FUTURESCAPES

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MENA AT A CROSSROADS

UNVEILING LOOMING RISKS

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MENA at a Crossroads
Unveiling Looming Risks

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LIST OF ABBREVIATIONS

AI	Artificial Intelligence
ATRC	Advanced Technology Research Council
BRI	Belt and Road Initiative
DDoS	Distributed Denial-of-Service Attacks
DFI	Development Finance Institutions
DoD	Department of Defence
DRC	Democratic Republic of Congo
EIA	Energy Information Administration
EU	European Union
EUTF	Emergency Trust Fund for Africa
GCC	Gulf Cooperation Council
IFC	International Finance Corporation
IMF	International Monetary Fund
IOM	International Organization of Migration
KSA	Kingdom of Saudi Arabia
LNG	Liquified Natural Gas
MENA	Middle East and North Africa
NATO	North Atlantic Treaty Organization
ND-GAIN	Notre Dame Global Adaptation Initiative Index
NSA	National Security Agency
PHC	Plantations du Congo
TSB	The Shadow Brokers
UAE	United Arab Emirates
U.K.	The United Kingdom
U.N.	United Nations
UNFCC	United Nations Framework Convention on Climate Change
UNHCR	United Nations High Commissioner for Refugees
U.S.	United States of America
WTO	World Trade Organization

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FOREWORD

At this pivotal juncture, the MENA region stands at a critical crossroads. The region is experiencing a decisive moment that will shape the future dynamics of inter-country relations and regional security, which has faced significant threats in recent years. This publication, prepared by a team of experienced researchers at the renowned Al Habtoor Research Centre, endeavours to forecast the Middle East's impending challenges. It aims to delineate the region's comprehensive political, economic, and security landscape over the past years.

Through a series of incisive analyses, we address the geo-economic challenges and their profound impact on the future of the Middle East and North Africa. These analyses are situated within the context of the sweeping transformations occurring in the global system, a system characterised by economic conflicts that both influence and are influenced by ongoing security and military escalations. These conflicts have altered the global power map and are anticipated to significantly reshape the current world order, making our research all the more pertinent.

Moreover, we examine the risks engendered by the prevailing state of uncertainty, which threatens nations' economic prospects and disrupts critical and vital trade corridors and routes such as the Suez Canal, Bab El Mandab, and the Strait of Hormuz. These corridors are indispensable to global energy security and international trade. The manifestation of these threats is evident in the tensions and conflicts we have observed in the Red Sea, which have heightened fears of potential disruptions escalating into broader military confrontations.

The publication further delves into the new frontiers of warfare, particularly the transformations imposed by cyberspace on the nature and strategies of conflicts. These changes have redefined armament and deterrence methods, yet the region remains significantly unprepared for these evolving threats. At a time when the Middle East is increasingly becoming an attractive target for cyber-attacks and unconventional warfare, there is an urgent and pressing need to enhance preparedness for such confrontations.

In the region's prevailing instability and escalating political and security tensions, which have precipitated severe humanitarian crises, the migration challenge has surfaced as a critical determinant of the region's future. Prominent among these tensions are the civil war in Sudan, the ongoing instability in Lebanon, and the conflict in Gaza. Additionally, the continuous deterioration of internal situations in Syria, Libya, Iraq, and Yemen has posed significant challenges for neighbouring countries. These conflicts have profoundly affected migration dynamics in the region, resulting in substantial security and political ramifications that are expected to unfold in the coming period. The migration issues also present vulnerabilities and potential entry points for external agendas to influence aid-receiving nations.

In this context, the region's climate change challenges also invite external actors to impose their agendas. These actors often condition their support and assistance for addressing climate change on political and security changes, thereby imposing different priorities on the region's countries and threatening its stability.

Ultimately, this publication represents the culmination of extensive brainstorming and research conducted over an extended period by our dedicated team alongside numerous experts and specialists. Our goal has been to produce a structured forecast for the future of a region mired in chaos, which inherently complicates the creation of definitive predictive models for the coming years. At Al Habtoor Research Centre, we are committed to illuminating the often-overlooked areas, especially those pertaining to anticipated crises and potential risks. This publication is part of a series of research outputs aimed at contributing to a more stable and prosperous future for a region beset by threats.

Dr. Azza Hashem

Research Director
Al Habtoor Research Centre

Navigating a Turbulent Sea

The Economic Cost of the Israel-Hamas War on the MENA Region

By Pacinte Abdel Fattah

In 2024, several issues surround the global economy, casting doubt on economic growth and financial stability. The Middle East and North Africa (MENA) region is so far confronted with uncertainty over its economic destiny as it navigates this global economic turbulence. The region faces significant risks jeopardising its economic prospects, even with early signs of recovery in 2024. These risks include geopolitical tensions, such as the recent escalation of the Gaza war, which raises concerns about disrupting essential trade routes and impeding tourism. The tourism industry, vital to the economies of many Arab countries, encounters challenges, particularly in Egypt, Lebanon, and Jordan, due to their proximity to the conflict. In addition, the MENA region faces significant hurdles in trade and investment, and potential delays to crucial trade routes like the Suez Canal, Bab El Mandab, and the Strait of Hormuz might further complicate the region's already complex economic landscape.

Destiny's Crossroads: The Path Ahead of the MENA Region

In 2024, the global economy faces several significant challenges, casting doubt on the prospects for growth and stability. This comes after a period of recovery from the COVID-19 Pandemic, but rising interest rates, high inflation, and geopolitical tensions are projected to slow economic development. The World Bank expects global growth to slow to 2.4% in 2024, a considerable decrease from 2.6% the previous year.[1] The Russia-Ukraine War, supply chain disruptions, and rising energy prices continue to put upward pressure on prices, reducing purchasing power and impeding economic growth. A key issue is the expected downturn in global economic growth.

Furthermore, to combat inflation, central banks around the world are increasing interest rates. Although important, this causes financial conditions to tighten, raising the cost of borrowing for both individuals and businesses which could result in reduced investment and slower economic growth. This could exacerbate already-existing economic difficulties by affecting investor confidence, trade flows, and commodity prices. Adding to these concerns are several significant elections planned for 2024 that may have a significant impact; the most important of which is the United States (U.S.) presidential election, which is set for November, where the potential return of former President Donald Trump could make changes to U.S. policy pushing the country closer to protectionism. In addition, the victory of the governing Democratic Progressive Party in the Taiwan elections, which strongly supports Taiwan's weaker ties to China, will likely increase cross-strait tensions and exacerbate tensions between the U.S. and China.

Like many countries, the MENA region faces an uncertain economic future. Although there were early signs of hope for a recovery in 2024, several global risks now threaten to undermine its economic prospects. The most significant of these is the global economic slowdown, driven by factors such as rising interest rates and geopolitical tensions, which will negatively impact the growth prospects of the MENA region. This would result in a decline in the demand for exports, which in turn affects government revenue and economic activity by lowering the region's exports of oil, gas, and other items. This could put additional pressure on some Arab countries' fiscal and external balances, especially considering the tightening global financial circumstances and possible volatility in commodity prices.

Adding to these challenges is inflation. Although there are indications that it is easing in certain regions of the world, many Arab countries continue to be concerned about it due to the rising cost of food and energy globally. This is a result of the conflict in Ukraine and other global factors that have increased the price of major commodities.

Furthermore, the continued geopolitical tensions, especially the recent escalation of the Gaza war, raise serious concerns as it may worsen energy and food security, interrupt crucial trade routes, and obstruct tourism. A conflict that escalates or spreads might have a devastating effect on trade, investment, and economic growth in the MENA region, which was already downgraded by 0.5 to 2.9% by the International Monetary Fund (IMF), which is lower than last October's projections for the region.[2]

Also, according to Kristalina Georgieva, the IMF's Managing Director, the MENA region's economy has already been impacted by the conflict, and if it persists, there is a greater chance that these effects will spread especially due to Houthi attacks on commercial vessels in the Red Sea which might lead to further disruptions in the Suez Canal.[3]

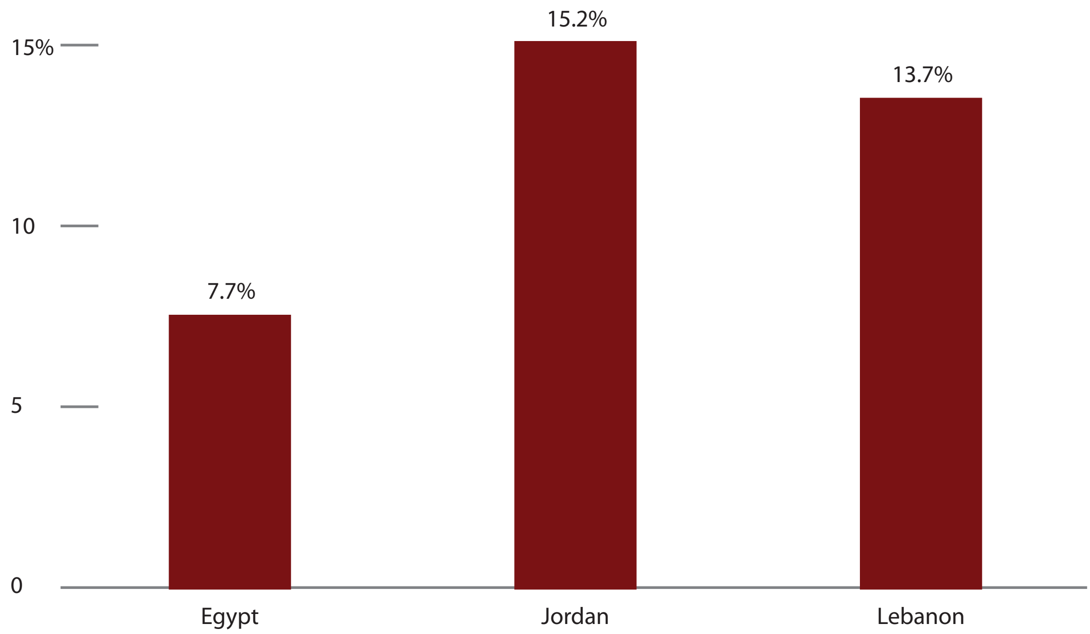
Tourism Under Siege: The War's Stranglehold on a Vital Sector

The tourism industry in neighbouring economies near Gaza, which was already experiencing a sustained decrease in tourism because of the pandemic, has suffered because of the current Gaza war due to its proximity to the conflict. These economies, like Egypt, Lebanon, and Jordan, had planned for a recovery in tourism in 2023, where before Oct. 7 hotel and flight indicators for the area had returned to 2019 levels; however, trends in hotel room occupancy rates began to deteriorate rapidly after the war. The travel sector, including airlines, cruise lines, and international travel operators, has reduced or delayed services, and companies in the area have expressed concerns about how an extended conflict may affect the MENA tourism sector, which is a bright and expanding one. The effects of the conflict have led the governments of the U.S. and Canada to advise their citizens to refrain from travelling to Egypt, Lebanon, and Israel.[4]

This sharp decline in foreign tourists seriously threatens these economies that rely heavily on tourism, accounting for 12–26% of their total foreign income. As tourism is a vital sector for many MENA countries, contributing between 2 and 20% of GDP and 5 and 50% of exports of goods and services before the pandemic, it also acts as a shock absorber, and any adverse events will unavoidably slow growth. Indeed, tourism is vital to these countries because it boosts GDP and creates jobs through a variety of means, including lodging facilities, airlines, travel agents, restaurants, and leisure sectors. According to World Travel and Tourism Council predictions, tourism accounted for 15.2% of Jordan's GDP, 13.7% of Lebanon's GDP, and 7.7% of Egypt's GDP in 2022.[5]

If we illustrate the effects on tourism in each country, beginningwith Jordan, the Ministry of Tourism and Antiquities

Figure (1): Tourism GDP Contribution in Neighbouring Countries 2022



Source: World Travel and Tourism Council

in Jordan has recorded a notable decrease in winter visitor arrivals, which they attribute to the ongoing war in Gaza and the Ramadan season. Compared to Jan. 2023, there was a 32% drop in same-day and total visitor numbers in 2024. In Jan. 2024, there were 469,800 tourists overall, a decline from 504,000 in Jan. 2023. Of these, 64,100 were day visitors, down from 95,000 in January of the previous year. In Jan. 2024, compared to the same period in 2023, European tourist arrivals fell by a significant 45% to 47,200 visitors, while Asian visitors decreased by 29.6% to 16,600 visitors.[6]

In Lebanon, where there have been major economic issues since 2019, tourism is expected to account for about 13.7% of GDP in 2023 (down from 18.9 % in 2019) and generate 360,000 jobs, or 19.8 % of total employment (down from 20.8 % in 2019). Major airlines have either stopped flights heading to Lebanon or have reduced the number of planes and flight schedules, indicating that the country's tourism industry is already suffering greatly. The Lebanese Restaurant Syndicates said that in November 2023, restaurant business had decreased by 80%, and hotel occupancy had decreased from 25% before the Israel-Hamas war to 0–7%. Numerous countries have previously warned their citizens, advising them to either stay away from Lebanon or depart right away.[7]

However, Egypt's tourism sector has had less severe difficulties compared to Jordan and Lebanon. Although October 2023 saw an increase in tourist arrivals, reports for the end of the year point to many cancellations, particularly from Western travellers. According to officials, the effects of the conflict are already being felt in South Sinai, which accounts for 32% of Egypt's total tourism, with more than 50% of planned trips to South Sinai being cancelled. An estimated 2.37 million jobs, or 8.5% of all employment, were produced by the travel and tourism industry in 2022, including both direct and indirect employment. Since the industry creates many jobs and is a major source of foreign exchange, any further decline could harm it.[8]

Indeed, based on an analysis of three scenarios with different percentages of lost tourism receipts (10%, 30%, and 70%), S&P Global Ratings evaluated the possible economic effects of interruptions in the tourism sector on Egypt, Jordan, and Lebanon. The assessment estimated loss in GDP in 2023 compared to 2022 ranges from 0.3% to 1.8% in Egypt, 1.2% to 8.5% in Jordan, and 3.3% to 22.9% in Lebanon. Given these challenges, the growth forecast for 2023 and 2024 has been lowered to roughly 2.6% for both years, down from the previous projection of growth in 2024 which was closer to 3%.[9] The war has negative ramifications that go beyond the tourism industry; these include decreased investment and a deceleration in the import demand within the region.

