment. The reduction in real estate structure and industrial manufacturing in oil Arab countries that forced hundreds of thousands of Arab migrant employments to go back home and their layoffs has added extra pressure on the Arab labor markets; such as Egypt, UAE, Jordan, Saudi Arabia, Libya, Morocco and Yemen (Ayadi 2013). In addition, the mitigation in remittance income besides rising unemployment rates has raised the occurrence of poverty in several countries of the MENA region (Ayadi 2013). Relying on accessible household income statistics in emerging economies, the World Bank utilizes two main threshold points to compute tremendous poverty levels; that are occasionally revised (Ayadi 2013).

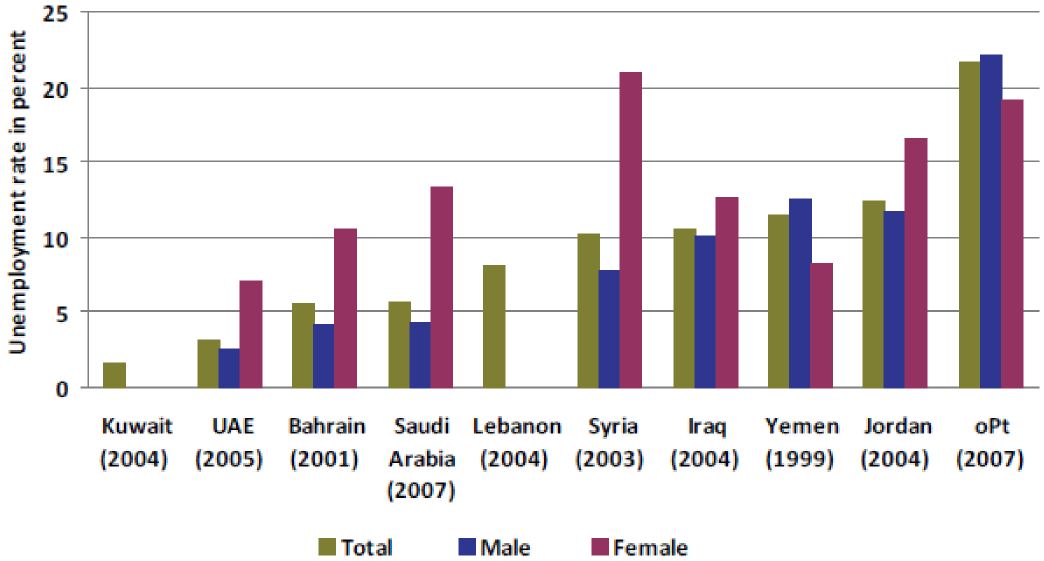
Based on the utmost current revisions, these threshold points are \$0.75USD/capita and \$2.00USD/capita income for each day (Ayadi 2013). These are the results when computed in international analogous prices. At the same time, the existence of tremendous poverty that stands for \$1.25 every day for income/capita

(Ayadi 2013). Therefore, almost one-fourth of the Arab population earns less than $3 per day (Ayadi 2013). Accordingly, the economic retardation has set this fragment of the population in the risk of being thrown into severe poverty (Ayadi 2013). Moreover, the percentage of people gaining $2 to $3 per day is also sizeable; as well the income rank of these groups is also at risk due to the global economic crisis (Ayadi 2013). Finally, the World Bank statistics on poverty levels in the Arab region revealed that among the collective populations of Egypt, Morocco, Yemen, Jordan, Algeria, Sudan and Libya 37.2 million individual used to earn less than $2 USD for each day in 2001. However, after the crisis 52.7 million individual in these populations earns less $2 per day (Ayadi 2013).

Almost all the states in the MENA region with current statistics on unemployment rates demonstrate higher rates of unemployment for women than for men and this is illustrated in the below figure (ILO 2010). For example, in Syria, the percent difference in unemployment rates between male and female is higher than 16% (Figure 6). This difference united with any other possible decay in certain economic activities could simply de-motivate women's desire to work and as a result they will drop out for the labour market (Behrendt *et al*. 2009). Thereby, denying any further progress that has been done in order to lower female inactivity. This will be a gigantic loss in female education investment.

On the contrary, some economists argue that in periods of crisis women’s economic activity ultimately will increase due to in declines in males' incomes (Behrendt *et al*. 2009). As well the danger may be that this enlargement would be in poor quality, low paid unofficial jobs; as shown in the occupied Palestinian situation which is albeit in a war-ridden position (Behrendt *et al*. 2009). The ILO’s "Trends Econometric Models" indicate that the immediate impact of the economic crisis on the

Arab unemployment rates is more likely to be strictly relative to other districts in the world (2010).



Note: Figures in parentheses indicate the latest year for which data is available.

Fig. 6. Unemployment Rates in Selected Arab States (Latest year)
Source: ILO. *Key Indicators of Labour Market (KILM).* 5th Edition.

Furthermore, based on the Arab Labor Organization measures of poverty, mainly its latest study that was conducted in 2009, 8.0% of the Lebanese population lives in extreme poverty, 14.2% of the Jordanian population lives in similar poverty and 11.4% in Syria (ALO 2009). Last but not least, Yemen which is the state with the lowest income per capita in the MENA region has a poverty rate that stands for around 35% of its population (ALO 2009). So it's interesting to that Yemen has a higher poverty rate than the occupied Palestinian territories that suffers from poverty in a rate that reaches maximum 28% of its population (ALO 2009).

The up to date human development index data is shown in Figure 7; this type of data is more frequently available than poverty headcounts. This graph presents the wide sort of living standards in the MENA region (Figure 7). Referring back to the below figure, we can easily illustrate the fact that Yemen suffers from higher rates of poverty compared to the occupied Palestinian territories. Yet the Syrian situation is not that better compared to the occupied Palestinian territories since their human development index is similar. Thus, this means that the Syrian population lives in almost similar living standards as the Palestinians in the occupied territory (UNDP 2008).

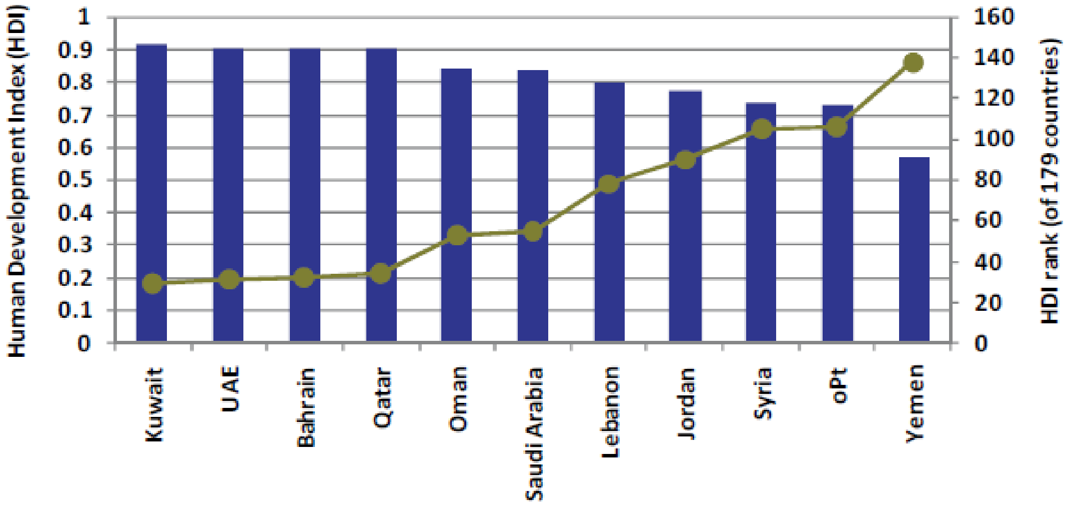
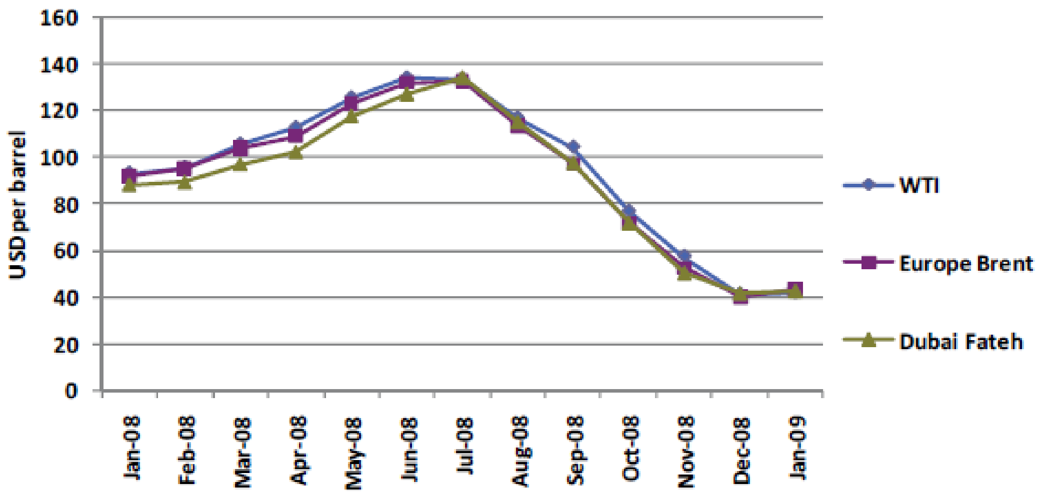


Fig. 7. Human Development Index, Most Recent Data (HDI Rank)
Source: UNDP, United Nation, December 2008.

