The MENA Region

Background - Economics and Politics

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Libyan Economy on the Rise

Author: Jan Kužvart

So far, Libya has not descended into anarchy or some kind of "meltdown", as some have concluded following numerous security incidents and local clashes since the end of the Libyan civil war. Rather, these events are symptomatic of a weak state structure, a surplus of guns, a long history of feuds and an atmosphere of suspicion and confusion. They are problematic but do not pose an existential threat to the country. More proof that Libya is on the right path can be seen in the, surprisingly, relatively smooth elections for General National Congress in July.

Great Potential for Investment

Besides being the third largest country in Africa, Libya has the tenth largest proven oil reserves (1.548 trillion cu m) in the world and is Africa's second largest oil producer and a major gas producer with a huge potential to develop its economy. Its Gross Domestic Product is around $37.492 billion and investments consist of 15.6 % of the annual GDP. The raising of UN sanctions on Libya's financial reserves and the recovery of its oil production and exports will enable the Libyan private sector to grow and will provide many business opportunities.

Chronic Obstacles and Challenges

The country still faces many challenges including endemic corruption and smuggling, which accounts for 40 percent of GDP and is equivalent to the defence budget. It is a huge task for any emerging authority to stay on top of security challenges in a country which is so vast and diverse. However, the oil and gas protection force has been successful and this is a sign of what the new government can be able to do in future, at least in some areas. Nevertheless, transitional justice and law making, vital to the success of the new Libya, is lagging.

With regard to prosperity, the country faces the same issues as under the previous regime: structural unemployment of 25 %, high inflation and the issue of foreign labour. Even though people want jobs, they do not want to do the hard jobs on construction sites and in agriculture. Diversification issues remain from the previous era. Libya is a very small market with 6,7 million indigenous Libyans. It is therefore difficult to establish industries that can be competitive, building on import substitution and then progressing to export. The nature of foreign partnerships is still undecided.

In the public sector, a process of internal review and restructuring is occuring. The public sector entities are functioning, staff is being paid, planning is going on, but major decisions and major new contracts are not yet happening. Contracts are being awarded in priority areas: education, health, electricity and infrastructure.

The private sector has been thriving since the end of last year and is really making itself felt. In Tripoli new houses are being built, shops are being renovated, new rooms are being added to restaurants, the streets are busy, there is a huge consumer appetite, people are buying goods, there is liquidity and the banks have lifted restrictions on the amount of cash that can be withdrawn. The airlines are also doing well and there is a huge demand for flights. New food and beverage and retail franchises have been signed.

In the future there will be a private sector which has a lot more freedom to operate and a public sector which is slightly dysfunctional and slow in getting going, but which will be very well funded. The private sector will become much more important for joint ventures.

Libya's Outlook: Unstable yet Promising

The dramatic turn of events in 2011 which led to the overthrow of the Gaddafi regime and the creation of the National Transitional Council should help to create a more transparent Libyan economy which is open to development and diversification. Nevertheless, no one can forecast with any exactness what will happen in Libya in the coming months.

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Libya is at the beginning of the transition and the hard work is still ahead. In a broad sense, Libya is peaceful but the situation is still very edgy. Most of the major incidents, be they hijackings, clashes with militias or kidnappings, tend to be resolved through mediation. Following victory of the moderately Islamist "National Forces Alliance" led by Mahmoud Jibril in the General National Congress election Libya got a promising, business-oriented winner.

Mahmoud Jibril has a Western education, a conciliatory stance towards the movement for decentralization of the country, experience with liberal economic reforms and an eagerness to create a functional state apparatus whose presence will be felt by ordinary Libyans as well as any armed opponents of its authority. The elections were very well conducted despite grim expectations, even from some Libyans. It is not yet clear whether there will be a government of national unity. What will later emerge as a constitution is also unclear.

Economic activity in Libya is likely to rebound this year as the country rebuilds from civil war and oil production increases, the International Monetary Fund said in July. In a report on Libya's economy conducted by an IMF mission, the Fund forecast growth will skyrocket 116.6 % this year, following a contraction of 60 % in 2011. Growth next year is expected to ease to 16.5 % and 13.2 % in 2014, the IMF added. Libya has always been a relatively high risk market but one with high rewards. Now is the time for daring foreign companies to make their mark.

EGYPT in September 2012: President Morsi assets an institutional consolidation

Author: Zora Hesová

Summary: Two months after the presidential elections, Egypt finally entered a path of institutional and financial stabilization, while still facing serious economic challenges.

Government: A month after his election president Morsi named a low profile technocratic government with a limited presence of the Islamist FJP party. The government stands under the leadership of an independent technocrat, Hisham Qandil, a former minister of irrigation. A third of the posts were retained from the previous cabinet, named by the military. The conservative composition indicates a sense of caution and continuity as well as moderation by the Islamist FJP party. Yet a choice of a bureaucrat over an economist has caused some disappointment.

Security: The greatest security crisis in the Sinai so far left 16 Egyptian soldiers dead and led to the destruction of some 150 smuggling tunnels between Sinai and Gaza. The army raided presumed terrorists, yet the crisis had a serious political, rather than a security-related, aftermath.