Unravelling the Gaza Conflict's Economic Impact on Trade and Investment

The MENA region faces significant challenges related to trade diversion and heightened transport and logistics costs, largely due to conflicts where trade tends to decline in the face of potential conflicts. Vital trade routes, like the Suez Canal and the Strait of Hormuz, can have far-reaching effects on both local and international trade. Long-lasting conflicts jeopardised the Suez Canal's operation and safety, as demonstrated by the incident in 2021 when a grounded container ship obstructed transit and increased shipping prices. Although these routes have not been directly impacted by the Israel-Hamas war, possible disruptions along the Red Sea raise concerns about additional obstacles to trade in the region.[10]

Negative effects could be seen in shipping and regional trade since shipping companies are already rerouting away from Middle East transit routes due to drone attacks in the Red Sea and the Gulf of Aden, which raises insurance costs. With 1.2% of GDP coming from Suez Canal dues and roughly 2.2% from the balance of payment receipts yearly (based on FY 2022/23), Egypt is particularly vulnerable. According to the head of the canal authority, the present Houthi attack and seizure of commercial vessels in the Red Sea has caused a 40% decrease in traffic compared to the same period in 2023, forcing big shippers to use an alternate route. In May, Suez Canal revenues dropped by 64.3% and the number of ships passing through decreased by 54% compared to the previous year, with only 1,111 ships crossing in May 2024 versus 2,396 in May 2023.[11] Despite efforts to increase revenues, the latest attacks have forced ships to look for alternate routes around the Cape of Good Hope, which has increased inflationary pressure on imported products.

Furthermore, if the conflict escalates, there is an increased risk to other commerce routes, such as the Eastern Mediterranean Sea, and other distribution routes, like air travel. Increasing complexity and possibly disrupting international supply chains and commercial flows is the probable result of tighter trade restrictions or sanctions. Persistent tensions may result in increasing fuel and operating costs, which would raise freight rates even further. It is expected that the increased level of uncertainty will lower investor confidence and decrease net inflows of foreign direct investment (FDI), which is anticipated to have a negative influence on the external sector and overall economic growth.[12]

Arab economies are strongly tied by trade and investment with China, the U.S., and the European Union (EU). In 2022, trade in goods and services between the U.S. and the Middle East was anticipated to be $212 billion, with $103.6 billion in exports and $108.5 billion in imports. In 2022, U.S. FDI in the MENA (stock) was $94.7 billion, with the nonbank holding companies' sectors, manufacturing, and mining leading the way.[13]

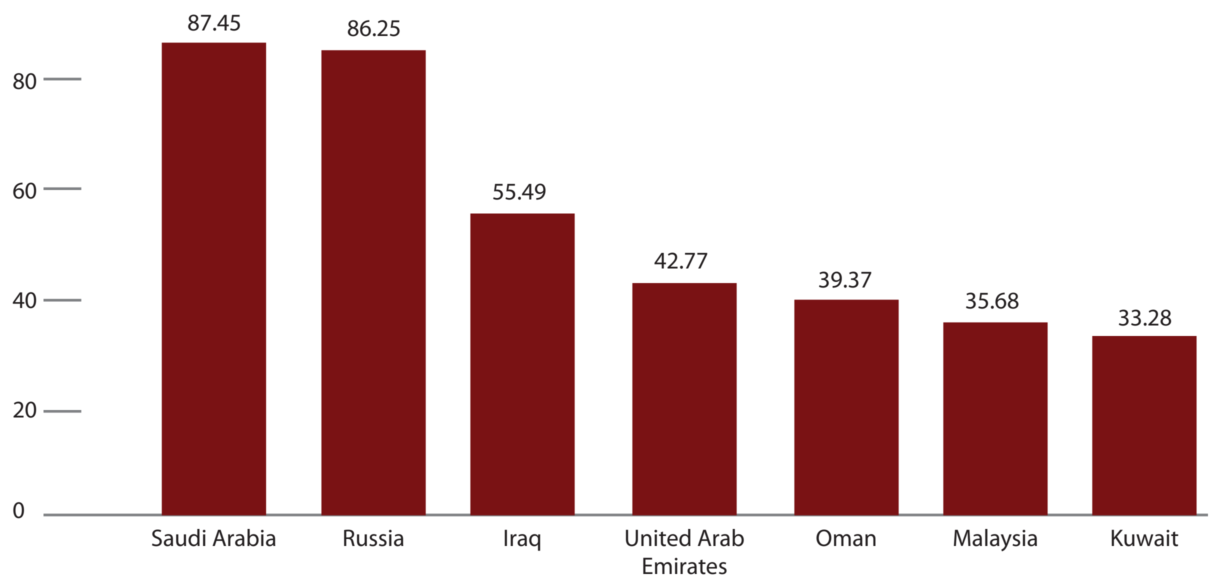
According to the IMF's Direction of Trade Statistics, China's overall annual bilateral goods trade volume with MENA countries increased from $284.3 billion in 2021 to roughly $368.4 billion in 2022. Most of the region's exports to China came from the mining, oil, and chemical sectors, and China is one of the region's main suppliers of consumer electronics, steel, pharmaceuticals, and advanced machinery. According to the China Global Investment Tracker of the American Enterprise Institute, China provided the MENA region with approximately $6.7 billion in investment finance and construction in 2022, and roughly $152.4 billion between 2013 and 2021.[14]

According to China's State Council, the Middle East was the fastest growing trading partner to China in 2022, up 27.1% year-on-year, where most Middle Eastern countries currently rely on it as their main trading partner China already has ownership interests in at least 20 port projects along vital maritime routes that cross the MENA region due to its Belt and Road Initiative (BRI). Twelve Arab states and China have extensive strategic ties, and the Arab League and 21 Arab states have officially joined the BRI.[15]

When it comes to the EU, regarding trade, the EU counts major MENA countries, including those in the Gulf Cooperation Council (GCC), like Saudi Arabia (KSA) and the United Arab Emirates (UAE), as vital trading partners. Based on the most recent available data, the value of products traded between the EU (European Union) and the GCC was €175.1 billion in 2022, representing a 78% increase from €97.1 billion in 2020.The fuel, mining, and chemical industries accounted for the majority of the EU's €29.6 billion in imports, while the automobile, transportation, chemical, and agricultural industries made up the majority of the EU's €67.5 billion in exports. The EU ranked as the GCC's second-largest trading partner in 2020, accounting for 12.3% of the GCC's overall global trade in goods, with 17.8% of the GCC's imports originating from the EU. Hence, the EU was the GCC's top import partner and its fourth largest export partner, receiving 6.9% of the GCC's exports. In addition, the most recent

Figure (2): Main Crude Oil Suppliers to China in 2022

In million metric tons



Source: International Trade Centre

available data indicates that EU FDI in the GCC in 2018 was €76.9 billion, while across the MENA region, it averaged over $292 billion annually between 2014 and 2017.[16]

Furthermore, the MENA region exports 14% of the world's gas and almost 35% of its global oil. Most of the Arabian Gulf's natural gas and petroleum exports to Europe and North America pass through several chokepoints, including the Strait of Hormuz, the Bab El Mandeb, the Suez Canal, and the SUMED pipeline. Over half of the oil imported by China is sourced from just six Gulf countries, making it the largest oil importer more than any other country.[17]

Together, the MENA countries accounted for 18% of crude oil and 12.4% of the EU's imports of natural gas in 2020. This share increased especially after the Russia-Ukraine war where the EU has increased its imports from other countries to compensate its reduction in Russian oil imports. More precisely, about 18% of the EU diesel imports came from Saudi Arabia, with 9.1 % coming from UAE in Q3 of 2023.[18]

According to data from the International Group of Liquefied Natural Gas Importers, exporting countries in the MENA area provided nearly one-third (29%) of the world's liquefied natural gas (LNG) shipments in 2022. A total of 30% of MENA LNG exports were made to Europe in 2022, with an average of 4.5 billion cubic feet per day (Bcf/d) going to that region.[19]

Nonetheless, in 2022, the Arabian Gulf countries accounted for 12% of all petroleum imports into the U.S. and 12% of all crude oil imports. 7% of all petroleum imports into the U.S. and 7% of crude oil imports came from Saudi Arabia, the biggest OPEC petroleum exporter to the country.[20]

Since the Houthi attacks in the Red Sea, according to Chemical Abstracts Services, Europe's oil imports fell by 20% between Jan. 1 and Jan. 17 to an average of 2.3 million barrels per day from outside the region, compared to 2.9 million barrels per day in December. Between Jan. 1 and Jan. 17, arrivals from Kuwait, Saudi Arabia, and India fell by 43%, 15%, and 31%, respectively, compared to December levels.[21]

Such a downturn poses a significant risk to the MENA region where any further slowdown in any of these major economic drivers could have a detrimental effect on the region, by reducing oil and non-oil product exports as well as foreign investment in local initiatives. A significant and prolonged surge in energy costs, potentially triggered by disruptions in shipping, could pose a negative supply shock to the worldwide economy and threaten the ongoing global disinflation efforts.

A Way Forward

With the MENA region showing particular susceptibility, the global economy is expected to face numerous challenges in 2024 and beyond. A major blow to the MENA region's economy has come from recent conflicts, most notably the Gaza war, which has affected the region's tourism industry, which is a major source of income for countries like Egypt, Lebanon, and Jordan. In case of the intensification of the war and the possible involvement of other parties, and it turning into a regional one, it may worsen the damage already done to the tourism sector, resulting in large-scale losses and more unemployment because of the sector's significant contribution to employment.

Furthermore, a significant decline in trade and investment is expected to follow the disruption of major commercial routes in the area, potentially costing the region billions of dollars in losses. As a result, to alleviate future ramifications, the MENA region must strengthen its internal trade processes as soon as possible, which necessitates a concentrated effort to improve certain areas. In fact, by carefully focusing on a few crucial sectors, the MENA region has a great deal of opportunity to increase domestic investment and trade through prioritising intra-regional trade facilitation, such as promoting trade liberalisation and lowering tariff barriers, which will be achieved by expanding and establishing free trade agreements among MENA countries. Moreover, by promoting cooperation among MENA countries in production processes and joint ventures between countries with abundant resources and strong manufacturing capacities, the area may also capitalise on the potential of regional value chains. Closer economic cooperation can also be promoted through integration initiatives aimed at strengthening the regional identity, through organisations like the GCC. Also, the MENA region connectivity can be improved and trade flows will be made easier via investments in regional transportation networks, such as ports and railroads to facilitate trade between these countries.

Hence, the MENA region may develop a more vibrant and integrated internal market by promoting regional collaboration and internal trade. Consequently, this strategy, in turn, can lower the impact of external challenges and, reveal the huge economic potential of the region and make it more resilient against any external shocks in both the short and long term.

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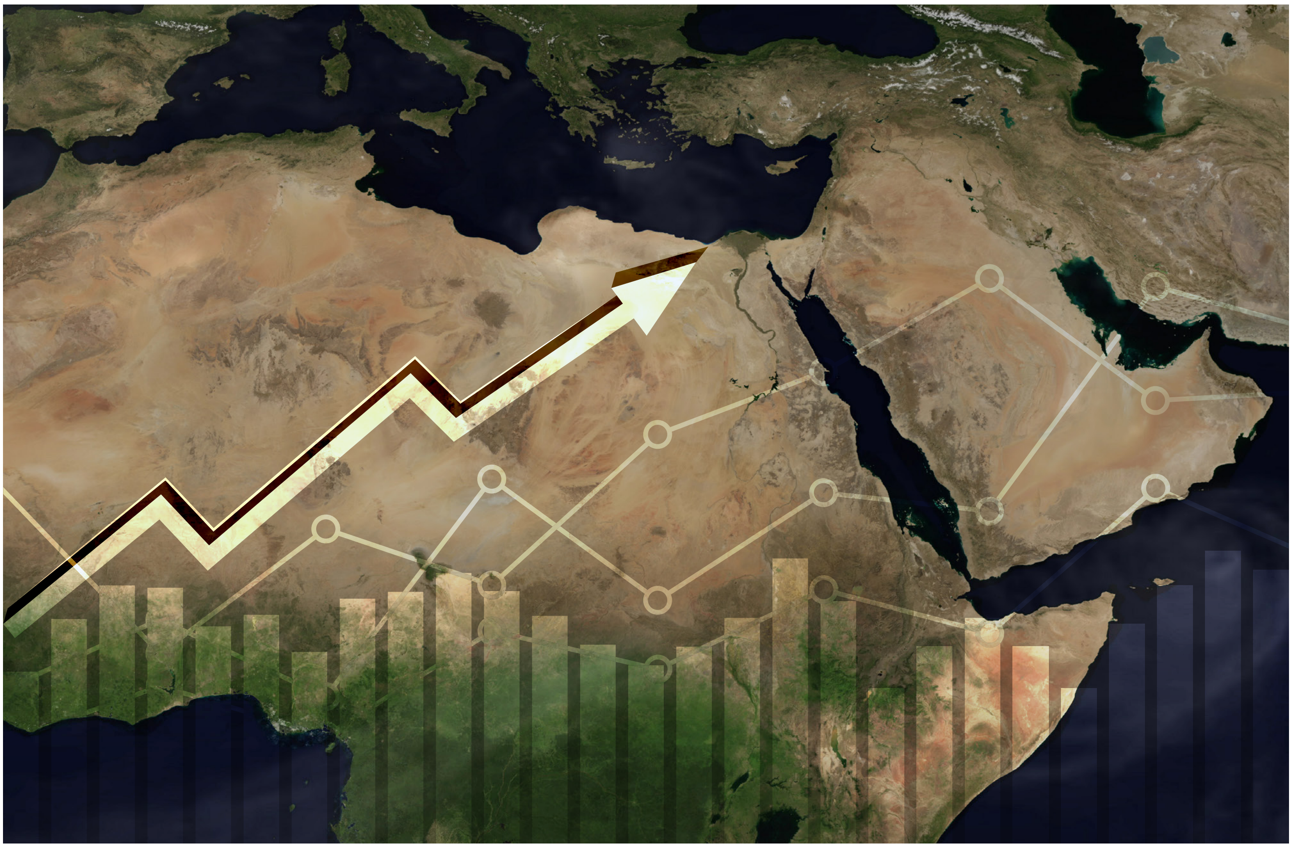


MENA on the Fault Line

Geoeconomics and Regional Future

By Mohamed Shadi

The world order is experiencing a wave of broad changes affecting all its aspects, stemming mainly from the emergence of new global players competing with the major traditional powers. This has sparked numerous unorthodox interactions between the two sides at all levels—beyond bilateral, regional, and even international organisations.

This conflict manifested itself in numerous global issues, with economic escalation being its most conspicuous feature. This escalation could occur either directly or indirectly via political or military actions. The U.S.-Chinese escalation and the Russia-Ukraine War are particularly notable. These confrontations could establish a new balance of power, leading to a transformation of the global order.

Consequently, this article examines the present ramifications of the ongoing conflict and its prospective progressions on MENA nations, aiming to forecast the comprehensive economic consequences for these countries.