To sum up, the logical evidence on a potential grow of poverty percentages as a result of the financial and economic crisis isn't so far accessible. However, the frequency and depth of poverty levels is more likely to rise in the incident of additional decays in real wages and income levels. Therefore, a potential enlargement in unemployment rates, a turn down in remittances, a decline in public expenditures and a minimization of external support is possible in such situations (Ayadi 2013).

2.3. Oil and Commodity Prices

To begin with oil prices have appreciably fell subsequent to reaching a considerable high price of more than $140 USD/barrel in July 2008. Then suddenly in July 2008 the oil prices starts declining sharply regardless of the production restrictions that were imposed and as of December 2008 it stopped finally at a price equivalent to $40 USD for each barrel (review Figure 8). Complying on oil prices drops, the Organization of the Petroleum Exporting Countries (OPEC) pronounced in September 2008 a reduction in its daily production of oil. This reduction was equivalent to 4.2 million barrels per day as compared to its oil production levels in January 2008 (OPEC 2008).



Note: Values indicate spot prices; Dubai Fateh monthly prices represent simple averages of weekly prices.
Fig. 8. Monthly Crude Oil Prices (USD/barrel)
Source: EIA. 2009. Energy Information Administration, February.

For that, it is debated that OPEC was obliged to impose this reduction because the oil exporters need at least on average $57 USD/barrel in 2008. So that it could cover its basic production spending and to maintain a fiscal balance; however, revealing that the budget surpluses are until now imaged according to 2008. Accordingly, the economists Bakardzhieva and Kamar argued that the GCC countries growth will arrive under robust pressures if oil prices carry on this decreasing trend (2013). In addition, they argued that the sharp dropping in fuel and commodity prices had a negative upshot on the private households' budgets. So this alleviated some of the crisis pressures that resulted from the uncontrolled rise in food, oil and natural resources prices; specifically in 2008 (Bakardzhieva and Kamar 2013). Therefore, pension and salary scales did not rise accordingly.

Whereas several consumer subsidies are diminishing or withdrawing, as a result of the increase in budget pressures; however, there was a considerable enhancements in 2007-2008 civil services wages; approximately in all MENA region (Bakardzhieva and Kamar 2013). Moreover, the fall in oil prices eliminated several public budget pressures mainly in those Arab countries that utilized food and fuel subsidizations (governmental aid) as an alternative for the government's explicit social protection policies (Bakardzhieva and Kamar 2013). People in the MENA region used to give an eye on the rates of inflation especially after the immense fluctuations in oil and fuel prices. Yet regional inflation rates were designed in a way to be decreased in 2009 and 2010 to attain a percentage level that ranges between 11% and 14% (Bakardzhieva and Kamar 2013).

However, regardless of the observed decays in inflation rates of the Arab region; these inflation rates are still considered one of the highest inflation rates in comparison with other regions. Since inflation rates in the Arab emerging economies are significantly higher than 2.5 times the average of the world's inflation rate (Bakardzhieva and Kamar 2013). Hence, the average consumer price inflation rate differs among the Arab countries depending on the strength of the economy. From

Figure 9 we could figure out that almost all Arab countries had their highest average consumer price inflation rates in 2008 (peak of the crisis). Except Bahrain that witnessed its highest rate of average consumer price inflation rates in 2009 (post-criris).

As well, during the economic crisis, Yemen had the highest value of consumer price inflation rates compared to other Arab countries and Bahrain had the lowest. The average consumer price inflation rates were predicted to be around 4.7% in Bahrain and to be around 17.3% in Yemen by 2008 (illustrated in Figure 9). The principal triggers for having such high inflation rates are (i) the rises in food, commodities and oil prices; (ii) demand pressures united with supply deficiencies and USD depreciation; which affects substantial number of countries that owe currencies that are related to the USA Dollar (Bakardzhieva and Kamar 2013).

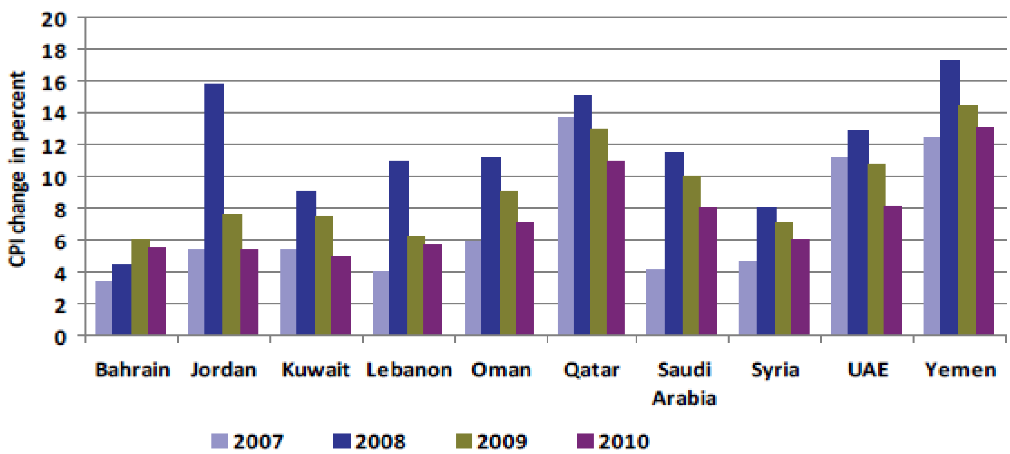


Fig. 9. Average Consumer Price Infaltion Rates in Arab States (2007-2010)
Source: IMF. “World Economic Outlook Update”. International Monetary Fund, January.

It has been already discussed that raises in food commodities prices stands for a big part of the regional inflation enlargement, where food products comprise for a big share of consumption baskets (Behrendt *et al*. 2009). Even though increases in commodity prices would promote some benefit for producers; yet, workers salaries are not responding enough, i.e. wages is not increasing enough, to correspond to the increasing costs of food, rents and fuel (Behrendt *et al*. 2009). Therefore this continued increase in the basic elements of life will ultimately contribute increasing the social and economic inequalities and disputes in the MENA region (Behrendt *et al*. 2009).

Based on a recent study performed by the International Monetary Fund (IMF), they realized that the "relative size of central government revenues as a percentage of gross domestic product (GDP) in MENA oil exporters reached a record high of 43.2% in 2008" (2012). However, it is expected to decrease to 35.5% in the first quarter of 2009, whereas the central government spending, on the other hand, are projected to shoot from 27.8% of GDP level in 2008 to 34.6% of GDP level in the beginning of 2009 (IMF 2012). Furthermore, the data and information that were adduced in the same IMF study detected that when the fiscal revenues of the Arab oil countries, except Iraq, decreases in 2009 by an average of 39%. The fiscal expenditures, on the other hand, will be smaller than that of 2008 by 2.4% only (IMF 2012).

The fiscal spending of the five oil-exporting Arab countries, which are Saudi Arabia, UAE, Qatar, Algeria and Oman, is larger in 2009 compared to 2008; regardless of the oil revenues lowering (Bakardzhieva and Kamar 2013). In many cases this motivates effects from deliberate expansionary fiscal policies established in accordance to the ongoing economic crisis (Bakardzhieva and Kamar 2013). To illustrate, Saudi Arabia has worked hard to stabilize and control the reductions in private spending through increasing fiscal spending from 28.6% of GDP level in 2008 to a desired 44% in 2009(Bakardzhieva and Kamar 2013). To add, Arab oil countries gained immensely huge oil revenue surpluses in the period between 2005 and 2007 (Behrendt *et al*. 2009). So they were able to acquire huge surpluses from their oil revenues and by this they were able to cover most of their shortfalls in 2008 and 2009.

Finally, the drop in oil prices during 2008 and 2009 was a complex pond on the oil-importing MENA countries (Behrendt *et al*. 2009). To clarify, the advantage of this fall in oil prices was that this reduced their energy import charges and helped them in stabilizing their trade imbalance. However, the negative side was that "lowering oil revenues of oil-exporting countries reduced those countries' investments and tourism expenditures in other Arab countries" (Behrendt *et al*. 2009). For exemplification, the Oil-importing countries in the region; such as Morocco, Syria, Lebanon, Egypt and Jordan, gratified large investment flows to the Gulf Countries within the three coming years. Until the first half of 2008 when they encountered a massive unpredicted decays in these investments within the third quarter of 2008 that remained until the first two quarters of 2009 (Behrendt *et al*. 2009).

