

## MENA-ASEAN: Emerging hubs of South-South trade

Middle East & North Africa Outlook  
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# Our View: A make or break quarter?

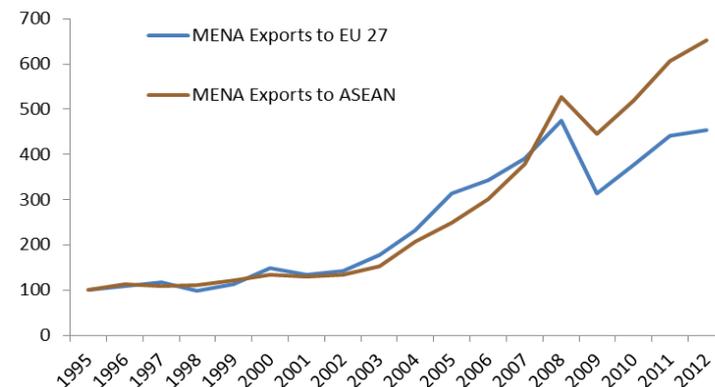
Our region has always been prone to crises. But contagion spreads faster today. Against a backdrop of escalating conflict in Libya, Iraq and Syria, we are looking out for signs that common sense will prevail. The short term priority will be to contain the violence and this could be a function of new grand alliances between Saudi Arabia, Iran and the West to stave off dire results on multiple open fronts

- Topping these are rising risks to Iraq's unity, given increased polarization that could escalate into civil war and has placed pressure on oil prices globally
- The free flow of arms along Syria and Iraq's porous borders could spill into Lebanon and risk further destabilisation during a Presidential vacuum
- Whether elections in Libya are deemed legitimate, and help abate Gen. Hifter's campaign against Islamists is as of yet unclear; continued oil disruptions might not cause a cash crisis imminently but have already damaged Libya's economic recovery
- MENA can no longer be viewed from the perspective of separate countries, a high-level vantage point is necessary to understand how different conflicts are interlinked

MENA is not without success stories, despite these not getting the same share of headlines. Tunisia's democracy is taking off with parliamentary elections set for November following a successful National Dialogue and a consensual electoral law. Egypt's Presidential elections were smooth enough, with the new cabinet taking concrete steps to assert its economic priorities

- Morocco also remains a bastion of stability in the Maghreb with subsidy reforms well underway while social unrest is being contained through alternative social security nets. By directing over three quarters of investment flows towards West Africa, Morocco is shifting its Europe-centric focus and opening up new horizons in its backyard
- The GCC is still riding on its safe haven status. As the risk premium on oil has sent Brent to highs of USD 115/bbl this month, fiscal positions will remain comfortable and support infrastructure investment plans equivalent to ~7% of collective GDP

Figure 1 – MENA Export Growth –1995=100<sup>2</sup>



MENA is also rapidly positioning itself as a major hub for emerging South-South trade. Over the past two decades, the trade mix with ASEAN+3<sup>1</sup> has mirrored technological advances. The next step will be grounded in knowledge transfer, as industrialising MENA economies emulate ASEAN+3 success cases

- After a five year period growing on average by almost 20% *pa*, MENA exports to Asia currently account for just under half of total MENA exports (Figure 1)<sup>2</sup>
- Bilateral investment opportunities abound in real estate, Islamic finance, agriculture and infrastructure
- These ties are likely to be supported at the highest level given increasing engagement through initiatives such as the Maritime Silk Road and the 21<sup>st</sup> Century Silk Road

<sup>1</sup> Association of Southeast Asian Nations: Indonesia, Malaysia, Philippines, Singapore, Thailand, Brunei, Cambodia, Laos, Myanmar (Burma), Vietnam + 3 (Japan, China, South Korea).

<sup>2</sup> Arabia Monitor; UNCTAD.

