

Briefing Paper

The Middle East and North Africa Risks Landscape

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In partnership with Marsh & McLennan Companies and Zurich Insurance Group



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Cover photo: Fayez El Quridy, 35, looks through binoculars at Borg al-Arab desert in Alexandria, Egypt (REUTERS/Amr Abdallah Dalsh).

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A Complex Risk Environment

Disruptive forces are reshaping the global and regional landscapes. The Fourth Industrial Revolution is offering new opportunity for economies that are positioned to leverage resources in the form of skills and innovation. But at the same time, the technological demands of this period, as well as fractures in the global community, are presenting a complex risk environment for stakeholders. Because the Middle East and North Africa (MENA) is home to more natural-resources dependent economies than skills-driven ones, and because the region houses existing political and societal divides, the impact of technological and geopolitical disruptions may be more pronounced here than elsewhere in the world.

This briefing paper uses data from the *Global Risks Report 2019* and the *Regional Risks for Doing Business 2018* report to offer an overview of the risk environment for the MENA region. In bringing together data from these two World Economic Forum publications, the paper presents a “glocal” perspective – a perspective that includes both global and local assessments. The combination of these outlooks is necessary at a time of immense risk complexity: risks are not only intersecting one another, they are also spanning national and regional boundaries. Yet, despite the need for coordinated effort among parties to address these challenges, divisions are taking hold at national, regional and global levels, making risk mitigation more challenging.

The paper opens with an examination of the primary risks to the global community, as identified by the Forum’s Global Risks Perception Survey (found in the *Global Risks Report 2019*), with a focus on the implication of these for the MENA region. The paper then explores risks to the region – economic, governance and security hazards – as identified by the Forum’s Executive Opinion Survey (found in the *Regional Risks for Doing Business 2018* report). The paper concludes with country-level data on risks to the region.

A note on the surveys used in this briefing paper

Two separate surveys designed by the World Economic Forum are used to inform this briefing paper: the Global Risks Perception Survey, which polls the Forum’s multi-stakeholder community of experts, policy-makers, and members of the private sector and NGO community about global risks, and the Executive Opinion Survey, which polls business leaders and includes a question about risks to doing business in their respective countries. Additional details of the two surveys may be found in the methodology section at the end of this paper.



Heavy fog in the morning near the Dubai Marina (REUTERS/Steve Crisp).

The Global and Regional Risks Landscape

Global risks are intensifying but the collective will to tackle them appears lacking.¹ There has been divergence among states and stakeholders when it comes to taking coordinated steps towards addressing common risks. The idea of “taking back control” – whether domestically from political rivals or externally from multilateral or supranational organizations – resonates across many countries and many issues.

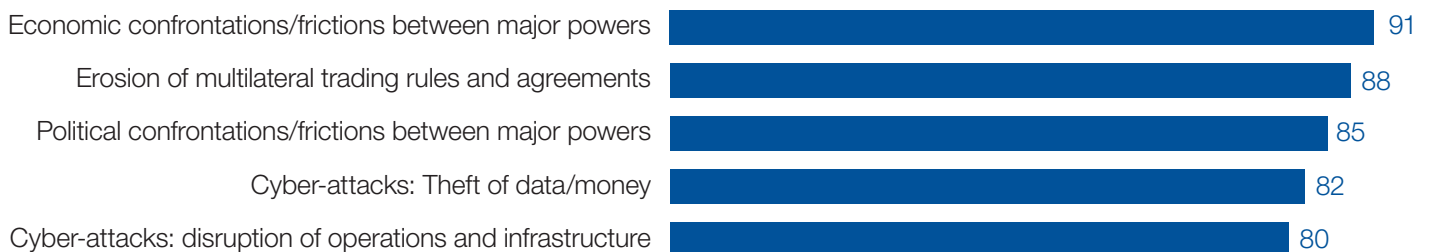
Against this backdrop it is likely to become more difficult to make progress on key, collective challenges, from strengthening the global economy to protecting the environment to addressing the challenges of cyber risks. Because today’s risks are complex, multifaceted and often interconnected, a go-at-it-alone approach will be ineffective in reducing risks and building necessary resiliency. The cracks in cooperation raise the question: if another global crisis were to hit, would the necessary levels of cooperation and support be forthcoming?