Decoding the Geoeconomic Confrontation

A geoeconomic confrontation occurs when countries use economic tools and levers to advance their geopolitical interests, often clashing with other nations in the process. It intersects international economics and geopolitics, where competition or conflict manifests through economic means.[1]

In this sense, the basic aspects of the geoeconomic confrontation are divided into the confronting actors and their motivations, their tools and tactics, and then its impact and consequences, as follows:

Actors and Motivations

Those can be divided into three major categories:

- **Nation-States:** Their primary concern is national security and economic well-being. They leverage economic tools to influence the behaviour of other states and advance their national interests.

- **Non-State Actors:** Corporations, terrorist organisations, and criminal syndicates can also engage in geoeconomic confrontations for economic or political gains.

- **Ideological Rivalries:** Clashes between competing visions of global order, like democracy vs. authoritarianism, can manifest as economic competition and trade restrictions.

Tools and Tactics

In the context of geoeconomic confrontation, tools and tactics refer to the various methods countries use to advance their geopolitical interests through economic means. These can be broadly categorised into two groups: Economic, such as trade, investment, currency manipulation, and sanctions. Political such as propaganda and disinformation, diplomatic pressure, and coercive diplomacy.

- These tools target different aspects of an economy, aiming to weaken competitors, gain leverage, or secure resources.

- The choice of tools depends on the specific objectives and vulnerabilities of the targeted country.

- Recent trends include using technology as a weapon and manipulating global supply chains.

Impact and Consequences

Impact refers to the direct and immediate effects of a specific action or tactic used in a geoeconomic confrontation, while consequences represent the broader and longer-term outcomes of a geoeconomic confrontation extending beyond the immediate impacts; those can be divided into three main categories as follows:

- **Direct Impacts:** Disrupted trade and investment flows, financial instability, and higher consumer prices.

- **Indirect Impacts:** Include increased nationalism, weakened international cooperation, and a heightened risk of armed conflict.

- **Unintended Consequences:** Spillover effects impacting countries not directly involved in the confrontation.

In this sense, confrontations are rapidly spreading worldwide, and their number and intensity increase over time. To provide a comprehensive picture of this tense situation, we present four of the confrontations that are striking different regions of the world.

The Iron Curtain Rises Again: Russia's Standoff with the West

The relationship between Russia and the Western Bloc (primarily the U.S. and EU) has long been fraught with historical tensions, fuelled by ideological differences, geopolitical competition, and a complex economic relationship.[2]

Ideological battles between communism and capitalism, albeit in modern iterations, still clash, fuelling competition for global influence. Russia's assertiveness is often framed as reclaiming its rightful place on the world stage, while the West views it as a challenge to its established leadership. Past grievances still fester, with Russia perceiving North Atlantic Treaty Organization (NATO) expansion as encirclement and the West highlighting broken promises regarding integration into the post-Cold War order.[3]

This historical baggage was nourished in NATO's expansion, which was initially formed to counter the Soviet threat during the Cold War and has emerged as a prominent bone of contention in the current geoeconomic confrontation. Additionally, it has led to increased military spending on both sides, diverting resources away from other priorities and contributing to an escalating arms race. Furthermore, NATO expansion has been used by both sides to justify their actions and mobilise public support, further entrenching existing narratives and hardening positions. Consequently, this issue has become a significant obstacle to resolving broader geoeconomic and political disagreements.

On the other hand, Europe's dependence on Russian energy creates economic leverage for Moscow, mirroring the Cold War struggle for resource control. Moreover, the clash between state-controlled and market-driven economies continues to play out, contributing to economic friction and potential warfare. These legacies shape narratives, strategic interests, and communication channels, hindering diplomatic efforts and fuelling mistrust, finally leading to two significant fronts of confrontation.

The Ukrainian Crisis

The Ukrainian crisis, simmering since 2014, has emerged as a major flashpoint in the geoeconomic confrontation between Russia and the West. Its roots lie in a complex interplay of historical grievances, ideological differences, and competing strategic interests. The West responded to the Ukrainian crisis with a multi-pronged approach:

- **Imposition of Sanctions:** The U.S. and EU imposed various sanctions on Russia, targeting individuals, companies, and specific sectors of the Russian economy. These sanctions aimed to exert economic pressure on Russia and deter further aggression,[4] The following table shows the sanctions imposed by the Western bloc starting in February 2022:

Table 1- Timeline of the Main Sanctions by the West on Russia

Country	Date	Sanctions Details	Impact
EU, U.S., The United Kingdom (U.K.), Canada, Japan, Australia	Feb. 22, 2022	Targeted sanctions: individuals, banks, businesses	Limited access to international financing, travel restrictions on sanctioned individuals
EU, US, U.K., Canada, Japan, Australia	Feb. 24, 2022	Broader sanctions: Asset freezes of Russian Central Bank, disconnection of selected Russian banks from SWIFT, export controls on technology and other goods	Ruble depreciation, capital flight from Russia, disruptions to trade
EU	March 2, 2022	First package: Ban on arms sales to Russia, visa restrictions on Russian officials	Limited impact on Russia's military capabilities
EU	March 8, 2022	Second package: Ban on coal imports from Russia, additional individual sanctions	Increased pressure on the Russian economy
EU, US, U.K., Canada, Japan, Australia	March 11, 2022	Further sanctions: Ban on new investments in Russia, restrictions on luxury goods exports to Russia	Further isolation of Russia from the global economy
EU	March 24, 2022	Third package: Ban on Russian oil imports (phased in), additional individual and entity sanctions	Significant impact on Russian oil revenues, increased energy prices globally
EU, US, U.K., Canada, Japan, Australia	April 8, 2022	Continued sanctions: Ban on specific technology exports to Russia, additional individual and entity sanctions	Hindered Russia's technological advancement, continued pressure on Russian elites
EU	April 21, 2022	Fourth package: Ban on most Russian coal imports, additional individual and entity sanctions	Increased pressure on Russian economy

EU	May 5, 2022	Fifth package: Ban on Russian wood imports, additional individual and entity sanctions	Further disruptions to Russian trade
EU	June 3, 2022	Sixth package: Partial ban on Russian oil imports (by sea), additional individual and entity sanctions	Significant impact on Russian oil revenues, increased energy prices globally
EU	July 21, 2022	Seventh package: gold embargo, additional individual and entity sanctions	Limited impact on Russia's economy
EU	Aug. 8, 2022	Eighth package: Ban on imports of various Russian goods, additional individual and entity sanctions	Further disruptions to Russian trade
EU	Dec. 5, 2022	Ninth package: Price cap on Russian oil, additional individual and entity sanctions	Limited impact on Russia's oil revenues due to alternative markets
EU	June 8, 2023	Tenth package: Ban on imports of Russian oil products, additional individual and entity sanctions	Significant impact on Russia's oil revenues, increased energy prices globally
EU	June 22, 2023	Eleventh package: Restrictions on dual-use goods exports, measures to limit ship-to-ship transfers of sanctioned goods, additional individual and entity sanctions	Hindered Russia's military capabilities, continued pressure on Russian elites

Source: Data gathered by researcher, available upon request.

Russia also responded to the sanctions with other sanctions, punishing the West, which put severe pressure on the European economy and hindered the global economy in general, especially after the suffering that struck the world during the COVID -19 Pandemic. The following table shows the counter-sanctions imposed by Russia starting in February 2022.

Table 2 – Counter Measures Taken by Russia Against the West

Date	Counter-Measures	Impact
Feb. 28, 2022	Ban on Ruble sales by foreign individuals and entities	Supported Ruble exchange rate, limited access for foreign investors to Russian markets
March 5, 2022	Requirement for "unfriendly countries" to pay for gas in Rubles	Increased demand for Rubles, pressure on European energy supplies
March 10, 2022	Expulsion of diplomats from "unfriendly countries"	Deteriorated diplomatic relations, reduced communication channels
March 16, 2022	Ban on imports of certain agricultural products from "unfriendly countries"	Limited impact on Western economies, potential for increased food prices in Russia

April 27, 2022	Suspension of participation in the Council of Europe	Reduced international cooperation, Russia's isolation from European institutions
May 15, 2022	Halt of gas supplies to Poland and Bulgaria	Disruptions to European energy supplies, increased pressure on European energy prices
June 30, 2022	Nationalisation of assets of foreign companies leaving Russia	Deterred foreign investment in Russia, potential legal challenges
Aug. 1, 2022	Restriction of grain exports	Increased global food insecurity, pressure on developing countries reliant on Russian wheat
Sep. 21, 2022	Partial mobilisation of military reservists	Escalation of the conflict in Ukraine, domestic economic and social strains in Russia

Source: Data gathered by researcher, available upon request.

Energy Crisis

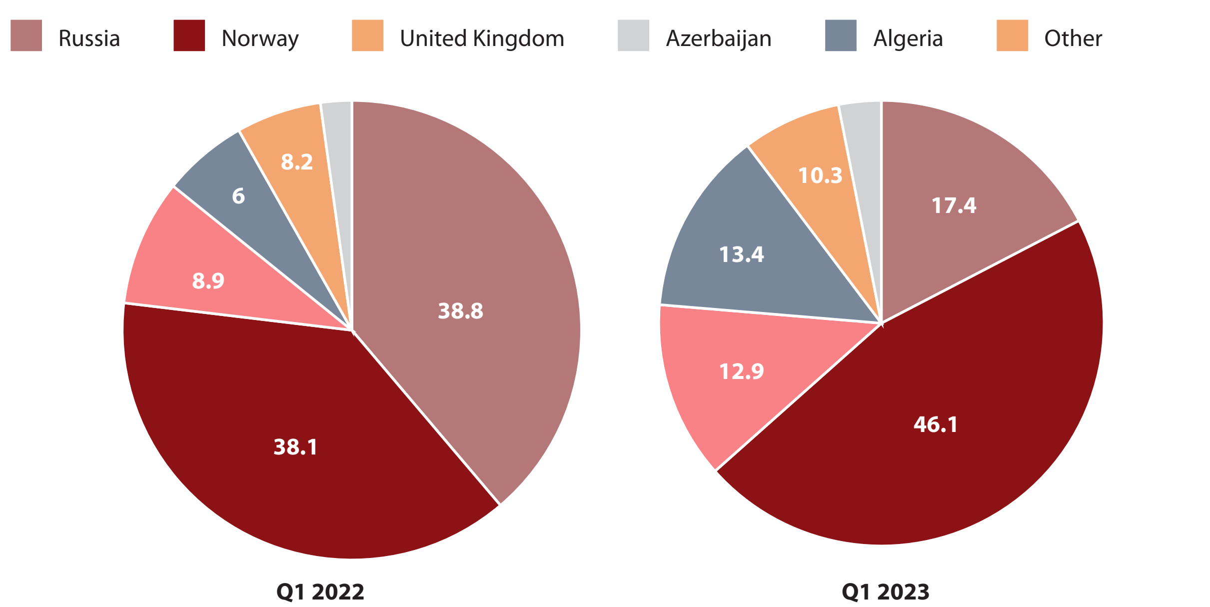
Russia's position as a major exporter of oil and gas, mainly to Europe, grants it significant leverage in the ongoing Russia-Ukraine War. This leverage stems from several factors, including:

- **Market Dominance:** Russia is the world's largest exporter of natural gas and a major oil producer, supplying a significant portion of Europe's energy needs. This dependence creates vulnerability for European countries,[5] potentially susceptible to disruptions in supply or price manipulation, the following chart shows Russia's dominant position in the European gas market in Q1 of 2022:

Figure (1) shows how Europe tried to control the gas market by using other alternatives, especially from the U.K. and Sweden,

Figure (1): EU Imports of Natural Gas in Gaseous State by Partner

Share (%) of trade-in value



Source: Comext and Eurostat Estimates

regarding gas in the gaseous state and LNG, in which the U.S. largely controlled the European market after it replaced Russia, which ultimately caused significant disruption to the market and transportation methods.

- **Infrastructure Control:** Russia controls critical energy infrastructure, including pipelines transporting gas to Europe. This physical control further strengthens its leverage and allows it to influence the flow of energy resources.[6]
- **Limited Alternatives:** In the short term, European countries have limited alternatives to meet their energy demands, making them reliant on Russian supplies. This lack of immediate diversification options increases Russia's bargaining power.

The crisis has raised concerns about weaponizing energy as a tool to exert political and economic pressure. Both sides have been accused of using energy resources as leverage. Accusations against Russia include restricting gas supplies to Europe, manipulating gas prices, and linking energy deliveries to broader geopolitical demands related to the Ukrainian crisis. On the other hand, sanctions imposed on Russia by the West, while not directly targeting energy exports, have indirectly impacted the sector by creating uncertainty and hindering investments. Both fronts have had a profound impact on various aspects of the regional scene, mainly as follows:

- **Security:** The conflict has significantly destabilised the region, raising concerns about a broader military confrontation between Russia and NATO.
- **Humanitarian Crisis:** The ongoing fighting in eastern Ukraine has displaced millions of people and caused widespread damage to infrastructure.
- **Trade:** The crisis has disrupted trade flows, impacted energy prices, and contributed to broader economic uncertainty.