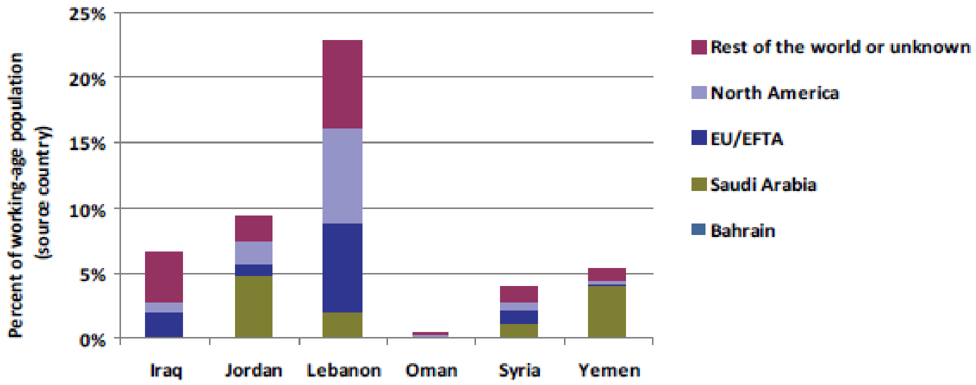
2.4. Migrants' Labor

The Arab region consists of both "labour-sending" and "labour-receiving" countries and this made the MENA region highly dependent on "labour migration" (Claessens *et al.* 2010). A crushing majority of Gulf countries' workers are migrants. A significant part of them are from neighboring Arab countries; yet, the majority of them are from different regions of the world, specifically South and South-East Asia (Claessens *et al.* 2010). Therefore, all the migrants' countries are likely to be influenced by any economic shortage that takes place in these Gulf countries. The rest of the Middle East and North African countries, mainly Yemen, Sudan, Egypt, Lebanon, Tunisia and Morocco are distinguished by their large amounts of "out-migration" to the GCC countries and other regions of the world (Claessens *et al.* 2010).

The Arab Labor Organization reported large numbers layoffs in the beginnings of the financial crisis; in different Gulf States, specifically Dubai (2009). As well the organization indicated that these quick layoffs will worsen the situation and will increase the poverty rates sharply and by this the situation will get out of control (ALO 2009). The most harmed sectors that were stricken harshly are sectors of production, real estate, economic sections and financial services (Claessens *et al.* 2010). Also other sectors possess high fractions of migrant workers, such as the sector of health care, education and many other sectors. Unreliable information from the Arab sending countries for instance Lebanon and Yemen proclaim that a large number of their migrant citizens were dismissed from their jobs in the Gulf States and came back (Claessens *et al.* 2010). Note that there is no reliable statistical evidence that has not been found until now to prove what these countries proclaimed.

Data on migrants are not so accessible for all Arab countries. For that, these estimations should be measured as minimum percentages of out-migration whereas the definite percentages are considerably higher than what is expected (Behrendt *et al*. 2009). In regards to the Arab intra-migration to the GCC Countries, the projects reveal that Saudi Arabia yearly attracts a noteworthy amount of migrants from both Jordan and Yemen "equivalent to about five per cent of the working-age population in each country" (Behrendt *et al*. 2009). As well, they attract less number of migrants from both Lebanon and Syria compared to those attracted from the former countries. There is no enough information and data on the number of Arab intra-migrants that the other GCC countries (Kuwait, Qatar and the United Arab Emirates) attract yearly (Behrendt *et al*. 2009).

However, Figure 10 presents the existing data that we have recently about the number of out-migration in several major Arab labor-sending countries. According to this Figure, in 2005 a large percentage of Lebanese migrants were to the advanced economies, which is "equivalent to about one sixth of the working-age population in Lebanon" (Figure 10). As well, Lebanon's lowest percentage of migrants were to the GCC countries; mainly Saudi Arabia. On the contrary Iraq, Jordan, Syria and Yemen, had very small percentages of migrants to the advanced economies, corresponding to around 2% to 3% of their working-age population. Their migration to the industrialized world is not so common in their societies.



Note: Due to the lack of data for a number of countries, the actual levels of out-migration could possibly be significantly higher.

Fig. 10. Destination of out-migration (estimated stock of migrants; in per cent of working-age population of source country)
Source: Own calculations based on D. Ratha and W. Shaw. 2007. “South-South Migration and Remittances”. World Bank Working Paper 102, Washington, DC and UN. “United Nations World Population Prospects: The 2006 Revision”. United Nations, New York.

Based on all of the above facts, some generalizations on the latent influence of the global financial and economic crisis can be drawn. First of all, Jordan, Lebanon and Yemen are considerably impacted by the increase in unemployment levels in the Gulf countries because this will eventually led to an increase in the number of returning migrants (Behrendt *et al*. 2009). However, the Lebanese case is more critical because; as we noticed previously from Figure 10, most of the Lebanese migrants are in the industrialized countries. For that, is the Lebanese migrants from different industrialized countries were to return back as a result of the global crisis. Lebanon will be extremely impact if not ruined. Therefore, these latent outcomes are reliant on the work-related structure of migrants in these countries, on their citizenship status, their social integration scale and on the chances of finding another suitable job somewhere else.

Accordingly, Figure 11 illustrates the sources of migration in the MENA region based on some of the foremost destination states (Behrendt *et al*. 2009). According to the available data, a large percentage of migrant employees in the GCC countries (Bahrain, Kuwait, Oman and Saudi Arabia) come from South-East and East Asia. These assumptions maintain the belief that "the strongest effects of crisis induced redundancies in the Gulf will strongly affect workers from Asia and other parts of the world" (Claessens *et al.* 2010). Finally, some economists proclaim that the Arab migrant employees are much less impacted than South Asian migrant-workers due to the shutdowns of the crisis (Claessens *et al.* 2010).

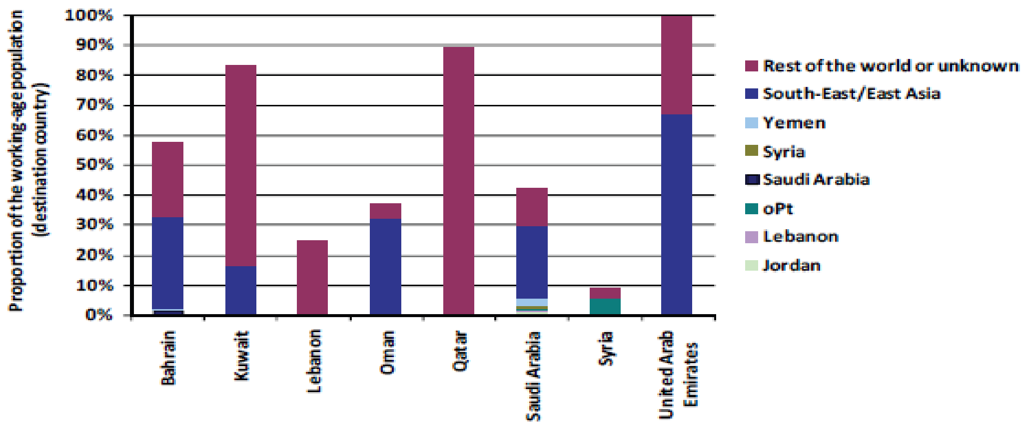


Fig. 11. Sources of migration (estimated stock of migrants; in per cent of working age population of destination country)
Source: Own calculations based on D. Ratha and W. Shaw. 2007. “South-South Migration and Remittances”. World Bank Working Paper 102, Washington, DC and UN. “United Nations World Population Prospects: The 2006 Revision”. United Nations, New York.

2.5. Pressures on Social Protection Techniques

The influence of the global crisis is expected to boost the pressure on official and non-official social protection techniques. This predominantly distresses seizes of pension funds. To clarify, pension funds are susceptible to variations in financial markets liable to investment planning. The financial crisis notable reduced the value of pension funds all around the world, particularly those funds that devote a considerable portion of them in equity (OECD 2008). The World Bank projection revealed that the actual return of compulsory pension funds in a group of sampled countries has declined around 8 to 48 degree between the fall of 2007 and spring of 2008 (World Bank 2008).

The existing facts on investment planning of pension funds in the MENA region recommends that the global crisis has had a prompt influence on the value of pension reservations. This impact is expected to have alleviated by two aspects. First, the attribution of external investments in the portfolio of several pension funds is extremely restricted (Robalino 2008). This restricts their exposition to the recession in the global financial markets; however, this displays uncovered funds to beg off in local markets (Robalino 2008). Second, the exposition to financial markets is restricted for various pension schemes in the MENA region. All these pension schema reservations are utilized to stash the governmental budget or local evolution projects and are influenced in a different way by the global financial and economic crises (Robalino 2008).

The comprehensible indication on the financial and economic crisis on pension fund reservations in the MENA region is not so far obtainable. The investment planning of pension funds might afford a number of valuable clues as to the potential effect of the crisis on pension funds. An illustration to clarify the issue is summarized below.

The pension fund of the Jordanian Social Security Corporation amounted to 3.7 billion JD in 2006, equivalent to 37.3 per cent of Jordanian GDP. Overseen by a tripartite Board of Directors, the Social Security Investment Unit restructured its investment portfolio in recent years and has markedly increased the proportion of funds invested in equity. Figure 16 shows the structure of the investment portfolio of the Fund in 2006 in order to illustrate its risk exposure prior to the financial and economic crisis.

The financial and economic crisis may affect the value of the pension fund at least for some time. While international investment of the Fund is very limited, the Fund is vulnerable to a downturn in domestic equity markets. Despite the crunch of the Amman Stock Exchange Index, the total assets of the Fund have suffered a relatively moderate decrease of 5 per cent during the year 2008.[27] The future outlook for pension reserves will depend on the degree by which the Jordanian economy, namely the financial services and tourism sectors, will be affected by the repercussions of the crisis.

