The Effects of Financial and Economic Crisis of Some Arab Country

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Abstract: The world has passed many dilemmas in the previous years, which started with the global nutrition crisis followed by the latest global financial one. However, the latter differed from any previous dilemmas because of its complicated reasons, geographical expansion and economic as well as non-economic reflections on many countries worldwide. Therefore, countries were unable to probe into its real reasons and to answer the question, whether the crisis is real or not. Consequently, this study aimed to define the crisis, attempt to find its reasons, in addition to examining the consequences it left on some Arab and international countries via analyzing some major economic indicators with high influence on the crisis such as the inflation rate, the total national production, the individual share of it, besides the change in the prices of some goods on both the Egyptian and global levels. The results have shown an increase in the inflation rate in all the studied Arab countries during the years: 2007 compared to 2006 and 2008, compared to 2007, Bahrain being the lowest and Egypt being the highest. As for the relative increase in the national production, the highest was in Libya, and the lowest was in Saudi Arabia in the first year of the comparison while in the second Qatar came first, and Tunisia came last. Moving to the relative change in the individual share of the national production, Algeria alone underwent a decrease in the first year while the share in the rest of the countries went up. This was reversed in the second year when Algeria achieved the highest share, and Yemen came lowest. Examining the relative change in the prices of some nutrition goods as wheat, corn, rice, sugar and soya oil on both the Egyptian and the international levels, the study shows a relative increase in the prices in the covered years when in the first the highest rate was in corn in Egypt (about 18.5%) while wheat made the highest rate of the increase in the second (77.2%). Globally, rice came first in the second year by about 61%. Consequently, the former results reflect the amount of loss the Egyptian economy witnessed because of the increase in the prices of wheat only, especially, as it comes as the first strategic good in Egypt. This has resulted in an increase in the imbalance in the Egyptian financial budget. Even though the crisis had major disadvantages on the global economies in general and the Egyptian one in specific, there were some benefits that can be further invested and developed; for example, the relative increase in the total national production from 21.4% to about 24.4% as well as the increase in the individual share of it from about 16.3% to 20% during the two years of comparison, respectively. Furthermore, the crisis should be considered as an eye-opener that self-sufficiency in strategic goods as wheat, rice, and corn should replace dependency on foreign ones. Therefore, there should be an increase in the agricultural investments and exploiting the plots of desert under cultivation to increase the cultivated land.
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1. Introduction:

Economic systems suffer from kinds of crises from time to time. These crises differ in causes, effects and limits. As there are natural causes, which result from what problem life can bring, there is, as well, what is unusual in the standard of systems? The international economic system has undergone many various crises, but no one like 2008, which shook the strata of many financial systems and affected many countries both directly or indirectly. The difficulty of understanding the crises comes from its large geographical scope and economic reflections that are why local and national efforts convened trying to probe into its apparent and hidden causes in order to put a treatment strategy.

Moreover, the crisis has posed lots of questions: is this a real crisis or is it just a conspiracy by some powers to hegemonies global economy? If real, can it really lead to the fall of the global economy? Alternatively, is it just some pitfalls in the Capitalist system of some financial and monetary institutions leading to a collapse that was exaggerated by the media to give the opportunity to some great countries to control food and energy resources in some parts of the world?

Problem:

The global financial crisis of 2008 was not the first to its kind and will not be the last. As some try to restore it to technical reasons, that have to deal with the lack of liquidity and the inability of borrowers to cover their loans, others claim the reason was the lack of transparency. Hence, the real reasons behind this real crisis remain a mystery!

Research Objective:

The study aims to identify the financial crises, its reasons and effects on some Arab and foreign countries through examining some economic indicators and to propose some recommendations to avoid its negative effects, if found. Egypt is taken as an example of the effects of the crises.

2. Research Methodology and Sources of Data:

To achieve its goals, the study adopted the statistical descriptive style in presenting and analyzing the results collected from the published and unpublished secondary resources in the Central Agency for Public Mobilization and Statistics and some other electronic sites related to the study topic such as Reuters and the International Monetary Fund.