These regional challenges were reflected on the global scene, leading to four primary effects:

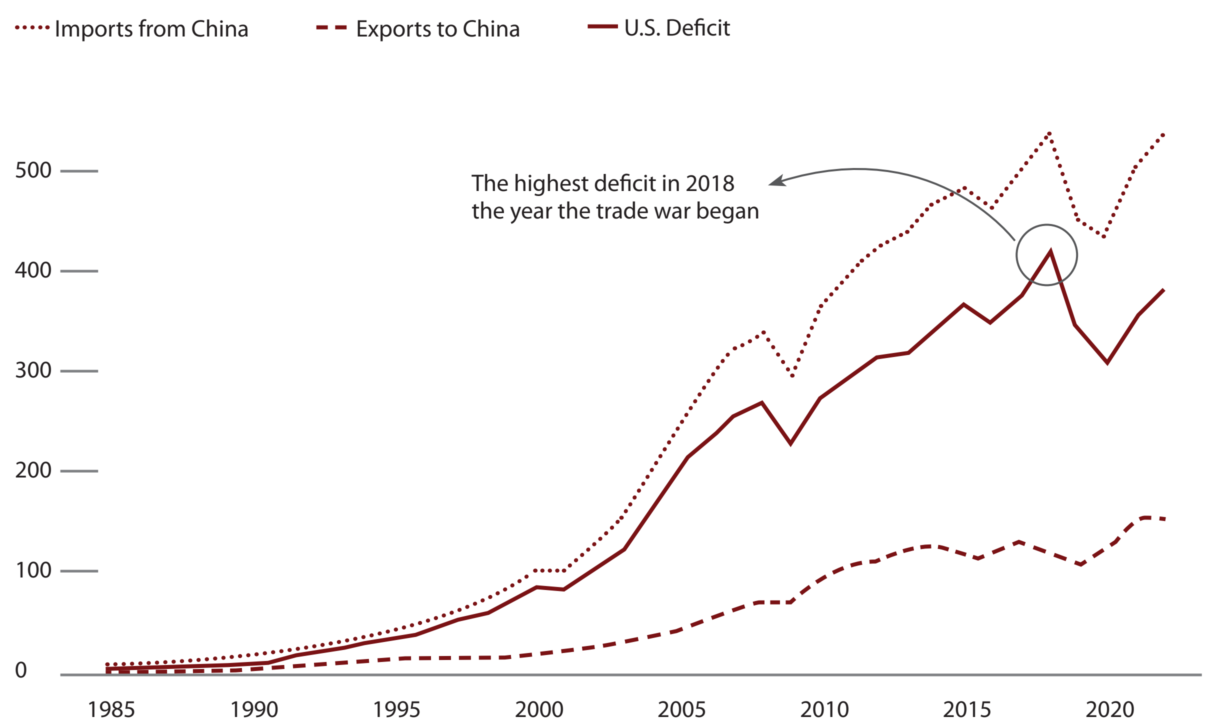
- **Market Instability:** Disruptions in energy supplies and price volatility negatively affected global energy markets and impacted consumers and businesses worldwide.
- **Escalation of Tensions:** Using energy as a weapon escalated tensions between Russia and the West, potentially leading to unintended consequences and jeopardising broader diplomatic efforts.
- **Long-Term Damage:** Repeated use of energy as a weapon can erode trust and hinder long-term cooperation in the energy sector, impacting both producers and consumers.

When Markets Become Battlegrounds: The U.S.-China Standoff

The U.S. launched a trade war against China beginning in July 2018 after accusing it of carrying out practices that severely harm trade relations between the two countries and contribute to increasing the U.S. trade deficit in favour of China,[7] as the US trade deficit with China jumped during the past 10 years, as the following figure shows:

Figure (2): U.S. China Trade Deficit 1985 - 2022

In billion USD



Source: United States Census Bureau

Figure (2) shows the rapid development of the deficit between the two countries, which grew from $268 billion in 2008 to $418 billion in 2018. The U.S. attributed this development to improper trade practices taken by China, the most important of which were:[8]

- **Intellectual Property Theft:** China has been accused of stealing the intellectual property of Western companies, especially American ones, whether through piracy, imitation, or reverse engineering.
- **Unfair Government Subsidies:** The U.S. accused China of providing unfair government subsidies to Chinese companies to give them an unfair advantage over foreign competitors.
- **Currency Manipulation:** China has been accused of manipulating its currency to make its exports more competitive globally.
- **Market Access:** The U.S. has expressed concerns about foreign companies' lack of access to Chinese markets, especially in technology.
- **Technology Transfer:** The U.S. accused China of forcing American companies to transfer technology and intellectual property to access Chinese markets.

With these allegations, the U.S. placed customs tariffs on an increasing number of Chinese imports during six rounds in about a year and a half, which ultimately amounted to $944 billion, as table (3) shows:

Table 3 – U.S. Punitive Tariff Rounds on Chinese Products

Round	Date	Commodity Value (in billion USD)	Punitive Tariff Rate
First	July 6, 2018	34	25%
Second	Aug. 23, 2018	50	25%
Third	Sep. 24, 2018	200	10%
Fourth	May 10, 2019	200	10%
Fifth	Aug. 1, 2019	300	15%
Sixth	Sep. 15, 2019	160	15%

Source: Tax Foundation

Imposing punitive tariffs in itself is considered a measure contrary to freedom of trade, as the rules of trade liberalisation imposed by the World Trade Organization (WTO) prevent any discriminatory treatment, whether positive or negative, for any country, in what is known as the principle of the most favoured nation, which is the principle that was adopted China imposed duties on it following another of the organisation's principles, which is the norm of reciprocity. Thus, China responded with punitive tariffs amounting to about $524 billion.

In December 2019, the two parties agreed that China would purchase an additional $200 billion worth of American agricultural, energy, manufactured goods, and other products over the next two years. This is also considered one of the measures that harm free trade practices, as China has become obligated to purchase products worth specific definitions even if they are less competitive when compared to goods from other countries. These definitions also remained in place until the time of writing this analysis, with no real intention to raise or reduce them on the part of both parties in the absence of dispute settlement mechanisms in the WTO.

The Technological War Between the U.S. and China

After the trade war between the two parties stopped, the U.S. began waging a new type of trade war, later called the technological war. It aimed to stop the technological progress of Chinese companies and prevent them from possessing technology that is close to or superior to that of American companies.[9] Among the most important of them were the following:

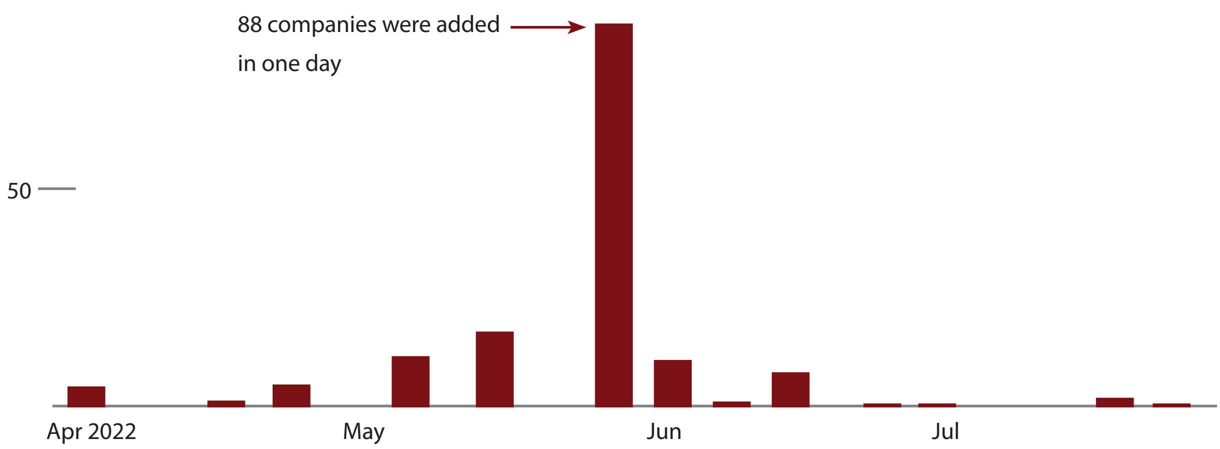
- **Export Controls:** The U.S. has imposed restrictions on the export of certain technologies to China, including semiconductors, software, and other critical technologies. For example, the U.S. Department of Commerce has imposed restrictions on exports of advanced microchips to Chinese companies such as Huawei and Semiconductor Manufacturing International Corporation. These measures are intended to prevent the transfer of sensitive technology to China, which the U.S. government considers a potential national security threat.

- **Investment Restrictions:** The U.S. has also restricted Chinese investment in critical industries, including technology infrastructure. For example, the U.S. Committee on Foreign Investment in the United States has increased scrutiny of Chinese investments in American technology companies to prevent Chinese companies from acquiring sensitive technologies or controlling critical infrastructure, such as ports and communications networks.

- **Blacklisting Chinese Companies:** The U.S. Department of Commerce has placed several Chinese technology companies, such as Huawei and ZTE, on a blacklist that reduces the capabilities of the entities subject to it to deal with US companies. For example, in May 2019, the U.S. Department of Commerce added Huawei to the Entity List, which prohibits U.S. companies from doing business with companies without licenses. This is due to concerns about these companies' ties to the Chinese government and potential threats to national security. Figure (3) shows the increasing number of Chinese companies on the list:

Figure (3): Number of Chinese Companies on the Entity List

As of Jul. 25, 2022



Source: U.S. Department of Commerce's

- **App Ban:** The U.S. has also banned several Chinese-owned apps, including TikTok and WeChat, over data privacy and security concerns. In Aug. 2020, former President Donald Trump signed an executive order that would have effectively banned TikTok and WeChat in the United States. However, this ban was later lifted by court orders.

Impacts on MENA Countries

The escalating geoeconomic confrontation between Russia, China, and the West casts a long shadow over the Middle East, potentially impacting MENA countries in multifaceted ways. While some MENA nations stand to benefit from rising oil and gas prices in the short term, the long-term outlook remains uncertain. Prolonged conflict could disrupt global economic growth, impacting demand for Arab oil exports and potentially hindering regional investments.

Beyond the immediate economic concerns, the confrontation poses challenges for MENA countries in other crucial areas. Tourism, a vital source of revenue for many, could face disruptions due to shifting travel patterns and regional instability. The Suez Canal, a critical global trade artery, might experience indirect disruptions due to heightened security measures or broader regional tensions.

Navigating this complex landscape requires Arab countries to adopt proactive strategies, including diversifying their economies, exploring alternative trade partnerships, and investing in domestic infrastructure to mitigate potential risks and capitalize on emerging opportunities. Only through careful analysis and strategic adaptation can Arab nations navigate the complexities of this evolving geopolitical landscape and safeguard their long-term interests; the Impacts include:

Oil and Gas Prices

Rise of Energy Prices

The conflict has already contributed to increased volatility in global energy markets, leading to higher oil and gas prices. This could benefit Arab oil-producing countries in the short term, boosting their export revenues; the following graph shows the impact on oil prices after the two confrontations.

Figure (4) shows the trend of Brent crude prices rising sharply due to the Russian-Ukrainian war, and the lack of valuation it imposed on energy prices, as they rose to reach about $101 during the average year of 2022. Even after the global economy adapted to the consequences of the war, prices still revolve around levels of $80 per barrel during 2023 until the beginning of 2024.

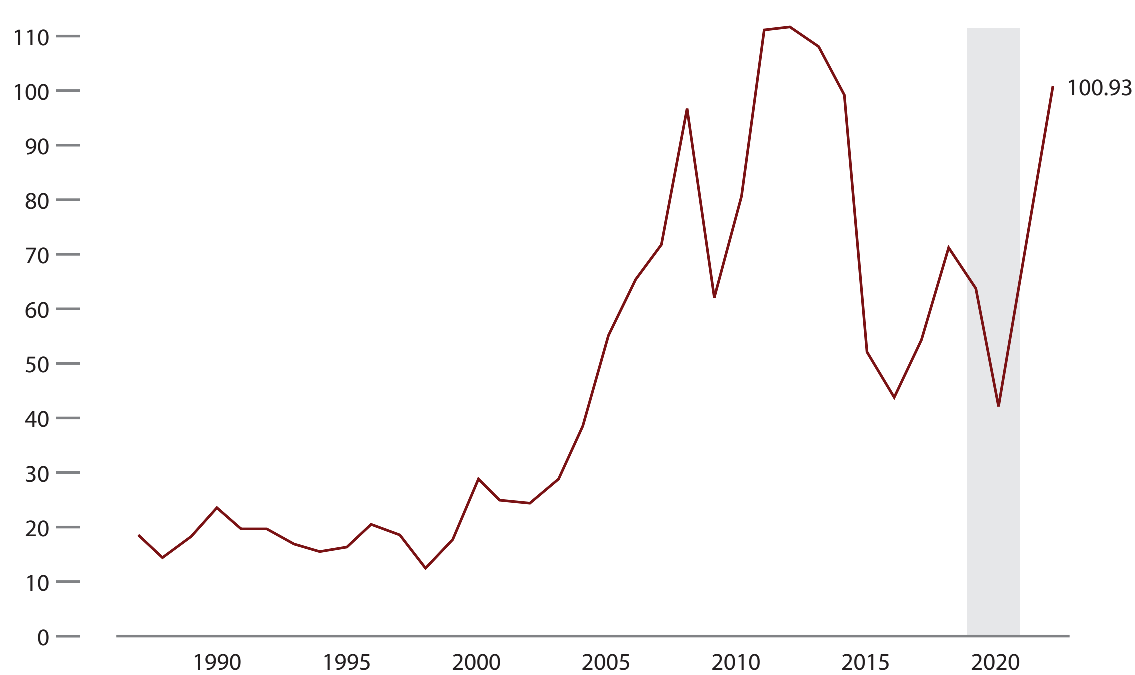
Long-Term Uncertainty

However, the long-term impact remains uncertain. Prolonged conflict could lead to further price hikes, potentially harming global economic growth and impacting demand for Arab oil exports,[10] which can be illustrated as follows:

- The duration and intensity of the confrontation remain unknown. It could be a prolonged conflict with escalating tensions, or it could potentially find a path toward resolution. This unpredictability makes long-term planning and strategic decision-making challenging for Arab countries.
- The global geopolitical landscape is undergoing a realignment of alliances, with countries reassessing their partnerships considering the evolving situation. This could lead to the emergence of new power blocs and shifting dynamics, impacting Arab countries' strategic choices and potentially creating new opportunities and challenges.

Figure (4) : Europe Brent Spot Oil Prices

USD/bbl



Source: U.S. Energy Information Administration

- The confrontation has already contributed to increased volatility in global energy markets and broader economic uncertainty. This uncertainty can negatively impact global economic growth, potentially affecting demand for Arab oil exports and hindering regional investments.[11]

- The global push toward renewable energy is gaining momentum, potentially accelerating in response to the current crisis. This transition could pose long-term challenges for Arab economies heavily reliant on oil and gas exports, necessitating diversification efforts and adaptation strategies.

- The conflict has disrupted global food supply chains and increased food prices. This threatens food security in Arab countries that rely on food imports, potentially leading to social unrest and instability.

Tourism

The tourism sector in Arab countries stands to be significantly impacted by the ongoing confrontations, facing both potential challenges and opportunities:

Challenges

- **Disrupted Travel Patterns:** The conflict could lead to changes in travel behaviour, with tourists from Western countries potentially avoiding certain regions perceived as unstable or unsafe. This could result in a decline in tourist arrivals from traditional source markets, impacting revenue and employment in tourism-dependent economies.

- **Security Concerns:** While necessary, heightened security measures in the region could deter tourism by creating an atmosphere of apprehension and potentially increasing travel costs.

- **Global Economic Downturn:** The broader economic uncertainty arising from the confrontation could lead to a global economic slowdown, reducing disposable income and dampening overall travel demand, impacting Arab tourist destinations.

Opportunities

- **Focus on Regional Tourism:** MENA countries can tap into regional tourism potential by promoting travel within the Middle East and North Africa, attracting visitors from neighbouring countries less affected by the global conflict.

- **Diversifying Tourist Markets:** Exploring alternative source markets beyond traditional Western tourists, such as China and other emerging economies, can help mitigate dependence on specific regions and broaden the tourist base.