Pension funds are likely to be under extra pressure as involvement revenues that shrink as an outcome of a potential decrease in employment levels and salary rates in the aware of the global financial crisis. Moreover, the global crisis might impact the public and private pension fund levels, taking into consideration private savings for retired pays (Robalino 2008). This may endanger incomes particularly for cohorts of employees which are adjacent to pension and not able to accede retired pays until till economic recapture. Especially in states that doesn't have a pension system for workers in the private division and in states where retirements are not commonly adjusted to the expansion of salaries and prices (Robalino 2008).

Furthermore, many countries in the MENA region do not offer inclusive social security systems; as well the existing standards of huge cohorts of the population are barely protected from the prompt consequences of economic shocks (De Groen and Ayadi 2013). The schemas of social insurance are basically restrained to employees in the formal economy sectors that encounter severe defiance. In terms of financial sustainable development, governance, partial exposure and relapsing actual values of retirements due to a limitation in indexation instruments (De Groen and Ayadi 2013).

In addition, the comparatively high levels of social protection standards for employees in the public sector as compared to employees in the private sector have contributed to labor market misrepresentations and fiscal forces (De Groen and Ayadi 2013). These gauntlets may be added "exacerbated if lower (formal) employment levels should lead to a decline in contribution revenue and if a marked reduction in the value of investments of social security funds in the region should occur" (De Groen and Ayadi 2013).Accordingly, they have a restricted influence on the mitigation of poverty. For that, informal social safeguard protecting techniques delivered by families and societies; particularly recompense for the absence of formal mechanisms (De Groen and Ayadi 2013). Yet these mechanisms are more likely to become under tension as a result of sophisticating levels of unemployment and unceremonious.

Therefore, lower rates of transmittals and extremely high levels of poverty that can be caused from the global economic crisis (De Groen and Ayadi 2013). The recession might also cause an antagonistic impression on occupational security and health as a result of the growing cost pressures for scheme projects (De Groen and Ayadi 2013). That might cause relapsing working provisions and psycho-social pressure for employees. Briefly, a crush in public spending might cause the allocation of scarcer sources and properties to inspectorate forms and further vocational security and health services (De Groen and Ayadi 2013).

2.6. Drops in Assistance and International Aid

As several key donor countries are shifting to recession and unexpectedly facing severe domestic fiscal difficulties, there are tough responsibilities that the official development assistance (ODA) and the international aid organization are unable to sustain and control (United Nations 2009). Many countries of the MENA region are greatly reliant on exterior support or assistance (see Figure 12). Referring to the graph we can figure out that Syria and Yemen are the least Arab countries that rely on external assistance, with $1 USD/capita and $13 USD/capita respectively in 2006 (United Nations 2009). However, Yemen's case is weirder than the Syrians case because Yemen is a low-income country compared to other countries in the region; yet its external assistance stands for a comparatively minor percentage of its national GDP.

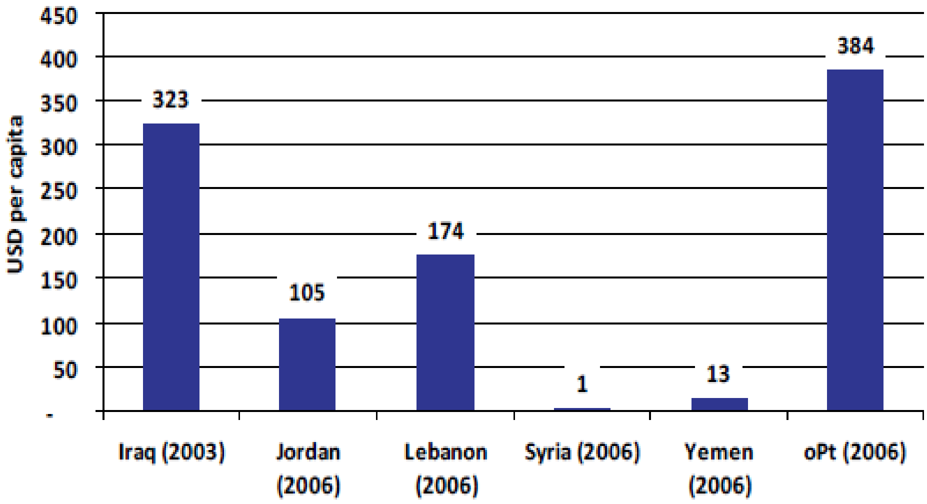


Fig. 12. Sources Official development assistance and official aid (USD per capita), latest available year
Source: UN World Population Prospects. 2008. "UNs calculations based on World Development Indicators", Revision.

Looking deeply in the results found out based on the calculations of the UN World Population Prospects (2009). The most reliant countries on external assistance and aid are Iraq, Lebanon, the occupied Palestinian territories and somehow Jordan, with $323 USD/capita, $174 USD/capita, $384 USD/capita and $105 USD/capita respectively in the year of 2006 (United Nations 2009). Accordingly, we can easily note that countries of major conflicts and political crises in the region are more likely to be exposed to official advanced assistance and official support. Thus, the more the crisis is severe and the more it is related to international affairs and global concern, the more its state will be receiving external assistance and financial support. This is easily proven since if we take the occupied Palestinian territories, as an example, we find out that in 2006 it received the higher level of official development assistance that reached $384 USD/capita.

Going back to the Yamani case, a contemporary UN emulation of predicted influence of the global crisis on international relief established that "international aid might drop from a projected level of 1.1 per cent of GDP in 2008 to 0.7 per cent of GDP in 2009" (United Nations 2009). This is distinguished as weak susceptibility, given Yemenis comparatively low reliance on international relief and assistance as associated to other similar low-income countries (United Nations 2009). Moreover, the external assistance to these countries; Iraq, Jordan, Lebanon and the occupied Palestinian territories, is mainly circulating around political issues that may or may not be a matter of review in the awaken of the global financial and economic crisis (United Nations, 2009).

CHAPTER 3

COMARAPTIVE ANALYSIS FOR THE CRISIS EFFECT ON MENA'S ECONOMIES

The MENA economies surpassed through the financial crisis and the resultant deadlock in the economies of the advanced and the developing countries during the period of 2008 and 2009. The scale of measurement for crisis impacts has changed depending on the Arab States' nature of economy and its extent of openness and its correlation with other global economies and financial markets. For the aim of analyzing the case more closely, I will be classifying the Arab countries into three groups respectively.

The first group consists of the Gulf Cooperation Council, which are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates. These countries are well-known for their openness in their economic systems, financial transactions and trade beside their high exposition to international financial markets relative to other countries in the region (Daly and Fayyad 2011). As well, these countries are in close corporation with the international financial systems and international commodities markets; predominantly gas, oil and petrochemicals. This was the main channel for the extension of the global crisis to their economies.

The second group consists of Algeria, Libya, Sudan and Yemen. These countries are characterized by their local capital markets, where these markets are not straightly connected to the international markets since their economies are highly based on oil earnings. Hence, the universal oil prices and its demand impacts fiscal policies pressed in these countries, which depend on rises in governmental expenditures that are associated by rises of oil profits and diminish in low income for most of these countries in this group.

The third and final group consists of Egypt, Jordan, Lebanon, Morocco, Mauritania, Syria and Tunisia. These countries are characterized by their banking and financial sectors that depend on the domestic lending resources and ultimately, they aren't influenced immediately by international financial markets' oscillations. Yet, the economies of these countries are affected by the external shocks that are transmitted through direct correlations between the developed economies commercial markets and foremost trading allies in the European Union and the USA. In regards to commodity purchases, the exports of such economies depend extensively on advanced countries markets, profits from tourism sectors, the depositions of their citizens living abroad and foreign investment influxes.

As an outcome of all the economic instabilities in that advanced economies are encountering trough their cyclical and economic growth rates; the economics of the Arab countries in the three groups mentioned above are witnessing high risk rates of slowing growth. The decrease in their export divisions as a result of their high exposition to the markets of advanced economies and decrease in their financial influxes through the drop of tourism earnings and transfer of funds. By performing a comparative analysis that explains the crisis influences on Arab countries of these three groups that were classified above; we can propose that the expansion of the crisis was the consequence of these two interconnected factors. The first factor is correlated to the level of financial exposure that banking systems and financial markets are witnessing from their domestic economies extending to the international financial markets. However, the second factor can be summarized by the associated commercial secures from basic trading partners in the Arab economies.

3.1. First Group

The financial features correlated to the openness in international financial markets constructed the major channels that paved the way for the crisis to strike the GCC economies. Moreover, the GCC economies have encountered a huge boom in their financial exchequers in the years prior to the crisis consequential of the immense raises in oil profits and foreign capital flows to aid in investing in big projects in a many of this group's countries (Daly and Fayyad 2011). In addition, the growth of banking systems pulled credit out to the private sector. Through the deterioration of the financial crisis in more developed countries, the shriveling in the comprehensive global demand subsequent to this and the huge decays the prices of the global oil markets within the next half of 2008; "not only the financial surpluses of the GCC countries decreased but also the liquidity in the banking sector and the business sector" (Daly and Fayyad 2011). In addition to the departure of foreign financial inflows that have already stricken the GCC capital markets for contemplative purposes and consequently investors' credit and confidentiality has been shaken in local economic provisions. It synchronized with the liquidity deficiency provisions in international financial markets (Daly and Fayyad 2011).