3. Results and Discussion:

Identifying the financial crises:

Since its establishment and until the present time, the capitalist system has suffered many economic crises, also known as economic cycles to refer to the sudden upsets in this economics, which create an imbalance between supply and demand. However, the main difference between crises and cycles is that were as the former happens suddenly, the latter recurs regularly. Other features of a financial crisis are that it affects the banks and money markets of a country or more resulting in the failure of the local banking performance at carrying out its main duties, and consequently, the declension of currency value and the prices of shares. These effects may move to the sectors of material production as it may lead to the increase of unemployment, in addition to the redistribution of incomes and resources among the global monetary markets.

Crises may occur suddenly because of “over trusting”; this happens when the overflow of money to a certain country is accompanied with an expansion in money lending without taking good guarantees of the ability of borrowers to pay back. This leads to the lack of liquidity, a relative fall in currency value or even smuggling capitals abroad. Other opinions may define it as a sudden fall in the price of one or more kinds of the assets, which can either be monetary or property rights on them (Salah Aldein Muhamad Amen AlImam ,2009)(7).

There are two kinds of financial crises: the first leaves major impacts on the economy leading to a state of stagnation and sluggishness while the other’s impacts are so limited that they hardly affect the economy. Unfortunately, the current crisis is of the first kind as the International Monetary Fund predicts a future slowdown in the global economy (Salah Aldein Muhamad Amen AlImam ,2009) (7).

The world has passed several crises, such as:

1-The Great Depression (1929-1933)

The worst economic crises to ever pass the global economy that it is still the scholars’ object of study in relation to its causes and how the United States (U.S), the worst affected, managed to recover.

The reason of this dilemma was that the United States presented 13 Million shares without ensuring there were buyers; this led investors to sell their shares, as well so that prices fell suddenly and thousands of shareholders found them broke the next day. The total loss during the period from 13-25/ 11/ 1929 reached 30 billion dollars, hundreds of banks and insurance companies collapsed, and stagnation prevailed over the United States (Thoraya Alkharzagy, 2009) (9).

2-1987 financial crises:

The so-called, black Monday, happened again in the U.S where the prices of the shares collapsed in Wall Street reaching a total loss of 500 billion dollars. Although the crises later infected the rest of the stock markets, it was not as bad as the Great depression of 1929/33 because it only lasted for one year. However, that year the sterling pound indicator disappeared, the buildings’/properties/estates* prices fell so did that of the shares, many banks were declared bankrupted because of the borrowers” inability to pay back, companies presented bonds to help in financing and central banks and oil countries were negatively affected due to the fall in dollar value. Evidently, all this led to a decrease in investment and an increase in the unemployment rate (Thoraya Alkharzagy ,2009) (9).

3-1997 financial crises:

This crisis started in South Asia when the Thai government decided to liquidize its currency to an extent that it could not support it because of strong transactions? The crises then infected other South Asian countries such as Indonesia, Philippines, Malaysia, and South Korea. The main outcomes were: the heavy fall in the currency of these countries, the high rate of inflation in a very short period, a weakening of governmental monitoring and lack of transparency, which led to the inaccuracy of the published data about the activity of companies and the trafficking/smuggling of money abroad. The crisis’ impacts did not stop here, but led to structural upsets in the economies of these countries as it resorted to manufacture for exporting and achieving growth relying on foreign investments and loans. This led to an excess in investment without exposing/presenting the country's reserve* of foreign currency in addition to the sudden shifting of foreign capitals outside the country leading to a decrease in the national spending and the current account (Thoraya Alkharzagy ,2009) (9).

4-The 2008 global financial crisis:

Stages of crisis (Aljazeera site, 2009) (1):-

The major stages started in U.S at the beginning of 2007 then moved to Europe.

-February 2007, not paying back housing loans.

-August 2007, a declension in stock markets because of the expansion of the crisis perils/dangers.

-October 2007 many big banks declare a fall in the prices of the shares because of the problem in the housing loans.

-22 January 2008, the American Central bank decreases the interest rate to 3.5% then to 2%

-17 February 2008, the British government nationalizes Northern Rock Bank.

-11 March 2008: central efforts convene to solve the loans' market.

-16 March 2008: G.G. Morgan Cheese Bank announces the purchase of the American Business Bank, Bersteernas, with a low price.

-7 September 2008, the American treasury ministry puts two big enterprises in the field of housing loans, to Freddie Mac, Fannie Manny, under patronage and covering its debts to a limit of 200 billion dollars.

-15 September 2008 business bank Lehman Brothers Bivlassh declares itself bankrupted, Of America, a major U.S bank announces the purchase of Terrell Lynch bank from Wall Street workers, and ten international banks agree on establishing a liquidity fund with a capital of 70 Billion dollar to face dire needs.

