Middle East Crisis and its Impact on Global Trade

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Outline

- Background
- Implications of the Crisis:
  - Global Implications
  - Global Trade
  - Sri Lanka’s Trade
- Conclusions
Background

- The ME crisis or Arab Spring (AS) which began in Tunisia in Dec 2010 has spread to many economies.
- Rulers have been forced out of power in Tunisia, Egypt, Libya and Yemen.
- Major protests have erupted in Bahrain, Jordan, Iraq, Algeria & Morocco.
- The situation is most severe in Syria – more than 7,500 deaths recorded.
- The ongoing unrest in Libya & Syria demonstrates that a positive conclusion to the AS remains far from certain.
Background Cont.

- Regional unrest has significantly weakened economies involved:
  - Eroding public finances
  - Falling revenue
  - Crippled tourism sector

- Conversely, high oil prices driven by the AS have benefitted major oil producers like UAE, Saudi Arabia & Kuwait who have avoided major unrest
Global Implications

- Impacts of AS have also spread to the ROW:
  - Volatility in commodity prices
  - Disruptions to supply chains
  - General uncertainty

- This has impacted businesses across the world, slowing recovery in both mature & emerging markets
Global Implications Cont.

Percentage of Businesses Negatively Affected by ME Unrest

Source: Grant Thornton International Business Report, 2011
Global Implications Cont.

*Soaring oil prices*

- ME includes some of the world’s largest oil-exporting countries and most important shipping chokepoints
- Produces **29.1 million** barrels per day (Mb/d):
  - a third of global oil supply
  - oil exports equal **40%** of the world’s total oil exports
- Unrest in Egypt in Jan/Feb 2011 raised concerns of disruptions to oil and natural gas
- Turmoil in Libya, a much bigger oil exporter than Egypt, and unrest in the Persian Gulf state of Bahrain increased concern in oil markets
Global Implications Cont.

Soaring Oil Prices

- Political unrest in ME has also added instability to energy markets
- Supply disruptions and fears about the possible spread of unrest to major exporters have pushed prices higher
- The security of the Strait of Hormuz, between Iran and Oman, is also of great concern
- A third of the world’s oil trade passes through the Strait of Hormuz, and any closing or confining of transit could substantially raise oil prices
Global Implications Cont.

Soaring oil prices

- Brent Crude climbed above **US$125 a barrel** in April 2011, up from US$85 a barrel at the start of the year.
- Remains close to US$100 a barrel at present.
- The risk of the unrest spreading to larger oil-producing countries in the region is a greater concern.
- If any such unrest somehow disrupts Saudi oil production, it is difficult to predict how high oil prices may rise.
Benchmark Oil Prices: Dec 2010-March 2011

Source: US Energy Information Administration
Global Implications Cont.

Debate on investment in renewable energy

- AS has reignited a **renewable energy debate**
  - more investment needed in renewables to limit impact of oil price shocks
- 44% of businesses would support increased government investment in renewable/alternative energy
- Support is particularly strong in APAC and ASEAN economies
Impact on Global Trade

- Arab region not a major player in non-fuel global trade – accounts for less than 1%
- **Over 80%** of total ME exports consist of oil & gas
- Thus, impact of crisis on global trade mainly via oil/gas prices
- Excluding changes to oil and gas prices, the impact of the AS on global trade is limited
- Indirect impact on trade by the shifting of wealth from oil-importing to oil-exporting countries
- Estimated slowdown in growth of global exports to 3.7% in 2012 partly attributed to the AS
Impact on Global Trade Cont.

- Diminishing purchasing power in oil-importing countries
  - Reduced demand for other goods/services
    - Restraining of global trade
Impact on Global Trade Cont.