Growing geo-economic division across the globe

Geo-economic tensions across the globe ratcheted up during 2018. Respondents to the Global Risks Perception Survey were concerned in the short term about the deteriorating international economic environment, with the vast majority expecting increasing risks in 2019 related to “economic confrontations between major powers” (91%) and “erosion of multilateral trading rules and agreements” (88%).

Geo-economic divisions come as the rate of global growth appears to have peaked. The International Monetary Fund (IMF) forecasts a gradual slowdown over the next few years.² This is mainly the result of developments in advanced economies, but projections of a slowdown

Figure 1: Short-Term Risk Outlook
Percentage of Respondents Expecting Risks to Increase in 2019



Source: World Economic Forum Global Risks Perception Survey 2018–2019. (Adapted from *Global Risks Report 2019*)

in China – from 6.6% growth in 2018 to 6.2% this year and 5.8% by 2022 – are a source of concern. So, too, is the global debt burden, which is significantly higher than before the global financial crisis, at around 225% of GDP. In addition, a tightening of global financial conditions has placed strain on countries that built up dollar-denominated liabilities while interest rates were low.

As the global economy faces some headwinds, cross-border trade – long seen as a means of mitigating geopolitical risk by embedding powers in mutually beneficial relationships – is now frequently seen as a tool of strategic competition. The potential costs of deepening trade tensions were highlighted in January 2019 when the IMF cited trade disputes as one reason for revising down its global growth projections for the second time in three months.³ These developments hold risk for the MENA region, home to trade-dependent economies, where, according to the IMF, total trade-to-GDP ratio amounts to approximately 66%.⁴

The risks of climate change and cracks in the global response

Eighty-five percent of respondents to the Global Risks Perception Survey expect “political confrontations/frictions between major powers” to increase in 2019. These rising geopolitical divisions are making it more challenging to address the biggest global risk – climate change.

Environmental risks dominate the results of the Global Risks Perception Survey for the third year in a row. This year, climate-related issues accounted for three of the top five risks by likelihood and four by impact over the next 10 years. Extreme weather was the risk of greatest concern, but survey respondents were increasingly worried about environmental policy failure. “Failure of climate-change mitigation and adaptation” ranked as number two in terms of impact this year.

Figure 2: Top 5 Global Risks in Terms of Likelihood (Next 10 Years)

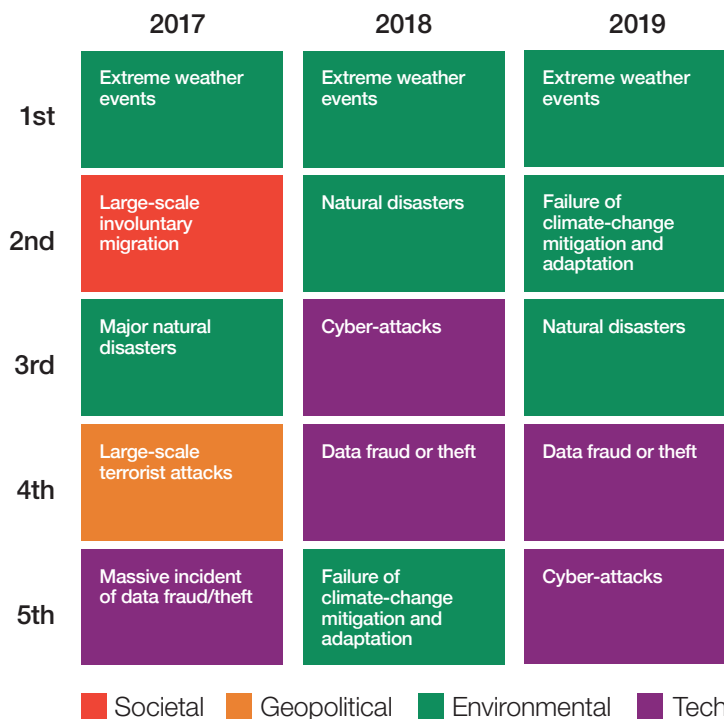
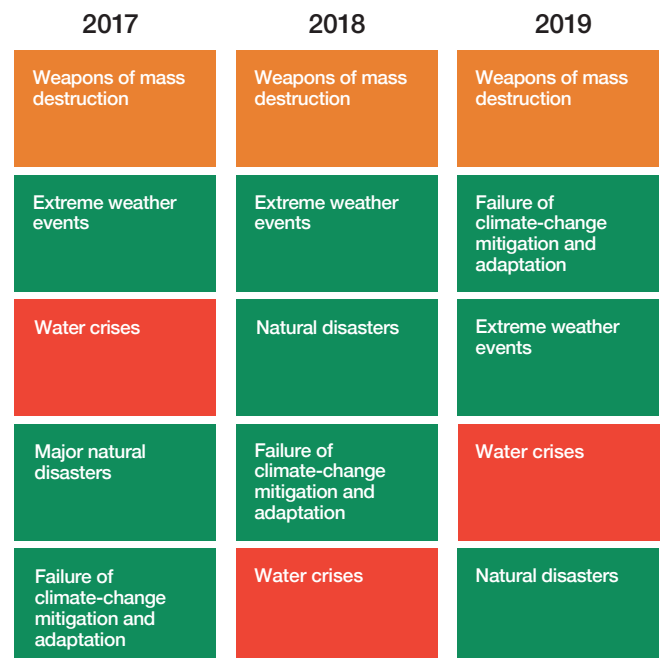