-16 September 2008: Federal and the American government nationalize the world's biggest insurance enterprise, (ATE), because it was threatened to collapse.

-17 September 2008: stock markets worldwide continue to break down and loans weaken the monetary system.

-18 September 2008: the British bank (Lloyd TSB) bought rival (HBOS) is, threatened with bankruptcy and the American authorities draw a plan with estimated costs of 700 billion dollars to make banks get rid of unsold assets.

-26 September 2008: the collapse of the prices of shares of the Belgian Netherlands banking enterprise.

-29 October 2008: Japan is pumping billions of dollars to ensure itself against the decline of stock markets, so does gulf countries to ensure deposits in banks.

The effect of the financial crisis on some countries:

From what is mentioned before, it can be inferred that the current financial crisis is a financial one that has turned to an economic one. The following is some of its consequences on some countries (Aljazeera site, 2009, 1).

-Many big enterprises went bankrupt, including as mentioned before major ones as Lyman Brothers Bank then Lynch, Terrell Company, which lost about 23 Billion Dollars, the one loss followed another.

-The crisis has moved from U.S to hit other big financial enterprises in Europe as Bank Northern Rock in Britain and the fourth bank in U.K in capital, H.B or S., then Halifax Bank of Scotland, which the British bank, Lwedz, bought.

-German followed in this chain of losses when the crisis hit Heboreel State bank.

-Losses then reached Glitener Company in Iceland

-The losses of General Motors, the world biggest car company, were estimated to be 30.9 billion dollar in 2008, while Toyota's reached 7 billion dollar in the first quarter of* 2009. This was due to the decline in its sales out of the global decline in car demand.

The global financial crisis has cross passed boundaries and turned to an economic crisis with the following consequences (Muhammad Ayman Ezzat Almaidany, 2009) (5):-

-The collapse of money markets worldwide starting in U.S and ending in Asia affected 89 markets with a total loss reaching about 30 Trillion dollars in 2008

-The worst consequences were in the U.S where the industrial indicator, Dow Jones lost 50% of its value in 2008 while in the U.K, Financial Times indicator lost about 40%

-The crisis left its impacts on Germany; as well DAX indicator lost about 45% of its value in one year while in Japan, Nikia the Tokyo Stock Exchange indicator lost about 42% in 2008 only.

-As for Arab markets, Dubai's was the biggest loser, losing 72% of its value, while Saudi Arabia lost 57%, Egypt, 53.9% and Kuwait about 38%.

-These numbers prove the extent of the financial and economic consequences the crisis has had on many countries worldwide.

2. The effect of the financial crisis on Arab countries:

Generally speaking, the crisis had a negative impact on all Arab countries. However, those whose markets are more connected to the global market, were more affected than those who do not have many economic or financial ties with foreign markets. In the light of this, Arab counties can be categorized in two groups:

-The countries that are members in the Gulf Cooperation Council, those are highly open to foreign countries on the economic and financial levels. These are Saudi Arabia, Bahrain, Oman, Qatar, Kuwait and U.A. Emirates.

This showed itself in the decline in oil prices that reached 50% (150 dollars per barrel to about 77 dollars) which was reflected on its imports and the rate of economic growth, going down from 4.2% in 2009 to 5.7% in 2008. As a result, OPEC had to decrease the ratio of daily production to achieve some balance in oil price.

The countries that have a medium or low rate of involvement with the global market, for example; Jordan, Egypt, Libya, Tunisia, and Algeria (Farid Cortel and others, 2009) (3).

The consequences of the current financial crisis on some Arab countries can be traced via examining the economic indicators, which are often affected with financial aspects; for example, the inflation rate, the total local production, the individual share in the total local production, then measuring the rate of change in each of the examined indicators during the period (2006_08). Table 1 indicates that the rate of the inflation in countries with a high degree of involvement with foreign markets has increased after the crisis, specifically in 2007 and 2008 than it did in 2006(The International Monetary Fund,2009) (8).

Similarly, the table shows that in the rate of inflation went down in Syria, Jordan, Yemen, Morocco and Tunisia, while it went up in Egypt, Algeria and Sudan in 2007 compared to its rate in 2006. However, in 2008 the rate increased in all examined countries bearing in mind the variation in inflation, which can be taken to the inflation of prices of the nutrition products due to a decrease in supply(The International Monetary Fund,2009) (8).