Institutional consolidation: In a sweeping gesture and without major resistance, President Morsi assumed full presidential powers, hitherto shared with the SCAF. He retired both leading generals of the SCAF (Supreme Council of Armed Forces) that led the country after the fall of president Mubarak, as well scores of other generals and named new ministers of defense and new navy, air force and air defense commanders. In a welcome move, he named a prominent reform judge his vice- president.

Large presidential powers: President Morsi also abrogated the last constitutional declaration by which SCAF curtailed his powers and granted himself both full executive and legislative powers. In the absence of a legislative assembly, dissolved during the elections, he effectively concentrated greater powers than President Mubarak did.

Chances and dangers: While criticisms were voiced by Egypt's liberals, generally it is believed that effective policy making will be favored by this move as it ended a detrimental

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tug of war between the army and the Islamists. The absence of a reaction points to a possible prior deal with the military or at least with the younger guard within the military. A working relationship between the two major power centers, the military and the almost hegemonic political group, is being reached. Whether Pres. Morsi develops an authoritarian style of governance remains to be seen.

Constitution: Meanwhile, work on the constitution writing process continues amid moderate arguments and the courts have made clear they do not wish to disturb the process with hastened proceedings of pending cases about the legality of the constitutional assembly. There is a good chance that by the end of September a constitution draft may be announced.

Finances: In the first show of policy making improvement after 18 months of erratic state leadership, Egypt secured a number of loans for infrastructure overhauls (French Development Agency, World Bank) and large direct budget injections (Saudi Arabia, Qatar). Above all, President Morsi formally requested a $4.8 billion loan from the IMF. The previous governments were in negotiations with the IMF but unable to attain this stage, let alone invest in the infrastructure. A loan from the IMF will help stabilize public sector finances. There is a good chance that in the mid-term perspective Egypt will avoid devaluation and will instead proceed to a slow, controlled weakening of the EGP.

Economy: In the short-term energy supply difficulties remain dire: power shortages spread throughout Egypt due to summer heat. Egypt's state-owned energy importing company has difficulties supplying fuel due to worsened confidence in Egypt's (EGSC) payment and has to resort to expensive letters of credit or to limited traders. Protests and large strikes continue in state owned textile.

Foreign Policy: President Morsi is also taking his first foreign policy steps. He met with US Defense Secretary Leon Panetta, the King of Saudi Arabia, Hillary Clinton, Tunisia's Moncef Marzouki and plans to travel to Iran and the USA in September.

Freedoms: On the darker side of the power concentration, freedom of press continues to be challenged on political grounds. New editors-in-chief of state newspapers were named in the tradition of the past regime and an extreme right TV channel and a newspaper were closed down, resp. censored over criticism of the Muslim Brotherhood. In a calming gesture, President Morsi banned pre-trial custody of journalists, but freedom of press remains a test for the real level of authoritarianism of the new government.

Short commentary: On the ousting of the generals in Egypt

Author: Zora Hesová

Less than two months after his election, President Mohammed Mursi made a radical move: he removed the president of the High Council of the Armed Forces (SCAF) from the government, announced his and his deputy's retirement, and abolished the so called additional constitutional declaration, which was enacted by SCAF in June.

The 23-member SCAF headed by generals, Tantawi, and Annan, ruled over the post-revolutionary political developments of Egypt through a series of constitutional declarations. The army aimed to preserve the status quo and its privileged position in the era of democratization by insisting on keeping its budgetary autonomy and influence over important aspects of state sovereignty. During the presidential election, SCAF dissolved the elected, Islamist-majority parliament and appropriated essential presidential powers in anticipation of an Islamist victory. This made Egypt similar to Turkey 20 years ago. Both states had a double source of sovereignty: elections and the military.

President Mursi openly denounced this so called soft coup but took just a few symbolic

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steps against the army. Until the last moment he seemed to be a president with very limited powers. Recent moves, however, showed that what seemed to be passivity was in fact preparation for a decisive action to impose his authority.

Mohamed Mursi did two things: he removed from power the two most powerful military figures and named a young military intelligence chief, Abdel Fattah Sissi, who brings along a group of younger officers, Defence Minister. The absence of immediate reaction from the old army leadership indicates an internal coup. Mursi might have collaborated with the younger opposition within the army.

The move shows a possible future distribution of power: an Islamist-military alliance. Such an alliance would certainly lead to a more efficient government than the cold war that rages hitherto between the Islamists and the military. But in the long term, such an alliance is certainly negative for the democratization of state institutions and political liberalism. The question is whether it will survive the upcoming negotiations on the details of a power division in the new constitution.

The second move was the abolition of the last constitutional declaration by SCAF, which was widely considered illegitimate and undemocratic. The power thus returns to the president and SCAF loses its constitutional privileges. It helps solve the fluid and unclear legal situation in which the Army used to change the rules of on the go and it is certainly a positive step.

Yet, in the absence of an elected assembly, such a move leads to a strong concentration of an almost dictatorial power in the hands of the president. The Egyptian state, however, is still in a situation of institutional weakness – it is unclear which institution has which power. The assertion of an elected institution – the president – at the expense of a non-elected and uncontrollable institution – the SCAF – is a risky, but potentially positive development.

All of this depends on how Mursi will proceed: whether he will continue to concentrate power, or whether he will make use of his new assertiveness to speed up the reform and constitutional processes, that is, whether he will act as a statesman.

This analysis is also available in the Czech language.

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