Figure 3: Top 5 Global Risks in Terms of Impact (Next 10 Years)



Source: World Economic Forum Global Risks Perception Survey 2018–2019. (Adapted from *Global Risks Report 2019*)



An aerial view of Wadi Rum, Jordan (REUTERS/Ali Jarekij).

The results of climate inaction are becoming increasingly clear. The year 2018 was the fourth warmest on record.⁵ In the MENA region, Algeria had the hottest temperature – 51.3°C – ever reliably recorded across the whole of Africa and Oman recorded a minimum temperature of 42.6°C.⁶ Rising temperatures led the UN to warn that melting ice sheets were causing sea-level rise to accelerate. The World Bank identified 24 port cities in the Middle East and 19 in North Africa at particular risk of rising waters.⁷

Climate change will also bring a second-order risk for the region. As countries around the world take steps to reduce their dependence on fossil fuels to stem the effects of climate change, the oil-based economies of the MENA region will feel the repercussions.

Yet, in stark contrast to the results of the Global Risks Perception Survey – respondents to which are the global stakeholder community – respondents in the Middle East and North Africa to the Executive Opinion Survey did not rank environmental issues high on the list of risks in the region. The lack of prioritizing climate change points to a blind spot among stakeholders when it comes to considering the risks of the issue to the region.

Global technological threats

Technology plays a profound role in shaping the global risks landscape in the near and longer term. Concerns about data fraud and cyberattacks were prominent again in the Global Risks Perception Survey, with 82% of respondents expecting cyberattacks in the form of theft of data or money and 80% expecting it in the form of disruptions of operations or infrastructure to increase in 2019. Similarly, “data fraud or theft” and “cyberattacks” ranked as the fourth and fifth risks, respectively, in terms of likelihood over the next decade.

Indeed, there were further data breaches in 2018, new hardware weaknesses were revealed, and research pointed to the potential uses of artificial intelligence to engineer more potent cyberattacks. Last year also provided further evidence that cyberattacks pose risks to critical infrastructure, prompting countries to strengthen their screening of cross-border partnerships on national security grounds. According to Cisco, 94% of companies in MENA said they experienced a cyberattack in the past year and almost half of attacks, 48%, resulted in damage valued at over \$500,000.⁸ The rise in the flow of data across borders means that these types of risks are only expected to increase.

Economic and governance risks to the MENA region

Exogenous factors, such as geo-economic division, climate change and technological threats all pose a particular risk to MENA, but so, too, do hazards that are more regional in nature. According to respondents in the Middle East and North Africa to the Executive Opinion Survey, the top two risks across the region for doing business are “energy price shock” and “unemployment or underemployment”. These risks are largely economic in nature and affected by the health of governance in the region. Similarly, the number five risk, (“fiscal crises”), the number seven risk (“unmanageable inflation”) and the number 10 risk (“failure of financial mechanism or institution”) follow the same pattern of being largely economic in nature and potentially governance-driven.