This subsequently caused several GCC countries to shrink their reliance on foreign funding for important projects. As well, numerous Arab loans requested the international financial institutions to refinance their loans because of the pressures that are exerted on them during the crisis. This eventually caused several companies, whether public or private companies, to ask for governmental aid, for instance the Dubai debt crisis, as a way to aid major companies to face the risk of bankruptcy (Daly and Fayyad 2011). This hazardous risk of declaring bankruptcy is originating from the exceptional debt, the enlargements in funding costs, the reductions in investments of real estate improvement plans and the unfolded transactions of real estate.

This allowed several of real estate to delay the implementation of their improvement plans. Based on the international reports that estimated the value of loss that existed due to the postponed or deferred projects in the GCC economies at the end of 2009; the postponed or deferred projects in the GCC countries at the end of 2009 are predestined to be around $ 575 billion, compared to the total projects that were in the process of implementing them. The later was estimated to be at about $ 2.5 trillion prior to the beginning of 2009 (Daly and Fayyad 2011).

This accordingly led to a substantial decay in local real estate demand, as assets prices fall down and imposing negative impacts on the worthiness of the real estate properties that were incorporated in the investments of the GCC banks portfolios (Daly and Fayyad 2011). In spite of these improvements, there is no suspicion of having augmented commercial banks associated with the risk of condensed strategies that focuses more on supporting their capital origins. In addition to all of this, the existing decays in money supply "money and quasi-money" between the period of 2006 and 2009 caused the growth rate of money supply to reach a minimum rate 19.7% (Daly and Fayyad 2011). However, this rate of money supply growth chopped down sharply after 2008.

The influence of the global financial crisis reverberated on the breakdown of the international stock markets signals after that and the influence was indicator for the market's defense in the economies of the Gulf Council (Abu-Ismail and Pournik 2009). The defeat to the GCC market values was around 41% or in other words corresponding to $400 billion within the following three months; September, October and December of the 2008 financial year (refer to Figure 13). As the directories of the Gulf Council stock market varied, the Gulf stock markets responded accordingly by becoming very clearly impure by the global crisis. For exemplifying, it simply clear that when we contrast the correlation coefficient that are related to the stock markets directories for GCC countries joined prior, during and post to the USA stock market crisis; especially S and P 500 (Abu-Ismail and Pournik 2009). The correlation coefficients of these stocks (S and P 500) tend to change inversely relative to other stocks before the crisis; however, it had the tendency to be positive during the crisis (Abu-Ismail and Pournik 2009).

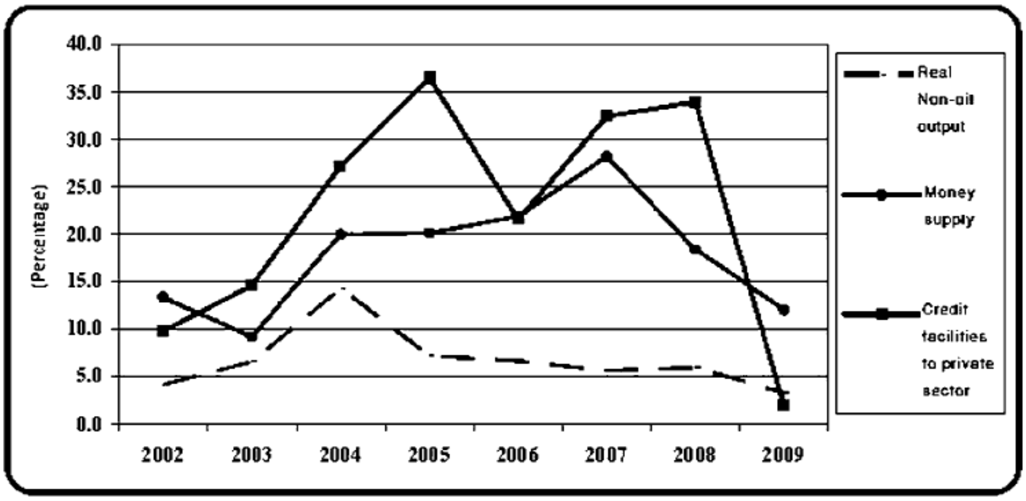


Fig. 13. The growth trends of each of the banking extended credit to the private sector and the money supply and output of the local non-oil sector in the first group during the crisis (Annual percent change %)
Source: The growth trends of each of the banking extended credit to the private sector and the money supply and output of the local non-oil sector in the first group during the crisis (Annual percent change %).

Furthermore, the banks of the GCC countries had attained comparatively acceptable financial outcomes at the end of the fiscal year, after they engrossed fractions of the wounds that aroused from the global crisis (Abu-Ismail and Pournik 2009). However, this could be an additive instrument for the banking sectors in all Arab countries of the Gulf Council to sustain elevated rates of capital sufficiency, before and during the crisis. Therefore, the raise in "non-performing loans as a proportion of total loans" did not impact the financial consequences for the banking systems in the second quarter of 2009 (Abu-Ismail and Pournik 2009). In fact the Gulf banking sectors attained high net incomes, but what they attained in 2009 was much less than what they attained prior the appearance of the global crisis (referring back to Figure 14).

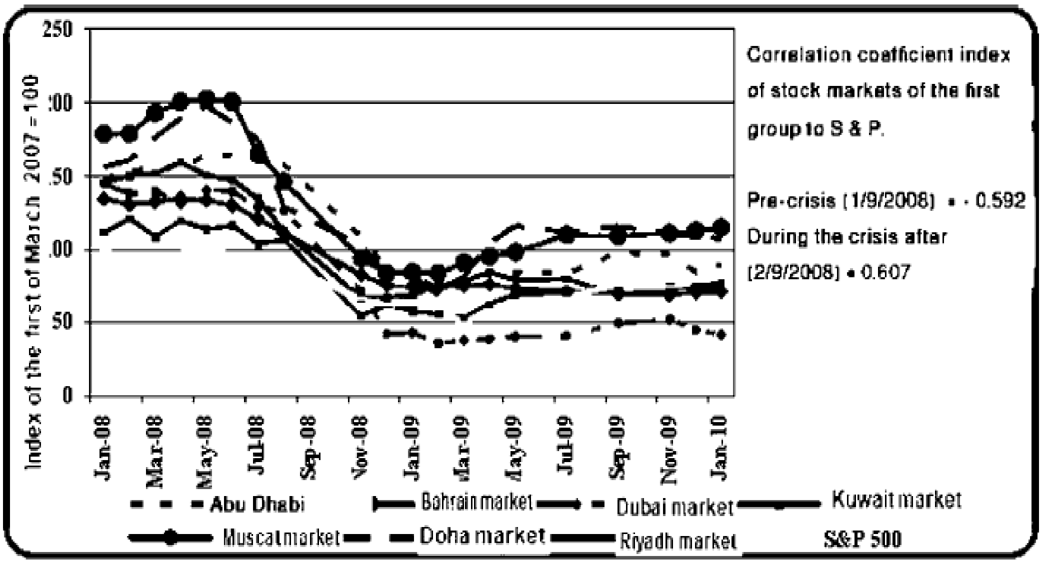


Fig. 14. The direction of stock market indices for the countries of first group and the indicator of S andp500
Source: The direction of stock market indices for the countries of first group and the indicator of S andp500.

The GCC banking sectors tackled the systemic risks emerging from the global crisis. In addition, the bureaucrat authorities in the Gulf countries addressed rapid actions to carry on the security and stability of the financial sector at domestic levels. These actions appeared to prop up the banking systems liability and the financial sectors accountability, by impelling capital into the bank's budgets as in both of the Qatar and UAE (Daly and Fayyad 2011). Referring to Table 1, we can figure out that the value of paid-up capital reached 2% of GDP in UAE and 7.3% of GDP in Qatar. Also the monetary and fiscal authorities in the GCC economies assisted the banking system by giving amenities and loans to domestic banks (Daly and Fayyad 2011).

In Qatar the official bureaucrats maintained domestic banks by purchasing portfolios in these local banks that were harshly damaged in radiance of the decays in Doha market index of security markets (Daly and Fayyad 2011). For instance, referring back to Table 1, the total purchasing power value in Qatar was about 6% of its GDP. Carrying on the assets of these banks was in order "to improve the quality of their assets and provide the necessary liquidity to local banks;" as well as to reinstate confidentiality in the Gulf stock markets (Daly and Fayyad 2011). However, each of Kuwait, Qatar and UAE decided to assure their deposits in the domestic banks. In addition, the decision of the GCC countries authorities to ease the implementation of the monetary policy's instruments was enforced for a valid reason. This reason was to increase the banking sector liquidity through the eliminating the reserve requirement ratios (Daly and Fayyad 2011).

Table 1. Performance indicators and safety of the banking sector in the first group

	Capital Adequacy Ratio (%)		The proportion of non-performing loans to total Loans (%)		The proportion of allocations to Total non-performing loans (%)		Rate of return on Assets %		Rate of return on shareholders' equity (%)	
	2007	**2009**	**2007**	**2009**	**2007**	**2009**	**2007**	**2009**	**2007**	**2009**
U.A.E	14.0	18.6	2.9	4.6	100.0	**79.0**	2.0	1.5	22.0	12.1
Bahrain	21.0	19.6	2.3	3.9	74.0	-	1.2	1.2	18.4	10.6
KSA	20.6	16.5	2.1	3.3	142.9	**89.8**	1.9	1.9	22.3	13.7
Oman	15.9	15.5	3.2	2.8	111.6	**113.8**	202	2.2	14.3	14.2
Qatar	13.5	16.1	1.5	1.7	90.7	**84.5**	203	2.3	25.5	19.9
Kuwait	18.5	18.9	3.2	9.7	77.0	**51.1**	0.8	0.8	25.0	6.5

Source: Survey Unified Arab Economic Report for 2010. Indicators for each of the UAE, Bahrain, Oman and indicators of rates of non-performing loans and provisions for Kuwait taken from the IMF study: IMF "Impact of the Global Crisis on the Gulf Cooperation Council and Challenges Ahead", (March 2010).