- **Investing in Domestic Tourism:** The crisis presents an opportunity to invest in domestic tourism infrastructure and offerings, encouraging citizens to explore their own countries and boosting internal tourism revenue.

Final Remarks

The ongoing geoeconomic confrontations between global powers deeply impact Arab nations. While surging energy prices may offer short-term benefits, long-term consequences remain uncertain. Arab countries risk economic setbacks due to a potential global economic slowdown, disrupted supply chains, and hindered investment flows. Furthermore, increased regional instability jeopardises tourism, a critical economic sector for many in the region.

To navigate this volatile landscape and ensure a resilient future, Arab nations must proactively focus on several key strategies:

- **Economic Diversification:** Reducing reliance on oil and gas exports is crucial. Investing in emerging sectors, like technology and sustainable industries, will strengthen resilience against market fluctuations.

- **Alternative Trade Partnerships:** Forging new trade relationships and exploring markets beyond traditional partners offers valuable alternatives and reduces dependence on specific regions.

- **Strategic Alliances:** Building solid partnerships with established and emerging economies will help Arab nations mitigate risks, access new markets, and enhance their position in a shifting world order.

- **Domestic Development:** Investment in infrastructure, education, and innovation is critical to creating a solid foundation for economic growth and stability, making Arab countries attractive investment partners.

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Straits on Edge

How Straits Threaten the Future of the MENA Region

By Mostafa Ahmed

The flow of global trade and the movement of critical resources often rely heavily on strategic choke points – narrow bodies of water connecting larger bodies and serving as vital passageways for maritime transportation. These crucial arteries, known as straits, play an indispensable role in facilitating global economic activity and maintaining international security. However, when situated within a region already grappling with political instability and simmering tensions, the vulnerability and potential disruption of these straits pose significant threats to the geopolitical landscape.

The MENA region exemplifies this precarious situation. Home to several critical straits, including the Strait of Hormuz, the Suez Canal, and Bab El Mandeb, the region plays a pivotal role in global energy security and international trade. These vital waterways serve as crucial links between continents, facilitating the movement of over 17 million barrels of oil per day through the Strait of Hormuz alone, accounting for roughly one-fifth of global oil consumption. Additionally, the Suez Canal serves as a key artery for global trade, handling over 19% of the world's containerized cargo. This economic significance translates into vital revenue streams for MENA countries, with Egypt earning billions from canal tolls and several Gulf States relying heavily on oil exports facilitated by the region's straits.

Beyond their economic importance, the straits also hold strategic significance. They serve as crucial passages for military vessels, acting as potential choke points that could significantly impact regional power dynamics and international interventions. For instance, the Strait of Hormuz serves as a critical access point for the Arabian Gulf, where several key oil producers are located. Any disruption in the free flow of navigation through this strait could have far-reaching consequences, potentially impacting global energy supplies and triggering international interventions to secure vital resources. However, the stability of these MENA straits faces a multitude of threats, jeopardizing their vital role in global trade and regional security. The region is already grappling with numerous tensions and ongoing conflicts, such as the ongoing tensions in the Red Sea and Iran's threat of closing the Strait of Hormuz. These conflicts often simmer close to the vicinity of crucial straits, raising concerns about potential disruptions to maritime traffic and escalating tensions into wider military confrontations.

Furthermore, the presence of non-state actors and piracy poses another significant challenge. The activities of these groups, including militia groups and pirates, can disrupt maritime security and lead to attacks or disruptions in shipping through the straits. The recent Houthi attacks on the Red Sea, exemplify the potential dangers posed by non-state actors near crucial choke points. Adding another layer of complexity, the environmental concerns also pose potential threats to the stability of the straits such as oil spills, which could pose significant threats to marine ecosystems and disrupt critical trade routes.

This article delves into the multifaceted importance of the MENA region's straits, examining their economic, strategic, and political significance while acknowledging the inherent vulnerabilities and potential threats surrounding these vital waterways.

Importance of Straits in the MENA Region

The MENA region occupies a strategic position in the global landscape, serving as a crucial junction between continents and a vital conduit for international trade and maritime transportation. At the heart of this strategic significance lie several critical straits which have very significant roles including:

Economic Significance

The MENA region is home to some of the world's largest oil and gas reserves, with countries like Saudi Arabia, Iran, and Iraq playing a dominant role in global energy production and exportation. These crucial resources are primarily transported through the region's straits, especially the Strait of Hormuz which is considered a crucial waterway that serves as the primary passageway for oil exports from the Arabian Gulf, with estimates suggesting over 17 million barrels of oil per day traversing the strait, accounting for approximately one-fifth of global oil consumption. Any disruption in the free flow of navigation through this strait could have catastrophic consequences for the global economy, triggering price hikes and impacting energy supplies worldwide.

Also, the Suez Canal which serves as a vital link between the Red Sea and the Mediterranean Sea, significantly reducing travel time and costs for maritime trade between Asia and Europe. The Suez Canal handles over 19% of the world's containerized cargo, making it a linchpin of global trade. Beyond energy, the MENA region facilitates significant trade in other vital commodities and manufactured goods. The straits serve as crucial passageways for these goods, connecting regional markets with global trade networks, making them arteries of global energy security.[1]

The Suez Canal supports the passage of around 17,000 vessels each year, accounting for approximately 12% of global trade or nearly $1 trillion in commodities, including crude and refined oil, electronics, sneakers, wheat, and electronics. According to a 2016 estimate by the U.S. Energy Information Administration (EIA), an annual volume of 6 million barrels of oil passed through the Suez Canal and 5 million barrels through the Bab El Mandeb, colloquially referred to as the "Gate of Grief," a narrow strait between Yemen on the Arabian Peninsula and Djibouti in the Horn of Africa, slightly more than 17 nautical miles wide.[2]

The closure of the Suez Canal in March 2021 caused substantial disruptions to world trade. An estimated $9.6 billion ($400 million per hour) in products was immobilized for days due to a long line of hundreds of ships unable to use the canal after the Ever-Given mega-container ship grounded. The tragedy highlighted the waterway's critical importance, as well as its logistical and infrastructure vulnerabilities. Similarly, armed conflict, which interrupts the continuous flow of products across the Red Sea, greatly threatens the economic viability of the Suez Canal.[3]

Strategic Significance

Beyond their economic importance, the MENA region's straits also hold considerable strategic significance for both regional and international actors. The straits serve as crucial passages for military vessels, allowing for the deployment of naval forces and the projection of power across the region. This strategic significance makes the straits potential choke points that could significantly impact regional power dynamics and international interventions. Due to its critical role in oil transportation, the Strait of Hormuz has become a focal point for military tensions in the region. Control over the strait provides significant leverage for regional actors and has been a source of contention between Iran. Situated at the southern entrance to the Red Sea, the Bab El-Mandeb connects the Indian Ocean to the Mediterranean Sea and serves as a vital passageway for maritime traffic between Europe, Africa, and Asia. The presence of these strategically important straits within a region already grappling with political instability and ongoing conflicts adds another layer of complexity to the region's geopolitical landscape. Any disruption in the free flow of navigation through these straits could have far-reaching consequences, potentially escalating existing tensions and triggering wider conflicts.

Political Significance

The MENA region's straits are also intertwined with the region's complex political landscape, serving as potential flashpoints for political tensions and influencing the power dynamics between regional and international actors. The proximity of the straits to ongoing conflicts and simmering tensions in the region raises concerns about potential disruptions to maritime traffic and the possibility of the straits becoming embroiled in wider political disputes. Tensions between Iran and other Gulf states often escalate in the vicinity of the Strait of Hormuz, raising concerns about potential disruptions to oil exports and the possibility of military confrontations.

Threats to the Stability of Straits

Rising of Non-State Actors and Piracy

Since October 2023, the Houthi, has used Iranian missiles, drones, and marine vessels to conduct violent operations against foreign commerce along the key Red Sea trade route. Subsequently, the militia targeted vessels it believed had ties to Israel. The attacks have grown into indiscriminate assaults, resulting in a rising armed exchange in the Red Sea and its surroundings, with the potential for escalation into a larger geographical confrontation.[4]

Among all these factions, the Houthis' activities in the conflict have been particularly bold, mostly due to their considerable geographical distance from the actual battleground. The Houthis have been consistently launching ballistic missiles towards Israel, which is located over 1,000 miles away from Yemen. In October, they officially declared hostilities against Israel and launched a small number of missiles into Israel's Port of Eilat.[5] All missiles launched from Yemen have been successfully intercepted by Israel's Arrow missile defense system or by U.S. naval forces in the Red Sea.[6] The Houthis have also previously launched missile attacks on targets located in Saudi Arabia and the United Arab Emirates. The Houthis assert that the attacks are a demonstration of their solidarity with Hamas, their Palestinian counterpart. In mid-November, as it became evident that they lacked the necessary missiles to directly harm Israel, the Houthi rebels shifted their focus to targeting ships that were passing via the Bab El-Mandeb Strait and the Red Sea. Houthis' tactics have involved firing ballistic missiles and drones against maritime traffic in the Red Sea, as well as forcibly boarding and taking control of ships through the use of helicopters and speedboats.[7]

On Nov. 19, for example, heliborne Houthi rebels forcibly boarded and took control of the 'Galaxy Leader,' a cargo ship that is partly owned by an Israeli business owner. After the interception, the Bahamas-flagged vessel was taken to the Port of Hodeida, which is under the authority of the Houthi's. The 'Galaxy Leader' was held off the coast of Yemen, with its crew held captive and only allowed modest contact with their families. Subsequently, throughout the month after, the Houthis carried out a minimum of 100 assaults of varying severity against 12 different commercial ships in the Red Sea, most of which have little or no direct affiliation with Israel.

Several of these Houthi attacks have showcased remarkable technological innovation, potentially marking the first deployment of an anti-ship ballistic missile in combat by any armed force. These high-altitude and fast-speed missiles can substantially extend the range at which military forces can attack adversary vessels whilst rendering many current defense systems obsolete. The Houthis possess two types of large anti-ship ballistic missiles, the "Asef" and the "Tankil", both, probably, an adaptation from preexisting Iranian designs. Notwithstanding, the models utilized by the Houthis appear to have a relatively lower level of sophistication compared to those tested by nations such as China in the South China Sea.

Militarisation of the Red Sea

In response to the escalating Houthi threat, the U.S. launched Operation Prosperity Guardian, a multinational naval operation aimed at protecting maritime trade in the Red Sea region. This operation, involving 20 nations, has seen active engagement in intercepting and destroying Houthi drones, with ships from the U.S., France, and U.K. leading the effort.

However, the operation faces complexities due to varying levels of participation and cooperation. Some European nations, like Spain and Italy, have declined to place their ships under direct U.S. command, citing a preference for operations led by NATO or the EU. This highlight differing approaches within the coalition and raises questions about the long-term unity of the effort. The exact structure and operational details of the task force also remain unclear, creating some ambiguity about how the different national forces will coordinate their activities.

In addition to naval efforts, the U.S. and U.K. conducted airstrikes in January 2024, targeting Houthi military capabilities and critical infrastructure related to their missile program. This marked a shift in U.S. policy in Yemen, demonstrating a more assertive stance against the Houthis after previously scaling back its involvement in the Saudi-led coalition. The airstrikes aimed to cripple the Houthis' ability to launch attacks on international shipping and destabilize the region.[8]

China, despite its economic interests in the region and previous collaborations with the U.S. Navy on counter-piracy efforts, has maintained a less active role in the Houthi conflict. Beijing has focused on diplomatic efforts, such as facilitating a recent agreement between KSA and Iran while remaining wary of direct military involvement. This cautious approach likely stems from China's desire to avoid escalating tensions with the U.S. and to protect its trade relations with all parties involved in the complex regional politics. However, the U.S. has criticized China's inaction, accusing Chinese warships of ignoring a distress call from a vessel under attack by the Houthis. This incident highlights the potential for friction between the U.S. and China in the region, despite their shared interest in maintaining open sea lanes.

Iran, a key regional player and backer of the Houthis, has distanced itself from the conflict with Israel, claiming they were not informed about the Houthis' missile attacks on Israel in October 2023. This public stance suggests a desire to avoid confrontation with Israel and potentially damage their relationship with other Arab states. However, Iran's continued support for the Houthis, including supplying them with weaponry, indicates a more nuanced position. The complex web of alliances and rivalries in the Middle East makes it difficult to predict how these dynamics will play out in the future.

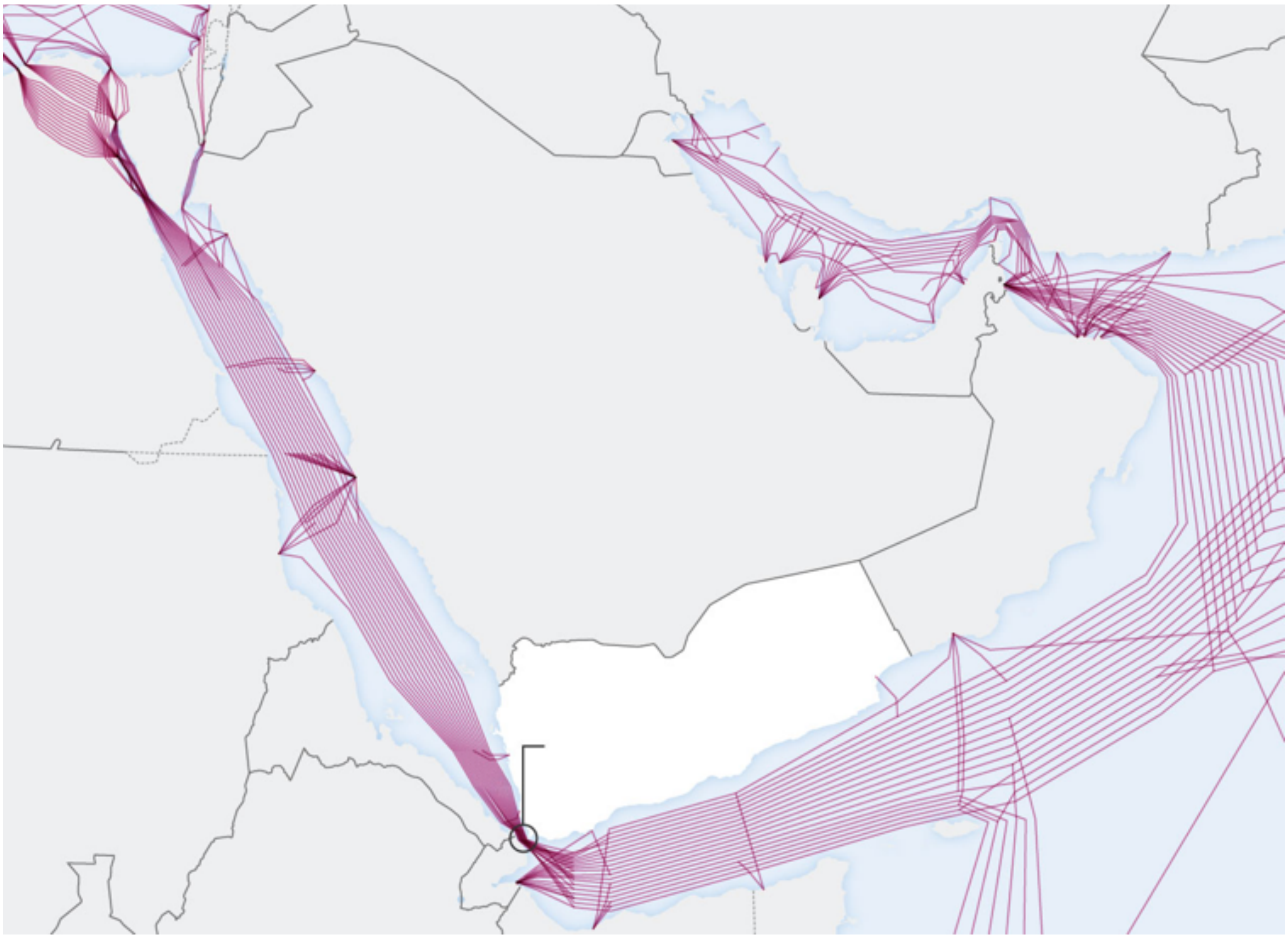
Environmental Disasters

The potential for environmental disasters, such as oil spills, poses a significant threat to the marine environment and could disrupt critical trade routes. Such disasters could have devastating consequences for marine ecosystems, impacting fisheries and tourism, and potentially leading to long-term economic and environmental damage.