Comparing the global inflation rate to the Arab one, it is clear that the global inflation witnessed an increase in the years 2007 and 2008 compared to its previous rate in 2006. Consequently, it comes as no surprise that the rate increases in countries with a high degree of economic openness.

The table also indicates the total national production of the examined Arab countries as well as the rate of the change in 2007 compared to 2006, then in 2008 compared to 2007. The comparison shows an increase in the national production of all countries in respect of the current value. As the rate of an increase in each country changed in 2008 compared to 2007, the increase in the change was recorded in 2007 rates compared to 2006 except for Sudan where the rate of change decreased in the second year compared to the first. In addition, the table shows that the highest rate of the increase in the national production in 2007 compared to 2006 was in Sudan and Libya (27%) while the lowest was in Saudi Arabia and Lebanon (11.6%). While the highest countries of 2008 were Qatar, Syria and Libya (44%, 36%, 35%, respectively), the lowest was in Tunisia (15%). Globally, it reached 5.2%, 3.2% for the years 2007 and 2008, respectively.

The table also tells of the individual share in the national production and its rate of change in 2007 compared to 2006 and in 2008 compared to 2007 in the studied Arab countries. The highest share of the individual was in Qatar, U.A. Emirates and Kuwait, 93.17, 54.61, 45.92 thousand dollars respectively, while the lowest share of individual was in Yemen, Sudan, Egypt and Syria reaching 0.96, 1.1, 2.2, 1.8 respectively in 2008.

Examining the relative change in the individual share in 2007 compared to 2006 than in 2008 compared to 2007, Table 1 shows that the individual share in Algeria in 2007 decreased than its rate in 2006 by 16%, it being the only country where the individual share decreased in this year compared to the previous one. However, it went back up in 2008 compared to 2007 by 61.5%. As for the rest of the studied countries, the table shows that the lowest rate of an increase in the individual share in the total national production in 2007 compared to 2006 was in the following countries: U.A. Emirates, Morocco and Tunisia while the highest rate was recorded in Libya, Sudan and Yemen in the same year. While the lowest rate of the increase in the individual share in 2008 compared to 2007 was in Yemen, Kuwait and Lebanon, the highest after Algeria was in U.A. Emirates, Libya, and Syria. As for Egypt, the increase during the years which the comparison included reached about 16.3% and 20%, respectively, while the global rate of the increase reached about 11.2% and 9.5% for both years, respectively.

The previous percentages reflect that the individual share has increased in all countries during the studied couple of years except for Algeria where the individual share decreased in the first for comparison, the year of the crisis. However, it went up in the second year compared to the first in all countries, foreign and Arabs, except for Bahrain, Yemen, Kuwait as the relative increase in 2008 individual share fell less than it was in 2007.

The effect of the global financial crisis on some nutrition goods on the global and local levels:

Examining the whole global and Egyptian prices for each of wheat, rice, corn, sugar, the meat group, soya and corn oils, being major goods, during the period from 2006 to 2008, table 2 shows that the relative change in the prices of the studied goods in Egypt made the highest record in the increase of prices for 2007 compared to 2006 for corn, corn oil and rice by a rate that reached 18.5%, 13.9%, 13.8% respectively, while the lowest rate in the increase of prices was in Red meat by about 1.5% and white meat by about 3.8%, the highest rate in 2008 compared to 2007 was in wheat by about 77.2%, vegetable oil by about 56.6%, rice by about 40% , and the lowest rate in that year was in tilapia fish by about 5%. Globally, the highest rate in prices was in rice, 61%, then in soya oil, 42.4% while the lowest rate was in sugar, 25.8% in 2008 compared to 2007.

The conclusion shows the increase in the prices of all the studied goods during the examined couple of years.

Table (1): the change in the inflation rate, the national production and the individual share during the two compared years.