3.2. Second Group

In the economies of the second group (Algeria, Libya, Sudan and Yemen), their banking systems and financial sectors weren't immediately impacted by the consequences of the global economic and financial crisis. This is a normal outcome of being a congested economy and not being directly connected to the banking system in the international financial system that joins most of the world. In addition to all of this, the stock markets in both Algeria and Sudan were not instantaneously impacted by the financial markets' fluctuations because of the diminutive degree and the shortage in the amount of listed businesses (Cali and Dell Eroba 2009). These complexities prevented foreign investments from entering to their countries to revive its economy.

Nevertheless, the countries in the group were severely influenced by the mitigation in oil demand cultivating from the global economic recession that took due to the global financial crisis. Moreover, the two major members of OPEC organization; Algeria and Libya, decreased their production portions throughout the years of 2008 and 2009 (Cali and Dell Eroba 2009). They’ve done this to pursuant the OPEC decision to lessen quotas of production. As a consequence of these dynamics and in the light of Figure 15, the regular decays in oil exports’ volumes in the second group countries reached 23% in 2009. However, this is a recordable measure compared to the 2% deterioration of 2008.

On a more profound level, the economies of Algeria, Libya, Sudan and Yemen perceived a considerable development in the non-oil sectors’ activities, particularly in Algeria and Libya. For instance, in Algeria, the growth rates are decent in the non-oil activities related to the substantial intensification in the field of agricultural ounces (Cali and Dell Eroba 2009). As well the constant increase in the levels of public spending regarding infrastructure development and the national agendas to improve their infrastructure projects, besides accumulating significant oil surplus prior to the existence of the global crisis (Cali and Dell Eroba 2009). Libya, however, countersigned a fast increase in its non-oil sectors due to the growth in its public spending on infrastructure and the augmented increase of foreign investments in Libya for the achievement of infrastructure constructions (Cali and Dell Eroba 2009).

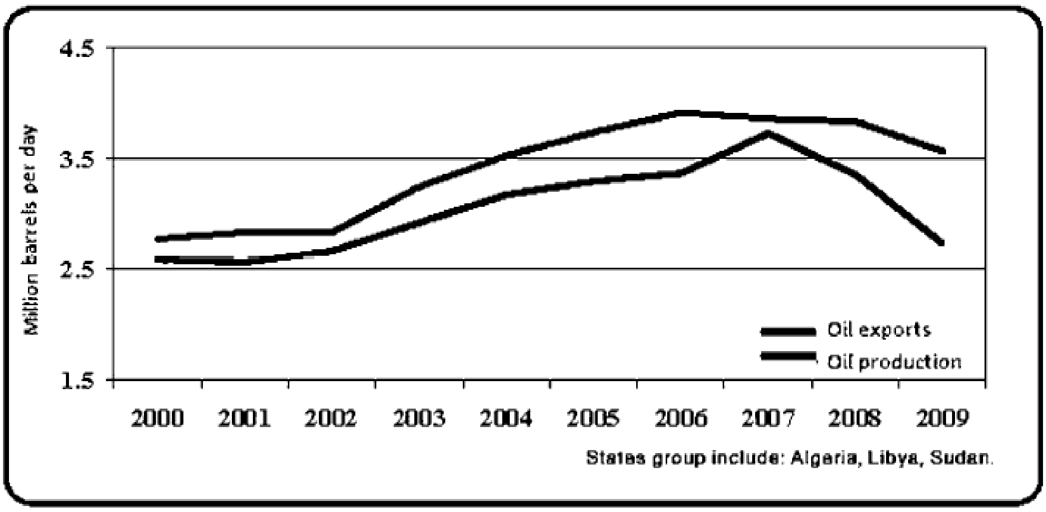


Fig. 15. Production and exports of oil for the second group (2000-2009)
Source: OPEC Annual Statistical Report.

On the other hand, Sudan and Yemen, witnessed high growth rates in their non-oil sectors within the boom of oil; in comparison to Algeria and Libya who witnessed very low rates of growth. In regards to the availability and accessibility of oil profits that were attained before the emergence of the crisis, we can notice that Sudan and Yemen performed well in the crisis compared to Algeria and Libya (Cali and Dell Eroba 2009). However, it didn't perform well compared to its previous economic growths in the non-oil sectors. In addition, Sudan and Yemen witnessed remarkable decays in its oil revenues that were associated with huge decays in oil prices globally (Cali and Dell

Eroba 2009).

Thus this ongoing situation influenced them negatively, especially in their non-oil economic performance. Referring back to Figure 16, Sudan, for example, testified a decline in its economic activity growth rate mainly the one that is correlated to the non-oil sectors. This declined was about 8% of its total GDP within the period 2006 and 2008 and this decay increased by 3.8% in 2009; to reach 11.8% of its total GDP at the end of 2009 (Figure 16). Finally, the diminution of foreign investment projects, in addition to the internal aspects and the fact of forcing proceedings to lessen the request of foreign importing lead to a sharp drop in external reservations subsequent to the huge decrease in oil prices.

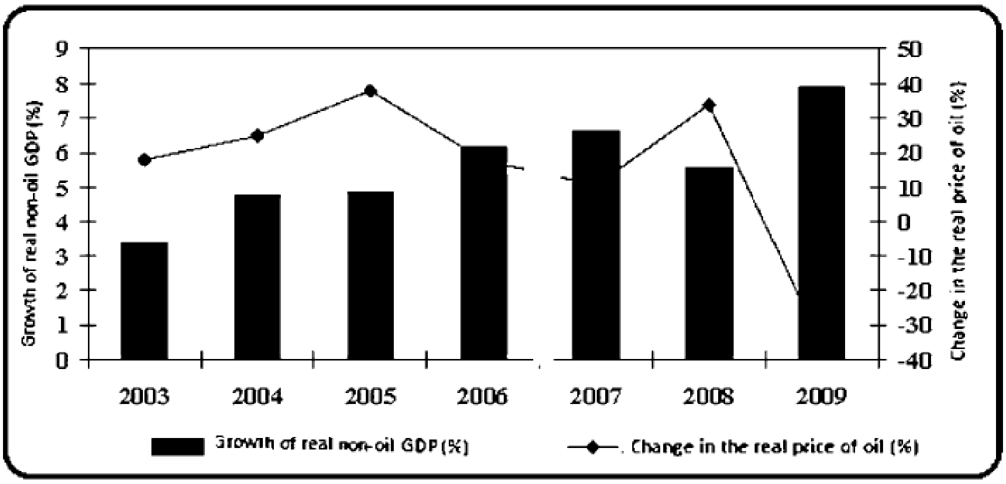


Fig. 16. Comparison of growth of real non-oil GDP for the second group and the change in the real price of oil
Source: OPEC. "OPEC Annual Statistical Report"; International Monetary Fund. "Report and National Sources", Article IV.

3.3. Third Group

The restricted disclosure of global capital markets impacted the banking sectors and the local economic official and non-official institutions of the countries in the third group. Egypt, Jordan, Morocco, Mauritania, Jordan, Lebanon, Syria and Tunisia had cut-off the undeviating impacts of the global crisis associated with these countries. The connection of the group economies in financial performance emphasized on their exports and imports from and into the Europe Union markets and USA markets. As well, they focused on the service and capital packages that had negative effect on the domestic exports of the third group countries. Yet, the external foreign investment movement of the developed countries resulted in a reduction in demand for commodities.

Generally, the banking systems and the local financial sectors, in these countries, have evaded the adverse consequences that it testified by several emerging economies including many Arab economies throughout the global economic crisis. This resulted due to several influential factors that imposed restrictions on the exterior transactions of national banks of these countries. However, the preponderance of these countries, which are classified as group three, was exposed to movement limitations in capital flows. As well, national banks and governmental economic institutions are devoted to particular ceilings for foreign assets to decrease their disclosure. This was performed as a strategy to lessen the high risks of investing that these countries witnessed in their markets after the global financial crisis.

As for lending aspects, banks and financial institutions relied highly on the national savings and internal resources, even prior to the crisis outbreak. In addition, the security markets of Egypt, Jordan, Morocco, Mauritania, Jordan, Lebanon, Syria and Tunisia have not been influenced by the prices fluctuations that transnational stock markets witnessed. This is because the spacious majority the domestic investors in these countries are native citizens in them. However, the expansions in global financial markets after the 2008 crisis caused a negative shock in domestic stock markets of

Egypt, Jordan and Mauritania due to the unexpected fluctuations in their local markets; this unexpected shock was triggered by the European shock. To clarify the situation look for Figure 17 which is a modification for the correlation coefficient of local stock market indices for the mentioned countries that shifted inversely to the French stock market (CAC 40) before the crisis to impose one within it.