The announcement of the sinking of the ship Rubimar, owned by a British company, on March 2, which was attacked by a Houthi anti-ballistic missile on Feb. 18, raised concerns about the extent of the environmental disasters that could result from such attacks, their repercussions, and the economic cost of treating them.[9] The crisis cell formed by the Yemeni government to deal with the ship indicated that its sinking would cause an environmental catastrophe in the Yemeni territorial waters and the Red Sea, which carries approximately 21 thousand metric tons of ammonium phosphate sulfate fertilizer,[10] The region avoided an environmental catastrophe when the U.N. succeeded in removing more than a million barrels of oil from a dilapidated giant tanker anchored off the coast of Yemen.[11]

Concerns about Internet Cables

Undersea attacks complicate repairs to underwater cables that carry web traffic around the world. Conflict in the Middle East is drawing fresh attention to one of the internet's deepest vulnerabilities: the Red Sea. Most internet traffic between Europe and East Asia runs through undersea cables that funnel into the narrow strait at the southern end of the Red Sea. That chokepoint has long posed risks for telecom infrastructure because of its busy ship traffic, which raises the likelihood of an accidental anchor drop striking a cable. Attacks by the Houthis have made the area more dangerous. The latest warning sign came on Feb. 24, when three submarine internet cables running through the region suddenly dropped service in some of their markets. It wasn't immediately clear what caused the cutoffs. Some telecom experts pointed to the cargo ship Rubymar, which was abandoned by its crew after it came under Houthi attack on Feb. 18. The disabled ship had been drifting in the area for more than a week even after it dropped its anchor. It later sank.[12]



Source: TeleGeography

The mounting cost of doing business also threatens tech giants' efforts to expand internet cable infrastructure. The Google-backed Blue Raman system and Facebook's Africa cable both pass through the region and remain under construction. Two more telecom company-backed projects also are scheduled to build lines through the Red Sea.

Domino Effect on Various Industries

Beginning in mid-November 2023, the Houthi militia has targeted numerous Western commercial ships near Bab El Mandeb. This has led major shipping companies to reroute vessels, coinciding with reduced traffic through the Panama Canal due to low water levels. These disruptions, coupled with rising fuel and insurance costs, have caused delays, increased shipping prices, impacted global supply chains, and have potentially lead to higher inflation. If the situation continues, it could affect energy supplies and prices, making it harder for central banks to stabilize economies. This could also raise debt costs for developing countries, particularly in Africa. Additionally, the attacks have reduced regional income from maritime fees and could harm commodity exports, exacerbating existing economic problems. The situation could further disrupt trade and food security in East Africa, potentially sparking social unrest. Furthermore, there are concerns that the Houthis have damaged submarine communication cables, which could be costly to repair. In response to these threats, the European Commission has recently adopted a recommendation to enhance the security of submarine cable infrastructure.[13]

Mitigating Threats: Safeguarding the MENA Region's Straits

The intricate web of threats surrounding the MENA region's straits necessitates a multifaceted approach to ensure their stability and safeguard their vital role in regional and global well-being. This approach requires a combination of regional cooperation, international engagement, and proactive measures, addressing both the immediate security threats and the long-term challenges faced by these crucial waterways. Here are some key strategies for mitigating these threats:

Enhancing Maritime Security

- **Strengthening Naval Cooperation:** Collaboration among regional and international naval forces is crucial for deterring a wide range of threats, including piracy, smuggling, terrorism, and armed conflict. Joint patrols, information sharing, and coordinated responses can significantly enhance maritime security and protect vital trade routes. Regional organizations like the Arab Maritime Patrol System (AMPS) and the Combined Maritime Forces (CMF) can play a vital role in facilitating cooperation and coordinating efforts. Additionally, bilateral and multilateral exercises between regional and international navies can improve interoperability and communication, enabling more effective responses to threats.

- **Capacity Building:** Providing training and resources to coastal states to improve their maritime security capabilities is crucial for addressing threats effectively. This can include training on topics such as vessel boarding procedures, maritime law enforcement, search and rescue operations, and intelligence gathering. Equipping coastal states with patrol vessels, surveillance aircraft, and coastal radar systems can further enhance their ability to monitor and secure their territorial waters. International partners can provide technical assistance, training programs, and equipment donations to support capacity-building efforts.

- **Technology and Information Sharing:** Utilizing advanced technologies like satellite surveillance, radar systems, and maritime domain awareness platforms can significantly improve a country's ability to detect and track suspicious activities at sea, enabling rapid responses. Sharing information among countries through secure communication channels is essential for facilitating coordinated actions against threats. Regional information fusion centers can be established to serve as hubs for collecting, analyzing, and disseminating maritime security information among member states. International partners can also provide training on the use of maritime surveillance technologies and information-sharing best practices.

Diversifying Trade Routes and Supply Chains

- **Investing in Alternative Routes:** Developing alternative land and sea routes for transporting essential goods can reduce reliance on vulnerable chokepoints and mitigate the impact of disruptions. This includes investing in infrastructure like pipelines, railways, and regional ports. Examples include:

  - The North-South Corridor, a proposed railway and highway network connecting the Arabian Sea with the Black Sea, could provide a vital alternative route for goods moving between Europe and Asia, bypassing the Suez Canal.

  - Investing in east-west land bridges across the Arabian Peninsula could create additional options for transporting goods within the region, reducing dependence on maritime routes through the Strait of Hormuz and the Bab El Mandeb.

- **Promoting Regional Trade Agreements:** Facilitating trade within the MENA region can reduce dependence on external sources and strengthen regional resilience. This involves reducing trade barriers, harmonizing regulations, and promoting intra-regional trade agreements. For instance, initiatives like the Greater Arab Free Trade Area (GAFTA) can help create a more integrated regional market, fostering economic diversification and reducing reliance on a single source for essential goods.

- **Building Strategic Reserves:** Creating national and regional stockpiles of essential goods like food, medicine, and fuel can provide a buffer during disruptions and help ensure the availability of critical resources for vulnerable populations. Strategic reserves can be established at key locations throughout the region, ensuring a timely response to crises and mitigating the impact of disruptions on essential goods flows.

Addressing Root Causes of Instability

Conflict Resolution and Peacebuilding: Resolving ongoing conflicts, promoting dialogue, and investing in peacebuilding efforts are essential for creating a stable environment conducive to trade and economic development. This can involve supporting mediation efforts, facilitating dialogue between conflicting parties, and providing resources for post-conflict reconstruction and reconciliation.

Humanitarian Aid and Disaster Preparedness

Enhancing the capacity of regional and international organizations such as the U.N. World Food Program (WFP) and the U.N. High Commissioner for Refugees (UNHCR) to provide rapid and effective humanitarian assistance during crises is crucial for protecting vulnerable populations in the MENA region and ensuring the stability of its straits. This involves developing early warning systems for potential disruptions, such as political instability, natural disasters, or disease outbreaks, to enable proactive responses and minimize their impact on the flow of essential goods. Additionally, it necessitates prepositioning essential supplies in strategic locations, establishing logistical hubs, strengthening coordination mechanisms among humanitarian actors, and investing in monitoring and surveillance systems and vulnerability assessments to effectively disseminate early warnings.

International Cooperation

Regional and international cooperation is essential for addressing transnational threats like piracy, smuggling, and terrorism, promoting stability and resilience in the MENA region, and safeguarding its straits. This involves sharing intelligence, coordinating law enforcement efforts, harmonizing legal frameworks, establishing joint maritime security patrols, conducting joint military exercises, and providing financial and technical assistance to strengthen the capacity of MENA countries to address security and development challenges. International organizations can also play a role in facilitating dialogue and mediation efforts to resolve regional conflicts and promote peacebuilding.

What's Next

These crucial waterways serve as lifelines for global trade, regional economies, and international security. However, a multitude of threats, from simmering political tensions and non-state actors to environmental challenges and infrastructure vulnerabilities, cast a shadow over their stability. The immediate threats stem from the volatility of the region itself.

Political tensions and ongoing conflicts pose the constant risk of escalation, potentially spilling over and disrupting the free flow of navigation through the straits. Additionally, non-state actors like pirates and terrorist organizations threaten the security of the waterways and pose a significant risk to maritime traffic.

Beyond immediate threats, long-term challenges loom large. The impact of climate change, with rising sea levels and extreme weather events, poses a significant threat to the infrastructure and operational capacity of the straits. Additionally, aging infrastructure and the potential for environmental disasters like oil spills further highlight the region's vulnerabilities.

Addressing these multifaceted challenges requires a multifaceted approach. Fostering regional cooperation and dialogue among MENA countries is crucial to addressing shared security concerns and building a culture of collaboration. Engaging the international community in diplomatic efforts, capacity building, and upholding international law of the sea will further strengthen efforts toward stability. However, collaboration alone is insufficient. Proactive measures are essential to enhance the resilience of the straits. Investing in infrastructure upgrades, developing contingency plans for potential disruptions, and promoting sustainable development practices are crucial steps toward safeguarding these vital waterways for the future.

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Beyond Borders

MENA's Intersection of Migration Aid and Political Influence

By Habiba Diaa El Din

The most recent UNHCR report underscores the persistent humanitarian crises, political instabilities, and security challenges in the MENA region, a situation anticipated to endure in the future. In 2023, the region confronted a series of emergent crises exacerbating existing challenges. Notable incidents included a civil war in Sudan that forced refugees into Egypt, Lebanon, Jordan and others; some of those states are already struggling with their own economic and political burdens. For instance, Lebanon remains the nation with the highest number of refugees per capita and per square kilometre.[1]

The Israel-Hamas War significantly influences regional migration dynamics. While not asserting that migration perse is an economic burden, this paper contends that the global structure of migration governance may expose migrant-receiving and transit states in the region to unfavourable political ramifications.

Migration aid has evolved into a strategic tool for the Global North, particularly European countries, to avoid the reception of migrants and refugees on their territories. This approach usually leads developing nations, reliant on development and migration aid, to accept aid and modify their internal migration policies in alignment with European agendas. This process leads to the perpetuation of postcolonial dynamics entrenched in the global structure.

In light of these circumstances, it is posited that MENA countries, already grappling with migration challenges in a volatile region, are poised to confront intensified threats. This paper issues an alert regarding the potential forthcoming situation and its associated political consequences.

Who Will Bear the Wave?

The upcoming wave of migration appears to surpass the challenges posed by the so-called 2015 migration crisis, particularly given the emergence of new sources of influx. While the 2015 wave predominantly originated from the Syrian crisis, the current scenario introduces additional sources, such as Sudan and Palestine, contributing to the complexity of the situation. Data indicates that Lebanon and Jordan will likely bear the brunt of this new migration wave. Both countries are already grappling with severe economic conditions and have been struggling with a migration crisis since 2015. In the MENA region, Lebanon and Jordan stand out for hosting the highest number of migrants relative to their population size.[2,3]

Lebanon, in particular, contends with the highest number of refugees per capita globally. Approximately 20% of Syrian refugee families reside in informal settlements and collective shelters, enduring deplorable conditions. The crisis has precipitated a surge in poverty among the Lebanese population, exacerbated by the depreciation of the Lebanese currency and soaring inflation, leading to a significant decline in purchasing power. Meanwhile, Jordan hosts the fifth-largest number of refugees per capita worldwide, including 651,000 Syrians. Most of these refugees live outside of camps in urban centres, with 66% living below the poverty line. The dire situation in camps has been exacerbated by the COVID-19 Pandemic since March 2020, depriving its inhabitants of access to essential health and nutrition services in Jordan. With limited prospects for the displaced individuals to return to Syria, the crisis looms, signalling a potentially worsening humanitarian situation in the future.[4,5]

Egypt has emerged as a crucial host for refugees and asylum-seekers, with Sudanese constituting 44% of the total refugee and asylum-seeker population. This positions Egypt as the primary host for Sudanese nationals, followed by Syrians (32%) and other nationalities (24%). The U.N. predicts a surge in the number of Sudanese refugees and asylum-seekers in Egypt, indicating the country's vulnerability to an impending migration wave. Lebanon, Jordan, and Egypt are likely to be key destinations for migrants from conflict-ridden areas like Syria, Sudan, and Gaza, with 69% of those in need of international protection residing in neighbouring countries. It's noteworthy that official figures might underestimate the true extent, particularly as Palestinians under The United Nations Relief and Works Agency for Palestine Refugees in the Near East's mandate aren't included. When considering this group, migrants account for a quarter of Lebanon's population.[6]

Complicating matters further is the heavy reliance of these three countries on foreign aid to manage the migration crisis. Adding to the complexity of the situation is the significant dependency of these three countries on foreign aid to address the challenges posed by the migration crisis. In Lebanon, since 2011, the EU has allocated a substantial amount, exceeding €867 million, in humanitarian aid to respond to the urgent needs of both the Lebanese population and refugees. Similarly, in Jordan, the EU mobilised €12.5 million in humanitarian assistance in 2023. Egypt, too, received support, with the EU allocating €200,000 to aid the Egyptian Red Crescent's emergency response at the border entry points from Sudan. Furthermore, the UNHCR secured €2.6 million to provide multipurpose cash assistance to nearly 71,000 individuals in Egypt.[7,8,9]