The top risk, “energy price shock”, comes at a time when some countries have taken steps towards diversification, but the region is still largely a hydrocarbon economy, heavily reliant on revenue from this sector. Oil prices increased substantially between 2017 and 2018, from around \$50 to \$75. This represents a significant fillip for the fiscal position of the region’s oil producers, with the IMF estimating that each \$10 increase in oil prices should feed through to an improvement on the fiscal balance of three percentage points of GDP. However, vulnerabilities to swings in oil prices have not disappeared and are particularly pronounced in countries where government spending is rising. This group includes Saudi Arabia, which the IMF estimated in May 2018 had seen its fiscal breakeven price for oil — that is, the price required to balance the national budget — rise to \$88, 26% above the IMF’s October 2017 estimate and also higher than the country’s medium-term oil price target of \$70–\$80. It is no surprise, then, that Saudi Arabia remains one of five

Figure 4: Top Ten Risks in MENA

- 1 Energy price shock

- 2 Unemployment or underemployment

- 3 Terrorist attacks

- 4 Failure of regional and global governance

- 5 Fiscal crises

- 6 Cyber-attacks

- 7 Unmanageable inflation

- 8 Water-crises

- 9 Illicit trade

- 10 Failure of financial mechanism or institution

Source: World Economic Forum, *Regional Risks for Doing Business 2018*

countries in the region that rank “energy price shock” as the top risk to doing business in our survey, along with Bahrain, Kuwait, Oman and Qatar.

The risk of an episodic energy price shock signals a broader, systemic risk for the region. Unless MENA economies diversify, business and society will not only be hostage to oil market fluctuation in the short term but also will be ill-prepared to thrive in the global economic landscape of the Fourth Industrial Revolution. As technology increasingly disrupts the business landscape, economies will place a premium on what is above ground – skills and innovation – rather than on what is below.

On the labour side, the changes brought on by the Fourth Industrial Revolution will create disruption to employment across industries. According to McKinsey, by 2030, up to 375 million workers (14% of the global workforce) may need to find different occupations because of new efficiencies such as automation.⁹ Yet, already in the Middle East the labour landscape is dire. For the past 25 years, the rate of unemployment among young people in the MENA region has been the highest in the world and in 2017 the rate was 30%.¹⁰ There are significant risks to the economies being able to absorb the labour force, particularly since 27 million young people will enter the labour market over the next five years.¹¹

And when it comes to governance, while discussion of reform is occurring in some places, there is a need for more comprehensive measures, including addressing corruption, reducing subsidies and improving access to finance.¹² Speaking in Dubai in February 2019, the head of the IMF, Christine Lagarde was critical of “spending kept off-budget” as well as high levels of borrowing. Lagarde said: “With better governance, we can replace the ‘disintegration’ of corruption with the ‘integration’ of all into the productive economy. We can replace *fasad* with *islah* – reforms to set things right, to reconcile people with one another.”¹³

A risk, or perception, of insecurity in the MENA region

“Terrorist attacks” ranked as the third-leading risk in the Middle East and North Africa, according to respondents in the region to the Executive Opinion Survey. Similar to economic and governance issues, this risk is one that

manifests from inside, rather than outside, the region. Yet, it is notable that terrorism ranked so high in the opinion survey because it runs counter to the data on attacks. According to the Global Terrorism Database, the number of attacks in MENA dropped by 38% in 2017 from the year before and the number of deaths fell by 44%. The most significant drops in terms of incidents were in Turkey, Yemen and Saudi Arabia.¹⁴

What accounts for respondents ranking terrorism as a top risk when the most recent indicators show a decrease both in incidents and death toll? One answer may be that while the absolute numbers may be declining, the relative number is high: MENA is home to the largest share of incidents and deaths compared to the rest of the world, 31% and 44%, respectively.¹⁵

Another possibility may be that “terrorism” is acting as a proxy for respondents to capture an overall sense of insecurity in the region. Some analysts point to continued, longstanding frictions as a reason to dub the area from Morocco to Iran a “band of instability”.¹⁶ More specifically, Syria and Yemen are ranked as countries of “very high alert” and Iraq as “high alert”, according to the Fragile State Index, and negative developments in these states can have repercussions that manifest in other states. Similarly, instability in other countries, such as Libya, and fractures – and even outright hostilities – between some states in the Gulf and Levant add to overall regional insecurity. This, even as some factors, like the aforementioned drop in terrorist activity and the decline of the Islamic State, are trending in the right direction.