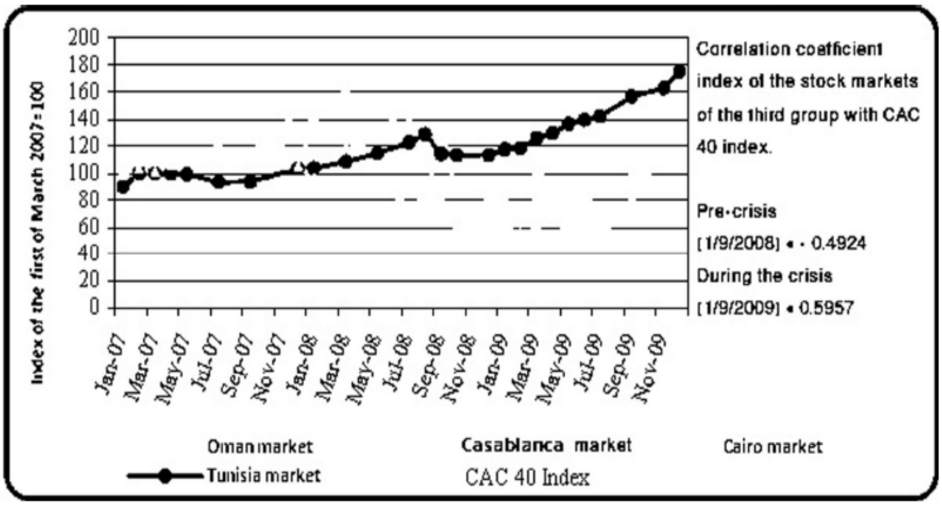


Fig. 17. The direction of stock market indices for the countries of the third group and the CAC 40 index
Source: AMF. “A database of Arab stock markets”. Arab Monetary Fund.

In regards to the international financing systems position duet to the lack of international liquidity and the resulting growth in the cost of borrowing from global markets; several countries from third group were talented to finance their governmental budgets from domestic financial resources in their local market. The governmental loans from the local market synchronized with the decrease in banking loans rates to the private sector. This was the ultimate consequence of the demand and supply factors out coming from the global crisis. In this regard, "the demand for bank credit declined in the light of shrinking external demand and lower global trade," in addition to the suspicion triggered by the financial crisis that enforced commercial banks to follow policies of preventative measures that doesn't aim only for exposing the resources accessible to them.

Table 2. Banking sector indicators in the countries of the third group

	Capital Adequacy Ratio (%)		The proportion of non-performing loans to total Loans (%)		The proportion of allocations to Total non-performing loans (%)		Rate of return on Assets%		Rate of return on shareholders' equity (%)	
	2007	2009	2007	2009	2007	2009	2007	2009	2007	2009
Jordan	20.8	18.3	4.1	4.2	67.8	63.3	1.6	1.4	14.0	11.5
Tunisia	9.8	11.2	17.7	13.3	53.4	58.2	0.8	1.1	10.5	13.3
Syria	16.4	19.0	5.3	5.1	23.7	17.9	2.4	1.1	23.9	20.0
Lebanon	12.5	12.4	10.1	6.0	56.6	64.4	1.02	1.05	12.1	14.4
Egypt	14.3	14.8	14.8	14.7	92.1	94.5	0.8	0.8	13.3	14.5
Morocco	10.6	11.7	6.0	5.5	75.3	77.6	1.3	1.3	16.7	17.0
Mauritania	10.0	10.0	35.1	27.0	61.5	85.0	4.0	4.0	10.2	16.0

Source: IMF and IFS. "Survey unified Arab economic report for 2010 and previous years." International Monetary Fund and International Financial Statistics.

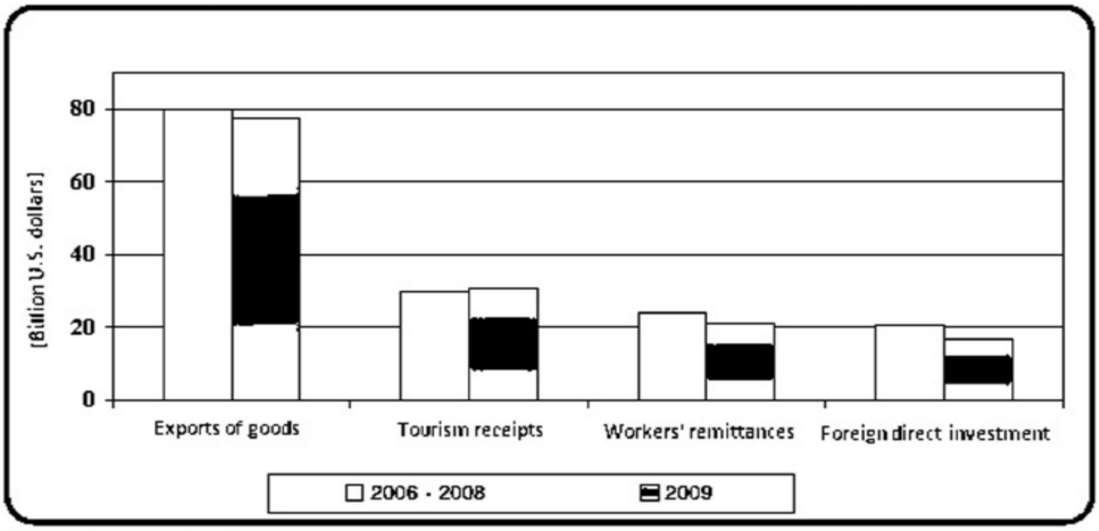


Fig. 18. Some economic indicators for countries of the third group
Source: IMF and IFS. "Survey unified Arab economic report for 2010 and previous years." International Monetary Fund and International Financial Statistics.

CHAPTER 4

LESSONS LEARNED

The results of the crisis on the Arab region's economic performance differed among the countries of the three groups. For instance, the economic performance in the first and the second group was influenced more compared to the economic performance in the countries of the third group because the former groups witnessed harsh declines in their oil prices as a subsequent result for decays the international oil prices. It should be renowned that non-oil sector lead to a huge increase in GDP that was a major locomotive to attain encouraging increase in GDP rates at constant prices in both groups one and two.

The most important lesson to be learn from this crisis is that the immediate actions of the authority in various Arab countries to control or handle the effects of the global economic and financial crisis on their economies. This could be performed through abiding by compulsory fiscal and monetary policies and procedures in reaction to the unconstructive impacts of the crisis that might successfully reduce the consequences of these outcomes within MENA's economies. In addition, the Arab authorities were, generally, successful in their economic intervention during the crisis. They were significantly effective in stimulating various productive and service sectors to boost their economies.

In addition, they were authentic in providing economic assistance and financial support for their domestic institutions and local markets. As well as authoritative space that provides investors with required policy options that allows the in return for exercising of instrumental policies which are crucial for refreshing the national economy. For instance, the upsurge in finance surpluses out coming from the amplified oil revenues that they earned before the beginning of the financial crisis supported most of the countries in the Gulf Cooperation Council. This aided them in pumping liquidity to the local banking systems. Moreover, the space that is necessary for policy alternatives accessible to the governmental authorities in most of third group countries, as well as the financial reforms applied earlier within the past years. This in accordance led a numerous countries of the third group to attain macroeconomic steadiness and transmit the persistent deficit in its budget to an unexpected surplus in certain Arab countries such as Morocco. For exemplification, Morocco had increasing foreign reserves that perceived certain levels that Morocco had never witnessed such levels in its economy before.

On one hand, during the crisis expansion period, the Arab economies enforced; within the third group, essential economic reforms that triggered them speedily to execute efficient programs. These programs were performed to encourage such countries to implement economic policies that are set up upon amplified fiscal and monetary policies that assure (1) the maintenance of economic growth, (2) maintenance of local development inclinations and (3) finally financial recoveries. On the other hand, the resultants for the economic crisis have influenced the flexibility of economic reforms in several Arab countries of the three groups that launched several economic reforms in preceding phases. The consequent was to delay the implementation of innovative restructurings that were arranged prior to the crisis, such as Egypt. For instance, in Egypt, the government postponed the initiation of "VAT system" reforms, the growth of tax base and validation of rates implemented to raise the effectiveness of the productive resources distribution in the economic system. In addition, it postponed the real estate taxes and eliminated the governmental support that it imposed on basic commodities. Finally, it remains the governments' task and responsibility to decide on the sympathetic conditions that suits with the necessary economic reforms agreed upon during the last few years.

4.1. Lessons for First Group

The countries of the gulf cooperation council have performed in a way to decrease the results of the global economic and financial crisis by the governmental institutions interference to pump liquidity, to smooth the progress of the monetary policy demeanor, to increase spending on public affairs and to provoke the national economy. The governmental aid increased in the banking system and financial sector abilities to assist them in reducing their systemic risk in the GCC countries that was resulting from the economic crisis. As well, the non-oil sector in the oil countries sustained its economic growth, regardless of the limitations in banking loans to the private sector. The anticipations demonstrate that the complete recuperation of the GCC economies from the outcomes of the global crisis might need some extra time ahead of obtaining prolonging growth rates in correlation with the global economy instability that the world witnessed after the crisis.