- Increase of fuel prices ➔ rise in operations & production costs
- Disruption of supply routes between ME countries ➔ longer shipping times ➔ more complex logistics
- 53% of businesses in Turkey reported a negative impact due to Arab Spring-related trade disruption
- In 2011, Japan marked its 1st trade deficit in 31 years
- 25% of the worsened balance of trade was due to rising crude oil prices (Yanagisawa, 2012)
Impact on Sri Lanka

- Relationship between ME & SL dominated by oil & migrant labour

- ME Labour Oil Sri Lanka

- ME is emerging as a potential trading bloc for SL oil imports and exports of tea & unskilled contract workers

- SL-ME relations is an important subset of South-South trade in the network of world trade
Impact on SL Trade: Exports & Imports

- ME has emerged as an important trade market for SL
- The main ME export and import markets for SL are the UAE followed by Saudi Arabia, Kuwait & Iran
- Other than labour, tea is the main export (50%) followed by natural rubber (8%) and garments (6%)
- More than 60% of imports from ME is in mineral fuels, mineral oils & products thereof
- SL export share to ME has shown an increasing trend, while shares to the US, EU & SAARC have declined
- But drop in export share to ME in 2011 – impact of ME crisis?
- Import share from ME shows an increasing trend
SL Share of Exports to Various Regions

SL Share of Imports to Various Regions

Source: Central Bank of Sri Lanka, Annual Report 2011
Impact on SL: Oil

- Crisis ridden countries in ME are not major oil exporters to SL
- Over 90% of oil imports from Iran
- Yet, oil price hikes in crisis-hit ME countries have spillover effects to other ME countries
- SL’s oil imports amount to approximately **US $ 3 billion** and accounts for **23%** of total imports
- SL’s trade deficit rose dramatically – from US$ 5 billion in 2010 to US$ 9.7 billion in 2011
- **51% increase** in imports mainly due to high oil price bill
The Ceylon Petroleum Corporation (CPC) announced 2 fuel price hikes in Oct 2011 and Feb 2012:

- Litre of 90 Octane Petrol – 8.7%
- Lanka Auto Oil – 36.9%

- Escalation of oil prices
- Increased transport/electricity cost
- Increasing overall price level
Impact on SL: Migration & Remittances

- Migration for foreign employment is a major element of the SL economy.
- Overseas remittances remain the prime foreign exchange earner in the country, recording inflows of US$ 5 billion in 2011.
- The largest share of Sri Lankans migrate to ME – accounts for 90% of total departures & 60% of remittances.
- Major migrant destinations not affected by the crisis.
- Crisis-struck Syria, Libya, Jordon & Bahrain not major destinations for migrant labour.
## Total departures for foreign employment by country (Percentage)

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<th>Country</th>
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<th>2007</th>
<th>2008</th>
<th>2009</th>
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<td>27.7</td>
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<tr>
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<tr>
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<td>3.4</td>
<td>3.2</td>
<td>2.0</td>
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<tr>
<td>Bahrain</td>
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<td>1.9</td>
<td>2.4</td>
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<td>0.1</td>
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<td>Libya</td>
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<td>0.02</td>
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<td>Syria</td>
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<td>0.01</td>
<td>0.01</td>
<td>0.02</td>
<td>0.01</td>
</tr>
</tbody>
</table>

Source: Department of Census and Statistics of Sri Lanka
Thus no significant impact from ME crisis on migrant labour

Conversely, crisis-driven oil price escalation has led to more prosperity in the ME higher demand for migrant labour

However could cause a major impact if crisis spreads to other ME countries
Tourism

- Tourism is growing between ME and SL
- With the end of war in SL in 2009, tourist arrivals are expected to increase significantly
- Share of tourists originating from ME has increased from 1.9% in 2005 to 6.7% in 2011, while shares of other regions have declined
- Daily flights to the Gulf region from Sri Lanka:
  - Sri Lankan Airlines, Emirates and Qatar Airways
- But main sources are UAE & Saudi Arabia, not crisis affected countries
- Thus impact of crisis on tourism not significant
Tourist Arrivals by Region

Conclusion

- The ME unrest poses several global challenges
- Its direct impact on global trade is limited
- But a significant indirect impact on trade via escalating oil prices
- Key impact on SL trade has been the adverse effect on the trade balance due to high oil prices
- Other impacts not significant since SL’s main ME partners remain unaffected
- However, the risk of the crisis spreading to SL’s major partners like Saudi Arabia and UAE cannot be dismissed
Thank you