Aid Dynamics

European countries, willing to avoid migratory flows at any cost, tend to resort to what is known to the public as migration cooperation. This term, within the context of European politics, is better-called migration aid conditionality. While some observers view it as an effective strategy for managing and externalising European borders, others perceive it as a postcolonial act. Rietig and Walter-Franke describe it as an integral part of the "conditionality holy trinity", where aid becomes a lever for Brussels during negotiations with receiving states. While the political aim of both the receiving and sending countries might converge in some cases, they do diverge in others, which makes migration aid leverage in the hands of European states.[10]

In response to the migration surge that began in 2015, European development aid to the MENA region has increased, driven by evolving strategic and political interests in the region serving both as a transit and a source for migrants aiming to reach European shores. The instrumental use of migration development aid has become a core motive. During the specified period, development aid to the MENA region reached 26% of the European Commission's external aid, compared to 19% in 2013. Migration compacts were established with countries like Lebanon, Jordan, and others, where the EU provided aid in exchange for cooperation in controlling migratory flows.[11]

The heightened significance of aid post-2015 led to debates over the distribution of received funds, involving EU institutional actors in decision-making processes. Unlike the pre-2015 era, funding now undergoes a more politically driven distribution process, reflecting a shift toward a less technocratic approach. Critics argue that the EU instrumentalises aid to implement its migration policy objectives in African and Middle Eastern countries, turning organisations in developing states that receive funds into clients of Europe. Notable examples of EU funds for migration aid which received such criticisms include the Trust Fund in response to the Syrian crisis, Madad Fund valued at €2.3 billion, the European Union Trust Fund for addressing causes of irregular migration and displaced persons in Africa (EUTF) worth €5 billion, and the Facility for Refugees in Turkey, worth €6 billion.[12]

The EU utilises international organisations and development agencies as instruments to implement preferred migration policies in aid recipient countries. This strategic approach is termed "clientelism," signifying that development aid organisations, dependent on financial assistance from European countries, transform into clients in third states. These clients serve as a mechanism to impose conditionality on countries receiving aid, making it contingent upon the recipient country's adaptation of its policies. For instance, Libya experiences de facto intervention by European countries in its migration policies, with international organisations being enlisted to implement European policies primarily through financial dependency.[13,14]

The EU's reliance on specific organisations for aid and policy implementation further strengthens this argument. According to 2021 data, the International Organization of Migration implements approximately 17% of migration management project funding, with GIZ at 14% and UNHCR at 11.9%. This indicates that the EU has identified preferred partners through which it channels funds. The usual absence of a public procurement process in aid recipient state makes it challenging to compare different organisations for implementation. Concentrating a significant portion of funding in the hands of European development agencies and U.N. organisations, with 42.9% in just three of them, implies a dependency on EU funds. Consequently, these organisations may be inclined to replicate European policy preferences in third countries.[15]

Table 1 – UNHCR MENA Top Contributors (In USD)

United States of America	413,893,582
Germany	127,788,977
European Union	54,612,249
Netherlands	25,409,813
Canada	16,996,267
France	16,430,131
Japan	14,964,877
Italy	13,629,494
Norway	9,307,405
Kuwait	8,019,745

Source: U.S. Energy Information Administration

Table (1) shows the top donating countries for UNHCR in the MENA region. Among top contributors, none of the countries of origin nor transit countries are to be found. Financial dependency creates a power dynamic where these international institutions are inclined to align with the preferences and priorities of the donor countries, effectively turning them into clients. Consequently, the role of international institutions in migration management becomes intertwined with the geopolitical agenda of the contributing nations.

The implementation of border externalisation policies in third countries by the EU is perceived as a legitimising tool for European intervention in the policies of those nations. Despite the limited success of externalisation policies in deterring migrants from reaching European borders legally, the EU persists in their adoption. The continuous endorsement of these laws proves that there is an alternative goal beyond merely containing and controlling migration waves. Externalisation serves as a tool for Europe to influence the policies of third countries, incentivising them to regulate the movement of migrants beyond and within their territories. In this context, Europe extends the legitimacy of its actions beyond its territory under the guise of development/migration aid. Therefore, Europe's externalisation policies cannot solely be analysed for their direct effectiveness but must also be understood as part of Europe's aid conditionality.[16]

Case Studies

As previously mentioned, migration aid serves as a tool to influence the domestic politics of both migrant-sending and transit states. The following cases shed light on how this process unfolds, showcasing the strategic use of both "carrots" such as aid and "sticks", such as sanctions, to induce policy changes in aid-dependent countries.

One illustrative case is Iraq, where aid conditionality exemplifies how the EU leverages its assistance to reshape the policies of third countries. Historically, the relationship between Iraq and the EU has been centred on security and military concerns. However, the surge in migration in 2015 elevated migration to a significant issue. A notable challenge was the denial of asylum to many Iraqis in the EU. In 2019 and 2022, the EU issued orders for the return of 21,000 and 14,500 Iraqis, respectively. Iraq consistently refused to readmit deportees following a 2012 parliamentary law banning the forced return of citizens. The crisis intensified in 2021 when the Belarusian regime organised flights from Baghdad and Erbil to Minsk, facilitating the passage of Iraqi citizens to the EU. It was only in 2022, with a new Iraqi government, that the EU could resume its migration cooperation efforts.[17,18,19]

To curb the migration wave from Baghdad, Brussels adopted a dual strategy involving both incentives and deterrents. Threats of carrier sanctions were made, warning airlines transporting Iraqis to Belarus of potential consequences. Simultaneously, the EU offered financial aid in exchange for the repatriation of Iraqis. This financial support increased after the Belarus crisis, utilising the conditionality mechanism embedded in the Neighborhood, Development, and International Cooperation Instrument. The plan included a top-up of €20 million to Iraq's core funding of €75 million. Consequently, Iraqi Airways reduced its flights to Minsk in August and halted them altogether in October following the crisis. Moreover, the Iraqi government instructed airlines to repatriate stranded Iraqis from Belarus, leading to the closure of travel agency activities and Belarusian consulates in Erbil and Baghdad. This concerted effort resulted in the repatriation of 4,500 Iraqi nationals, showcasing the effectiveness of conditionality in the EU's migration strategies in third countries.[20]

Another case is Gambia, where, following the 2016 democratic transition, European countries urged the new Gambian government to readmit its nationals. Progress was slow, prompting the EU to employ a lever, resuming development cooperation previously frozen under the previous government. Approximately €38.9 million were invested in the EUTF projects to enhance migration management. Additionally, recognising the need for stronger measures, EU imposed visa restrictions. This conditionality strategy compelled the Gambian government to adopt return procedures in May 2018. However, these measures faced significant backlash in Gambia, particularly given the country's economic reliance on remittances and development aid. Consequently, readmission arrangements were suspended until March 2022, when the moratorium was lifted.[21,22]

These examples underscore the approach taken by the aid donating countries, employing both positive and negative incentives to influence the policies of third countries. The strategic use of aid conditionality reveals the dynamics between externalization efforts and the pursuit of European migration objectives in a global context.

Strategic Manoeuvres

As already discussed, countries providing aid often adhere to similar policies, and despite the potential shortcomings of externalization policies, EU persists in employing them for alternative objectives, mainly legitimizing their interference in third states' internal politics. However, the responses of third countries, particularly those heavily reliant on aid, vary considerably. Analysing countries' strategies in navigating these situations, scholars such as Keohane and Nye categorize them into two main approaches: "blackmailing and backscratching".[23]

Blackmailing, involves a country threatening another with potential negative consequences unless certain compensations or concessions are granted. The emphasis is on creating a sense of urgency and highlighting the possible losses the target state may incur. The goal is to extract favourable terms or resources through the perceived threat. In contrast, backscratching is a more cooperative strategy where a country promises not to take unilateral actions against another state in exchange for compensation or concessions. This approach focuses on mutual benefit and positive collaboration.[24]

Analysing states responses to migration, Tsourapas brought the same dichotomy. In this context, Blackmailing involves threatening to flood target states with refugee populations unless compensated, while backscratching entails promising not to take unilateral actions against refugees within a country's borders in exchange for compensation.[25]

Two clear examples of countries adopting these strategies are Jordan and Turkey. In 2016, Jordan signed the Jordan Compact in response to the turbulent period initiated by the 2015 migration wave from Syria. During the London Donor Conference, Jordan called for a comprehensive approach to manage the crisis's impact on its economy. The international compact for Jordan was subsequently signed, with donors committing to disburse $700 million in grants from 2016-2018 and up to $300 million in loans. Simultaneously, the EU adopted the Jordan Compact, requiring Jordan to remove regulatory barriers for refugees to work and reduce charges for work permits. Despite the fact that Amman tended to instrumentalise the situation in order to gain some material benefits, it tended to do so without any attempts to threaten others. For instance, when King Abdalah communicated his appeals to the international community, he emphasised the importance of cooperation. "We're now asking for your help you can't say no this time", he said while highlighting the difficulties Jordan is being dragged into rather than raising threats against other states.[26,27]

In contrast, Turkey exemplifies a country adopting a blackmailing strategy in dealing with its European neighbours, seeking to avoid the spillover of the crisis. In 2015, Turkey hosted 45% of all Syrian refugees in the region. Turkey's blackmailing behaviour was evident in the October 2015 joint action plan and the 2016 migration deal, wherein Turkey received $6 billion in aid. The deal involved readmitting Syrians arriving in Greece and tightening border controls to prevent asylum-seekers in Turkey from moving to other states. For every Syrian returned to Turkey, the EU committed to resettling another in Europe. Turkey, leveraging its position as a transit state for Syrian refugees, employed threatening discourse to extract concessions from the EU. This included pushing for visa-free travel and updating the customs union. President Recep Tayyip Erdogan warned of opening border gates in response to the EU's stance on Turkey's repressive actions after a July 2016 coup attempt, underscoring Turkey's role in hosting millions of refugees by saying, "we are the ones who feed 3.5 million refugees in this country, if you go any further those border gates will be opened".[28]

It is usually argued that countries often opt for one of two strategies based on their geopolitical significance. Essentially, nations perceiving themselves as geopolitically influential are more inclined to employ blackmailing, while those with less leverage tend to back scratch. The latter group sees cooperation as a safer alternative, prioritising relationships with donor countries. However, we oppose this argument and we contend that any country neighbouring Europe, that is capable of receiving payments to prevent the outflow of its migrants, holds a robust geopolitical position. Turkey was able to threaten its European neighbours and consequently extract as many benefits for its citizens, a strategy which can be followed by any country in its geopolitical position. Accordingly, we posit that for the MENA region to survive the upcoming migration wave, MENA region countries should consider adopting a blackmailing strategy in the event of foreign aid suspension or the threat thereof due to aid conditionality. Embracing this approach enables MENA countries to manage migrant inflows, secure aid, and avoid conditions that could compel changes in internal policies and reinforce path dependency.[29]

A Precautionary Statement

The MENA region finds itself at the crossroads of persistent humanitarian crises and political instabilities, the War in Gaza and conflicts elsewhere in the region have added layers of complexity, with some nations already grappling with economic and political hardships. Countries of the region are confronted not only with internal challenges but also with an escalating influx of migrants. While migration is not inherently an economic burden, it is argued that the global structure of migration governance may expose migrant-receiving and transit states to unfavourable political consequences. The EU's externalisation policy serves as a case in point, using migration aid as a strategic tool to influence the policies of other countries and avoid receiving migrants on European shores.

The examples provided, particularly those of Iraq and Gambia, illustrate the nuanced approach of European countries in leveraging aid conditionality to influence the policies of third countries. The intersection of migration aid and conditionality has created a dynamic where international institutions, responsible for funding migration aid, become "clients" of the Global North. The paper issues an alert regarding the potential consequences of aid conditionality, suspension or the threat thereof, emphasising the unprecedented political pressure that MENA countries may face. The distinction between blackmailing and backscratching strategies becomes pivotal, with the suggestion that MENA countries facing heightened migration challenges, should consider adopting a blackmailing strategy to navigate potential aid disruptions without submitting to conditions that may alter their internal policies.

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Climate Finance in the MENA Region

A New Frontier for Debt?

By Sandra Ramzy

As climate change tightens its grip on the world, countries in MENA stand particularly vulnerable to compounded risks. In 2023, more than 150,000 people were displaced across Yemen as a result of extreme weather conditions, heavy rains and flooding. In Libya, over 44,000 were displaced, and nearly 6000 were killed in Storm Daniel and floods.[1,2]

The already hot region is warming twice as fast as the global average, with predictions of 4°C increases by 2050 under current trends. This heat intensifies desertification, pushing fertile lands toward aridity and threatening the region's already scarce water resources. Of the world's 17 most water-stressed countries, 11 lie in MENA, with over 60% of the region's population living in high and very high water-stressed areas.[3] Areas identified as particularly exposed to the risk of compounding vulnerabilities are Iraq, Syria, Turkey, Yemen, Gaza, the West Bank, and parts of North Africa.[4]

Acknowledging the need to support these vulnerable countries has become crucial to climate activism and climate action talks. The urgency of increasing climate finance was the highlight of COP28 and is the objective of many climate justice advocates. However, climate finance comes in many forms that may not always have the desired impact. This paper argues that today's most prevalent approaches to climate finance hinder resilience and contribute to injustice and instability. It warns of the threat that the expansion of this finance and "green transition" agenda can have on stability in the MENA region as the threat of climate change gets closer.

Building on other definitions of climate colonialism and on one of the definitions of carbon colonialism, which states that it is "the practice of claiming space in the Global South to meet the needs of the Global North in the name of carbon dioxide reduction," this article proposes a definition for climate colonialism that also encompasses these systems of international assistance and finance.[5,6] Climate colonialism in the context of this paper can be seen as the claiming of space in the Global South by the Global North via climate finance and development aid on the pretext of mitigation and adaptation in order to maintain both hard and soft power to serve their economic and political interests. It posits that the Global North is exploiting the reality of climate change, which it disproportionately contributed to, to further embed structures of dependence and sustain resource extraction. The paper acknowledges that these structures long precede the current climate crisis and that an ethical dilemma emerges with questioning the fate of foreign assistance, as it can have far-reaching humanitarian implications, but its consequences should be assessed nonetheless.

Notre Dame Global Adaptation Initiative Index (ND-GAIN) Framework

To assess whether climate finance will do more to destabilise the most vulnerable countries in the MENA region, as opposed to improving their climate change readiness, the analysis in this paper is based on the readiness indicators outlined in the ND-GAIN Index's framework.