# GCC sovereign ratings update

|                     | Moody's |      | Last Moody's action     |            | S&P    |     | Last S&P action         |           | Rating change considerations   |
|---------------------|---------|------|-------------------------|------------|--------|-----|-------------------------|-----------|--|
|                     | Rating  | O/L* | Action                  | Date       | Rating | O/L | Action                  | Date      |  |
| <b>Bahrain</b>      | Baa2    | (-)  | Affirmed<br>O/L (-)     | 05-Nov-13  | BBB    |     | Affirmed<br>O/L stable  | 13-Jun-14 | The government will have to diversify its fiscal revenue base which remains dominated by oil receipts.   |
| <b>Kuwait</b>       | Aa2     |      | Affirmed,<br>O/L stable | 14-Mar-14  | AA     |     | Affirmed,<br>O/L stable | 14-Feb-14 | An improvement in the relationship between government and parliament could spur policies to develop the non-oil sector and attract FDI. Reducing the oversized public sector is another consideration. |
| <b>Oman</b>         | A1      |      | Affirmed<br>O/L stable  | 18-Jan-12  | A      |     | Affirmed,<br>O/L stable | 06-Jun-14 | If the government is able to address public grievances without putting a burden on public finances and external investor confidence, then the ratings could stabilize at current levels.               |
| <b>Qatar</b>        | Aa2     |      | Affirmed<br>O/L stable  | 17-Jul-12  | AA     |     | Affirmed<br>O/L stable  | 4-Apr-14  | Ratings could improve in view of a faster-than-expected maturity of domestic institutions and if growth became less dependent on public sector investment.   |
| <b>Saudi Arabia</b> | Aa3     |      | Affirmed<br>O/L Stable  | 16-June-12 | AA-    | (+) | Affirmed<br>O/L (+)     | 06-Jun-14 | Diversification through continued domestic investment of oil receipts could lead to upgrades over the medium term.   |
| <b>UAE</b>          | Aa2     |      | Affirmed<br>O/L stable  | 31-Jan-12  | N/R    |     |                         |           | Reducing the debt of government-related enterprises, Abu Dhabi Banks and Government of Dubai could support upgrade considerations in the medium term.  |

Bloomberg; Moody's; S&P; JPMorgan.

\*O/L stands for outlook

Note: Political & institutional factors, rather than just fiscal & economic performances, constrain GCC ratings starting from Moody's Aa & S&P's A categories

# MENA ex-GCC sovereign ratings update

|                | Moody's |      | Last Moody's action     |           | S&P    |     | Last S&P action         |           | Rating change considerations  |
|----------------|---------|------|-------------------------|-----------|--------|-----|-------------------------|-----------|---|
|                | Rating  | O/L* | Action                  | Date      | Rating | O/L | Action                  | Date      |   |
| <b>Algeria</b> | N/R     |      |                         |           | N/R    |     |                         |           | Sovereign rating likely on hold due to domestic and global conditions.  |
| <b>Egypt</b>   | Caa1    | (-)  | Affirmed<br>O/L (-)     | 24-Jul-13 | B-     |     | Affirmed,<br>O/L stable | 16-May-14 | Proceeding with the political roadmap would strengthen relations between the government and society, bringing about sustained improvement in external performance, including net international reserves, thereby easing external pressures.                                 |
| <b>Jordan</b>  | B1      |      | Downgrade<br>O/L stable | 26-Jun-13 | BB-    | (-) | Affirmed<br>O/L (-)     | 02-May-14 | Increased external support, a stable domestic political environment and strong international relations would support an improvement in the ratings outlook.   |
| <b>Lebanon</b> | B1      | (-)  | Affirmed<br>O/L (-)     | 14-May-13 | B-     |     | Affirmed<br>O/L to (-)  | 11-Apr-14 | Significant improvement in government finances to lessen dependence on domestic bank funding and a reduction in political risk are necessary for a ratings change consideration.  |
| <b>Morocco</b> | Ba1     | (-)  | Affirmed,<br>O/L (-)    | 11-Feb-13 | BBB-   |     | Affirmed<br>O/L stable  | 16-May-14 | The authorities need to achieve fiscal consolidation to reverse the rising debt ratio trend. An improvement in public finances would stabilize ratings at the current level.  |
| <b>Tunisia</b> | Ba3     | (-)  | Affirmed<br>O/L (-)     | 04-Jun-14 | B      | (-) | Downgrade<br>O/L to (-) | 18-Dec-13 | A political transition that alleviates uncertainties and instability, combined with a sustained recovery in economic growth towards pre-crisis trends, complemented by continued financial support from the IMF/international community, could lead to rating improvements. |

Bloomberg; Moody's; S&P.  
\*O/L stands for outlook

# About Arabia Monitor

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**Arabia Monitor** is an independent research firm specializing in economic and market studies on the Middle East & North African region, which we view as the new emerging market. Our forward looking perspective allows us to place recent developments in the region within a broader context and a long-term view. Our analysis is based on the macroeconomic and financial balance sheet of Arab countries to deliver unique strategy insights and forecasts to businesses across a wide range of sectors.

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