Towards risk mitigation and resiliency

For stakeholders across the globe, risk mitigation and resiliency can be heightened through a coordinated rather than go-at-it-alone approach. Preventing the harms of climate change from being realized – or, responding to effects in an effective manner when they manifest – for instance, is only possible through cross-sector and cross-border partnerships. Similarly, strengthening economic structures and governing institutions in the MENA region can best be achieved through a multistakeholder approach that leverages diverse resources, including skills and expertise, and aligns actors towards a common goal.

Regional Risks at a Glance

The table below presents the key risk-related findings for the MENA region from the Executive Opinion Survey. In each instance the table lists the top five risks for doing business in each economy – as cited by respondents in that economy – with “Risk 1” indicating the most frequently cited risk.

Where there is a tie, the tied risks are presented in the same cell, separated by a line, and the next cell in the row contains an ellipsis (“...”).

An asterisk beside the name of an economy indicates that the most recent available survey data are from 2017. A double asterisk indicates that the most recent data are from 2016.

	Risk 1	Risk 2	Risk 3	Risk 4	Risk 5
Algeria	Failure of regional and global governance	Energy price shock	Failure of financial mechanism or institution	Terrorist attacks	Food crises
Bahrain**	Energy price shock	Fiscal crises	Unemployment or underemployment	Interstate conflict	Profound social instability
Egypt	Water crises	Unemployment or underemployment	Energy price shock	Terrorist attacks	Unmanageable inflation
Islamic Republic of Iran	Water crises	Unmanageable inflation	Interstate conflict	Weapons of mass destruction	Failure of financial mechanism or institution Unemployment or underemployment
Israel	Terrorist attacks	Cyber-attacks	Interstate conflict	Weapons of mass destruction	Failure of critical infrastructure Asset bubble Failure of national governance
Jordan	Terrorist attacks	Energy price shock	Failure of regional and global governance	Unemployment or underemployment	Unmanageable inflation
Kuwait	Energy price shock	Terrorist attacks Failure of urban planning	...	Failure of regional and global governance Extreme weather events	...
Lebanon	State collapse or crises	Terrorist attacks	Failure of national governance	Failure of critical infrastructure Unmanageable inflation Failure of urban planning	...
Morocco	Unemployment or underemployment	Failure of national governance	Profound social instability Energy price shock Water crises
Oman	Energy price shock	Unemployment or underemployment	Fiscal crises	Cyber-attacks	Asset bubble
Qatar	Energy price shock	Cyber-attacks	Asset bubble	Unemployment or underemployment	Water crises
Saudi Arabia	Energy price shock	Cyber-attacks	Terrorist attacks	Unemployment or underemployment	Failure of regional and global governance
Tunisia	Profound social instability	Unemployment or underemployment	Unmanageable inflation Illicit trade Fiscal crises
United Arab Emirates	Cyber-attacks	Energy price shock	Misuse of technologies	Data fraud or theft Terrorist attacks	...
Yemen	Illicit trade	Failure of regional and global governance	Spread of infectious diseases	Failure of financial mechanism or institution	Fiscal crises

Methodology

The findings presented in this report are based on data from two surveys designed by the World Economic Forum.

- 1. The Global Risks Perception Survey.** This is the World Economic Forum's source of original risks data, harnessing the expertise of the Forum's extensive network of business, government, civil society and thought leaders. The survey was conducted from 6 September to 22 October 2018 among the World Economic Forum's multistakeholder communities, the professional networks of its Advisory Board and members of the Institute of Risk Management. The survey received 916 responses. More details can be found in *The Global Risks Report 2019*, http://www3.weforum.org/docs/WEF_Global_Risks_Report_2019.pdf
- 2. The Executive Opinion Survey.** This is the survey that feeds into the Forum's annual *Global Competitiveness Report*. Each year it canvasses the views of business leaders from around the world on the state of the business environment where they are based. The Executive Opinion Survey was conducted in 2018 between January and June and the survey's risk-related question received 12,548 responses. The respondents were presented with a list of 30 global risks and asked to select "the five global risks that you believe to be of most concern for doing business in your country within the next 10 years". More details can be found in *Regional Risks for Doing Business 2018*, http://www3.weforum.org/docs/WEF_Regional_Risks_Doing_Business_report_2018.pdf

A worker at a quarry in the desert of Minya governorate, Egypt (REUTERS/Amr Abdallah Dalsh).



Endnotes

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