The results of the crisis proved that the developing risk of bank's loans in some Arab countries at the years of economic booms was the ultimate effect of the high oil revenues. Beside this the strong demanding for financial support from foreign countries and the rising contact in the assets of several gulf banks in the real estate, securities and short run breakdowns in finance projects as well as long run loans. In addition, it illustrates that the managerial position of the banking and finance systems in many GCC countries was incapable of maintaining pace with quick growths in the domestic banking and financial subdivisions due to the intricacy of the links between the global banking and financial systems.

To maintain the Cooperation Council Countries paces of reforms in the financial circumstances that arose from the crisis and reinstated the economic capability from achieving continuous expansion of banking sector. That was maintained to re-establish their function in backing the economic progress and to reconstruct their capital pedestals and the discordant loss of many Arab and international banks that are in the region that took the risk of unnecessary loaning. Also, the GCC states are requested to strengthen their attempts to develop the authoritarian and administrative role of the banking systems in the Arab region. Last but not least, the monetary and fiscal policies are needed to slow down the transition of oil cycle to the Gulf economies in light of the restricted sovereignty of their fiscal policy or exchange rates between gulf currencies and dollar.

4.2. Lessons for Second Group

The economies of the second group are, precisely, Algeria, Libya, Sudan and Yemen. These countries were impacted by the sharp fall of the global oil prices and subsequently their revenues. Moreover, this resulted in a deprived budget surplus and lower balance budgets in the recent accounts of Algeria and Libya mainly, as well as the decline in levels of deficit in both Sudan and Yemen. In brief, the local banking sectors of the countries in the second group were not influenced by the global financial crisis due to their indirect connections and bonds with the international financial markets.

The economies in this group are capable of tracking growing fiscal policies that aim for increasing public spending on (1) infrastructure constructions, (2) housing and social programs, (3) providing support on basic commodities, (3) stimulation of economic cycles (4) allowing the private sector to engage in a wider task that aims for boosting the domestic economic activities. All of this supported to accomplish moderately towering growth rates prior to and within the crisis. However, the states of group two remain susceptible to variations in the oil prices and the danger of oil surpluses' depletion that needs the continuance of economic modifications that aims to attain competence in fiscal policy on the fraction of public spending. Therefore, it is essential to permit the economic cycles to go aside with certain ups and downs that maintain the potential financial state of affairs without patronizing to major alterations in factors of spending for each time oil revenues decline.

Finally, the non-oil economic actions in the economies of group two requires thematic modifications to recover its recital through facilitating the process of performing business expansions that contributes in diversifying the private sector's production bases. In addition, it aims to establish productive jobs, exert a pull on exterior explicit investment haunted by knowledge and technology relocation that provokes additional value to their domestic economies.

4.3. Lessons for Third Group

The restricted disclosure of the banking departments and the local financial markets relative to the international financial markets have provoked the avoidance of harsh direct contact with the global crisis especially in the economies of group three. Yet, the slack that took place in the international demand caused a reduction in the exports of the third groups countries, which consequently resulted in a harsh decrease in the investment private sector beside the escorting decrease in the banks' credit demand function. To add, in many countries of this group, the economic performance in most of the banking systems wasn't influenced because of the attempts initiated by their governments to reform and release their banking sectors.

As part of a thorough economic reform process that was prepared for even before the crisis occurrence. Moreover, the countries of the third group were capable to reconstruct the domestic banking system that stands for raising the levels of capital adequacy and at the same time decreasing the share of non-executing loans to gross loans through upgrading the value of banks' credit portfolios. These alterations participated in the banking sector's flexibility in encountering the foreign shocks. The economic performances of the third group countries have accomplished a predestined standard growth rate equal to 4.5% in 2009. Compared to the standard growth rates that is around 6% within the duration before the financial and economic crisis meaning that these levels are above what has been registered by many emerging economies.

Regardless of the elevated high ratio of GDP budget deficit, compared to a certain set countries, the existing stock of debt as a proportion of GDP was not affected much. In addition, most of the countries in the third group relied on foreign funds that had accrued throughout the financial boom prior to the crisis. The rest of the countries in the same group depended on the existing liquidity in their domestic commercial banks to fund and cover the budget deficit with minor raises in their return on recent accounts of treasury bills. Finally, it is also essential to carry on attaining a genuine economic and financial reform in the economies of this group to maintain the flexibility of local economies, so that they could face the challenges that existed from the global financial crisis.

CHAPTER 5

CONCLUSION

The global crisis began in mid of 2008 influencing the MENA region economies extensively by numerous transmission channels. Accordingly, the overflow of external investments to the Arab region considerably decreased as a result of the fundamental price corrections that took place in crude oil markets. Beside the severe reduction in the international demand for the Arab region's oil and non-oil exports; the interest of hegemony states to assist and aid the Middle Eastern and North African region has declined due to the crisis stresses on them. Relying on the disclosure of these mentioned transmission channels and others the Arab countries were influenced in different ways by the financial crisis.

The MENA region's economies and financial markets have deteriorated safely as a normal consequence for the economic crisis. However, the existing economies so far have remained quite protected to a large extent compared to other economies mainly advanced economies. They were able to protect themselves because of their mass surplus liquidity that they gained after the huge increase in oil price that they witnessed in the last years. On the contrary, both GDP indicators growth and unemployment estimated that in 2009 the crisis is ultimately going to harm the region and this harm will has severe consequences on the region's future. Risks of high inflation levels and continued volatility in market might in further take their toll into various quarters. Decreasing living standards and increasing disparity and inequality have actually been an essential interest for a long time and are more likely to depreciate. For that, the absence of strong and genuine social security policies and techniques, the maintenances of developing numbers of susceptible employees, taking into consideration the big cohorts in the region's migrant employees, this might cause further distresses.

This recent financial crisis has been added to pre-existing social, economic and political defiance in the Arab region. The GCC countries depend highly on its natural resources oil and gas to sustain their economic stability and now they observing their divergence exertions endangered by the impacts of the global crisis. Within the region, unemployment levels are respectively high, especially among women and youth groups and this is a major defiance for these Arab societies.

Looking at oil-exporting countries, we can notice that they experienced a cruel diminishing in oil profits, so they were forced to adjust their aspirant development enterprises accordingly. The GCC countries were able to maintain their reinforced governmental projects by adding to it their huge "Sovereign Wealth Funds" (Behrendt *et al*. 2009). Also, they butted pro-actively to prevent their financial markets from further catastrophes that would hardly strike it due to the prompt declines in prices of real estate.

However, countries of the North African region were severely hit by the harsh recession that took place in Europe and caused the reduction of their export, tourism and entrusting profits. The governments of these states introduced economic impulse systems to boost up local demand. Although these steps were performed to reduce the pernicious influence of the economic crisis on economic development, millions of careers in tourism and exporting industries have gone and as a result poverty has increased sharply. However, one of the crucial challenges that are confronting the Arab governments is to cautiously monitor "the condition of vulnerable low-income households" and supply them with additional economic assistance in different economic fields (Behrendt *et al*. 2009). This could be performed as an economic tactic to help them in overcoming this difficult period.

Although none of the MENA countries had escaped from the pernicious impacts of the global financial crisis; the effect of this crisis on most of them was almost only a breakdown in their economic growth rather than an authentic economic decay. To add, there are three causes that explain why the influence of the crisis remained moderate. First, the region's respectively low incorporation in international financial markets guarded its economies from various downturns; (2) the economic incentive regulations that were utilized by the governments of the MENA region counterbalance several undesirable outcomes from the crisis; and (3) robust economic progresses were performed by the governments of many Arab countries between 2007 and 2008 before the crisis. Hence, this offered them a couch to rest from the posterior constriction. Beside its pernicious effects, the worldwide recession had a minimum of one advantage on the MENA's economies. That could be illustrated as the reduction in inflationary pressures which have been intensified in most of the Arab countries during the second half of 2008, predominantly in the Gulf countries.

Looking further shows that the global financial breakdown should be considered as an exclusive occasion for the Arab region to invest more in their production and socio-economic reforms. Also, they are encouraged to dabble more on their national regulations and authorities to reinforce their national economic, social, political policies through benefiting more from their closer local and international collaboration. Therefore, the MENA countries should make use of this unique opportunity to set up techniques to reduce levels of unemployment, to motivate economic growths, support social protection techniques, eliminate gender inequality, impose non discriminative measures and finally give an eye on human evolution and decorous work. The involvement of the Arab world in international affairs has proven that such techniques would be more efficient; especially, if they are able settled a course of social discussion or negotiation between rulers and legal independent organizations and associations of workers and employers.

Based on our comparative analysis we can notice that the 2008 global economic crisis is obviously a good occasion for the Arab countries to work hand by hand to face the harmful outcomes of the financial crisis in a synchronized way. This is could be performed through initiating and developing genuine cooperative policies that are suitable for the region to cope with the crisis. To illustrate, such accommodating policies could be macroeconomic plans for ensuring economic stability, new regulations for financial markets and banking systems. These policies should be constructed upon two principles (1) the necessity of encountering corporate counter-cyclical techniques in order to rectify the booming tincture of financial markets and (2) dynamic regulations that allow the regulator to intervene in all the spheres of countries' markets.

To sum, there is an essential need to go apart from the ordinary short-run supervision of the crisis and to impose a well-organized provincial policy response to improve the solidarity of the MENA countries financial systems and to trigger regional economic growth.

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