Inflation rate				Gross national product (billion,$)						GNP per capita (000 $)				
country	2006	2007	2008	2006	2007	2008	/2006 2007	/2007 2008	2006	2007	2008	2007/2006	2008/2007
Jordan	6.3	5.4	14.9	14.8	17.00	21.2	14.8	24.7	2.73	3.02	3.47	11	15.7
U.A.E	-	11	13	163.3	198.7	260	21.7	30.8	38.8	40.15	54.61	3.5	36
Bahrain	2.00	3.3	3.5	15.9	18.5	21.9	17	18.4	19.7	22.8	25.4	15.7	11.4
Algeria	2.5	3.5	4.4	116.5	136.0	166.6	16.8	22.5	3.1	2.6	4.2	(16-)	61.5
Syria	10	3.9	15.7	33.4	40.5	55.2	21.6	36	1.6	1.8	2.2	12.5	22.2
Yemen	10.8	7.9	19	19.1	21.7	26.6	14.2	22.6	0.8	0.95	0.96	18.8	1
Sudan	7.2	8	14.3	36.4	46.2	55.9	26.9	21	0.74	0.91	1.1	23	21.9
Kuwait	3.1	5.5	10.6	101.6	114.7	148	12.9	29	37.3	43.9	45.92	17.7	4.6
Morocco	3.3	2	3.8	65.6	75.2	88.9	14.6	18.2	2.12	2.23	2.52	5.2	13
Saudi Arabia	2.2	4.2	9.9	356.6	384	468	7.7	21.9	14.3	15.7	17.9	9.8	14
Tunisia	4.5	3.1	4.9	31	35	40.3	12.9	15	3.04	3.2	3.5	5.3	9.4
Egypt	7.6	9.3	18.3	107.5	130.5	162.3	21.4	24.4	1.29	1.5	1.8	16.3	20
Qatar	12.5	13.8	15	56.8	71	102.3	25	44	67.9	76.39	93.17	12.5	22
Lebanon	8.8	4	11	22.4	25	29.3	11.6	17.2	5.7	6.2	6.8	8.8	9.7
Libya	25.6	12.4	10.3	56.5	71.8	93.2	27	35	8.2	10.3	12.4	6.25	24
World	11.2	9.15	8.35				5.2	3.2	7.51	8.35	9.15	11.2	9.5

Source: collected and calculated from the data of the International Monetary Fund, electronic site, the Internet (8).

The major results and recommendations:

The study has shown that the financial crisis has transferred to an economic one, which started in the U.S then moved to most countries worldwide affecting various economic aspects and major productive enterprises. This also resulted in an increase in the inflation rate of all Arab countries where the lowest rate was in Bahrain and the highest in Egypt. As for the increase in the national production in 2007 compared to 2006, the highest increase was in Libya while the lowest was in Saudi Arabia. However, comparing 2008 to 2007, this changed: the highest increase was in Qatar and the lowest was in Tunisia. As for the change in the individual share in the national production during the previous years of comparison, the highest share was in Libya, and the lowest was in Algeria in the first year while in the second Algeria was on top and Yemen was on the bottom of the list.

The study also showed the relative increase in the prices of major nutrition goods (wheat, corn, rice, sugar and soya oil) on each of the Egyptians and the international levels during the couple of years the comparison covered. It has been found that Egypt held the highest position in respect to corn by about 18.5. However, in the second year, while wheat came first in Egypt, rice was the first globally. Consequently, the study recommends relying on national production to provide major nutrition goods and avoiding foreign dependency.

Table (2): International and national prices of some nutrition goods during the years(2006-08)

	World prices (USD / ton)					Domestic prices (pounds /ton)				
Item	2006	2007	2008	2007/2006	2008/2007	2006	2007	2008	2007/2006	2008/2007
White wheat	186	226.29	299.81	21.7	32.5	1292	1418	2513	9.7	77.2
Sugar	492	310.26	359.43	(36-)	15.8	2715	2875	2488	5.9	13.5
Rice	216.65	214.78	345.83	(0.01-)	61.0-	1876	2135	2992	13.8	40.0
Corn	119.56	147.46	189.79	23.4	28.7	1183	1402	1906	18.5	35.9
Soybean oil	-	798.28	1135.56	-	42.3	6500	7400	11600	13.9	56.6
White Chicken *	-	-	-	-	-	7500	8000	10900	3.8	36.2
Red meat*	-	-	-	-	-	25000	25400	28000	1.5	10.1
Tilapia fish*	-	-	-	-	-	9200	9900	9400	7.9	5.0

Source: data was collected and measured from:
1. Central Agency for Public Mobilization and Statistics data centre, (2).
2. Food and Agriculture Organization of the United Nations (4).
3. Reuters news agency, (6).
(*) no data have been found for these good.

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