The ND-GAIN Index is a tool used to evaluate a country's vulnerability to climate change and its readiness to adapt. The index first measures vulnerability by considering six life-supporting sectors: food, water, health, ecosystem services, human habitat, and infrastructure. It then assesses exposure, sensitivity, and adaptive capacity within each sector. Second, the readiness score is calculated by looking at economic, governance, and social factors contributing to a country's ability to leverage investments and implement adaptation actions. This paper will focus mainly on readiness and its relationship with climate finance. This includes a general consideration of its impact on the different components; economic readiness, governance readiness and the social inequality indicator of the social readiness component.[7]

Table 1- ND-GAIN Readiness Indicators and Components

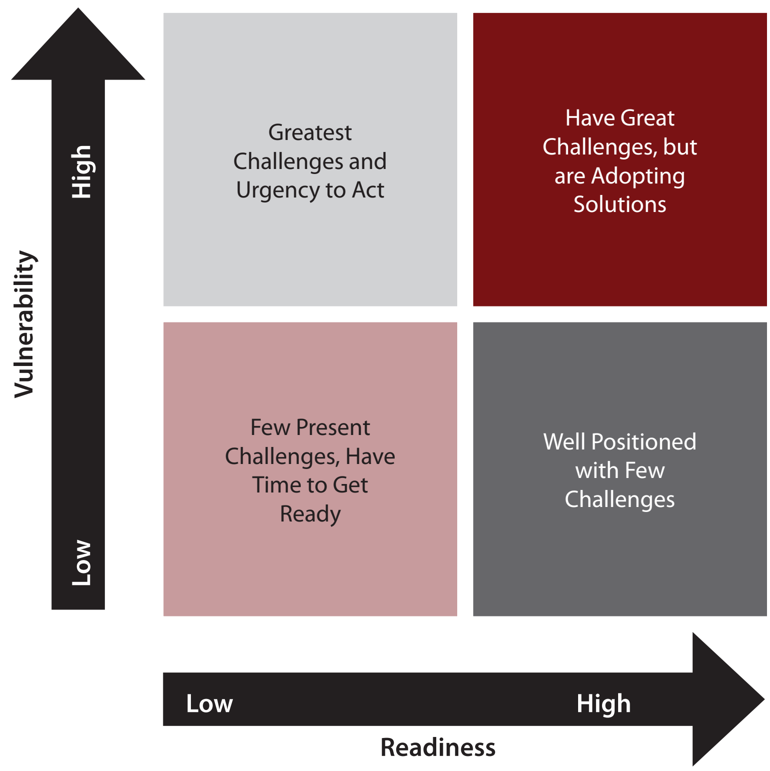
Component	Indicators (12 Indicators for this component)			
Economic Readiness	Doing Business			
Governance Readiness	Political stability and non-violence	Control of corruption	Rule of law	Regulatory quality
Social Readiness	Social inequality	ICT infrastructure	Education	Innovation

Source: ND-GAIN

Readiness in the MENA Region

According to the latest rankings released in 2021, which combine the score of both vulnerability and readiness, of 15 countries considered part of the Middle East, only 4 are categorised as low vulnerability and high level of readiness (coded green): Israel,[8] UAE, Qatar and KSA (in their respective order). Egypt, Lebanon, Iraq and Libya are categorised as yellow, nearing red, with a low level of readiness but also a low level of vulnerability that may be increasing. Finally, Syria and Yemen are in the red zone with a high level of vulnerability and a low level of readiness.[9]

Indeed, financial disparities within the Middle East present uneven prospects for adaptation to climate change and transition to a green economy. Oil-exporting Gulf states possess substantial financial and technological capital, which enables them to reduce their carbon emissions, protect their populations from climate-induced hardships and adapt to declining demand for fossil fuels by diversifying



Source: ND-GAIN

their economies and embracing alternative energy sources. Furthermore, their strategic positioning and resource wealth position them to benefit from the green transition as, for example, aggregate demand for oil is projected to increase before a gradual decline. On the other hand, non-oil-rich countries face daunting challenges due to limited financial resources. Their capacity to implement essential mitigation measures to curb their greenhouse gas emissions is limited, and their vulnerability to climate impacts is higher, considering a lack of resources for adaptation strategies.[10]

Is Governance the Main Issue?

Another significant factor contributing to the lack of climate readiness that is often the focus of international institutions and development programs is ineffective policy choices, especially in countries facing conflict and fragile states. This encompasses weak governance, the mismanagement of climate change effects, transboundary resource management, agriculture, urbanisation and migration and economic inequality. While these are indeed pitfalls, they also function as a justification or rationale for solutions that centre the transfer of technical and financial support from the Global North to the Global South, the latter often occurring through market-based mechanisms.[11]

However, this support is not without strings; as the cases in this paper will show, it promotes different forms of power and exploitation that often increase the socio-economic and environmental vulnerabilities of the countries they are supposed to help. In most cases, support, whether through grants or loans, would not be given unless there were economic or political gains to be made. Furthermore, there is a long list of cases where critical humanitarian aid, not just development aid, was suspended by Global North governments either due to shifting priorities or to exert political pressure.[12,13,14] This consistent pattern raises questions about whether access to finance is the key to climate action. In a recent publication, the World Bank stated:

"The world is facing a triple crisis—in development, climate, and nature— and climate action is off track. Poor governance, limited access to finance, and political economy barriers are slowing down progress." [15]

The emphasis on the importance of this transfer from Global North to Global South is troubling, considering that it also creates dependency, which in many ways further weakens governance and sovereignty. What is happening now is that many countries rely on loans to finance their climate adaptation and mitigation projects instead of mobilising their own resources through various means, such as progressive taxation or the creation of public shareholder companies. This creates a new form of climate-induced indebtedness. Understanding the dynamics of this system is crucial to assessing the future implications of climate finance on "developing" countries that are the main beneficiaries.

Non-transparent Finance

Climate finance is an umbrella term used to describe a variety of financial resources and instruments that are used to support action on climate change. Climate finance flows from diverse sources: public or private, national or international, channelled through bilateral or multilateral pathways. It utilises a variety of instruments, ranging from grants and donations to green bonds, equities, debt swaps, guarantees, and concessional loans.[16]

Though international development assistance as early as the 1940s included environmental and climate-related elements, the establishment of financial mechanisms explicitly to address climate change can be traced back to the first UNFCCC meeting in Rio de Janeiro in 1992. Climate finance has since evolved with the introduction of new mechanisms and approaches to raising funds. The 1997 Kyoto Protocol introduced the Clean Development Mechanism and the Joint Implementation, which formally channelled financial resources for emission reduction projects. The 2009 Copenhagen Accord marked a turning point when countries acknowledged the need to raise $100 billion to support mitigation and adaptation in developing countries.[17]

But, just like other forms of international development and humanitarian assistance, climate finance has a shadow side. Although it is critical for climate action, the focus on raising and managing funds to support mitigation and adaptation efforts in the Global South while little effort is being made to change the consumerist patterns introduced and reinforced by the Global North is the first sign of trouble. The replacement of aid with private finance and positioning of Development Finance Institutions (DFIs),[18] which are almost completely controlled by the governments of rich countries, at the core of the development ecosystem, is the second.

DFIs are essentially government-controlled institutions that invest billions annually in projects in emerging and developing economies. These projects may fall within private sector operations (non-sovereign) or public sector operations (sovereign), although DFIs are found to favour non-sovereign operations, particularly those in the financial sector, the impact of which on development is often questioned. The shift toward DFIs raises several critical questions. Are DFIs truly aligned with the goals of mitigating climate change and promoting sustainable development in recipient countries? What potential power dynamics are involved when institutions controlled by developed nations play a central role in financing climate action in developing countries?

A major persistent concern is the lack of transparency within DFIs and to the general public, which limits stakeholders' capacity to exercise external control. Thus, in the case of beneficiary governments, it can be argued to constrain the reach of their sovereignty. According to the first DFI Transparency Index Report, DFIs are "not providing evidence of impact, data regarding mobilisation, or proof of accountability to communities and, for many, even basic information about their investments is not publicly available." The report also found that for non-sovereign investments, almost no disclosure of results data is available, therefore making the impact immeasurable. To make matters more complicated, DFIs have been expanding their reach through smaller investments in other financial institutions, such as microfinance institutions, banks or insurers, and therefore indirectly investing in activities that do not always align with their policies. Although these sub-investments can reach underserved sectors, they have also been found to finance harmful activities that the DFIs themselves are barred from financing.[19] For example, the International Finance Corporation (IFC) - a subsidiary of the World Bank - continues to indirectly make new investments in coal despite its commitment to stop investing in coal in 2020. Through investing in Hana Bank Indonesia, the IFC is backing the Suralaya coal-fired power complex, which not only harms the atmosphere through carbon dioxide emissions but has also led to the forced eviction of local communities in order to build the plant.[20]

Without robust safeguards and critical scrutiny, these finance systems are too easily co-opted to serve neocolonial interests and reinforce patterns of exploitation. Therefore, they become completely counterproductive to their officially claimed purposes. But as many examples show, especially in the following case of Congo, profit as an objective almost always overrides any other benevolent goals.

The Case of Agro-Colonialism in The Democratic Republic of Congo (DRC)

This is a case where several prominent DFIs were funding Feronia Inc., a Canadian agribusiness company accused of land grabbing and human rights abuses in the DRC. The history of this company's abuses can be traced as far back as the Belgian colonial occupation. The Belgian palm oil plantations were financed by the Lever brothers and eventually laid the foundations for one of the world's largest food corporations (Unilever). Unilever maintained its oil palm plantation business long after Congolese independence from Belgium until it pulled out in 2002 with the eruption of war in DRC. Before 2009, Unilever held its plantations through a local firm called Plantations et Huileries du Congo (PHC). In 2009, Feronia bought most of Unilever's share in PHC, leaving the DRC government with a small share. Then, to raise more funds for its operations, Feronia listed itself on the stock market in Canada in 2010.[21]

A lengthy report produced by a coalition of civil society organisations in the DRC and Europe shows that Feronia occupied lands that are essential to the livelihoods of local people while subjecting them to inhumane living conditions and failing to provide decent wages. The deals made to acquire those lands were also found to be questionable and overall, Feronia Inc. was found to have violated DFI member's anti-corruption financial policies. At least nine local communities in the DRC filed complaints with the International Complaint Mechanism of the German, French and Dutch development banks in 2018. More than five years later, there was still no resolution or accountability held and active attempts to intimidate villagers through harassment and arrests were actually made by the company's guards with the participation and complicity of national security and police.[22] Meanwhile, Feronia's shares in PHC were acquired by yet another company (KKM) in 2020, further complicating the accountability trail. At the same time, both the Congolese government and PHC refused to provide copies of the relevant land documents, thus stifling mediation.

This case shows how corporate influence often overrides government control, especially in conflict-affected countries. This adds another layer of vulnerability as both resource sovereignty and communities' livelihoods are threatened. It is also not the only case. Additional evidence from a 2017 report shows that the World Bank has indirectly fuelled numerous land grabs in African countries, including Guinea, Gabon, Ethiopia, Uganda, Senegal, Sierra Leone, and Zambia, by enabling the IFC to outsource its development funds to the financial sector.[23] Meanwhile, the World Bank and similar institutions claim to provide loans and promote private sector growth to improve livelihoods and protect the environment.

The involvement of financial institutions controlled by countries of the Global North further entraps Global South countries in dynamics where the lines between governmental and corporate institutions are blurred, and codes of conduct are unclear. Mounting evidence shows that this system does more to fuel instability than support development. The World Bank's announcement at COP28 that it would devote 45% of its annual financing to climate-related projects is a signal that this may be a new frontier for the co-option of development finance to maintain control of Global South economies and financial markets.

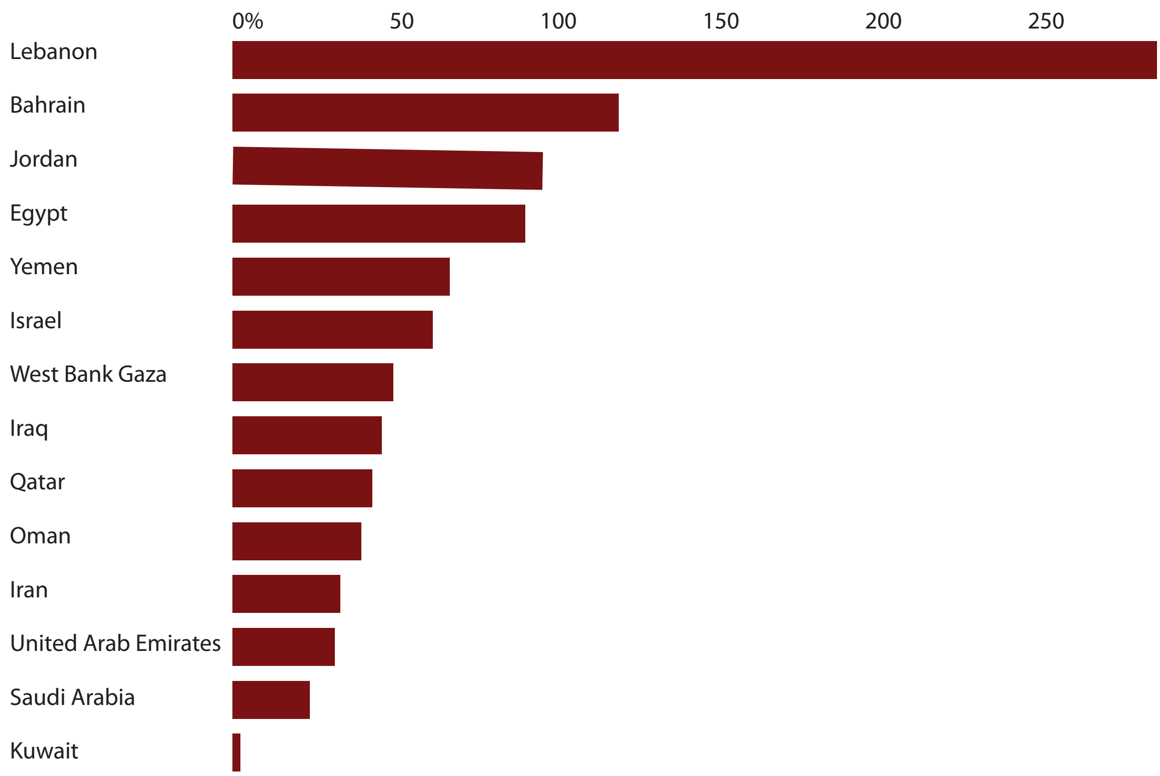
The Implications of Climate Finance for MENA Stability

Climate Change Vulnerability & Readiness

As stated previously, at least six countries in the MENA region are ranked as being in or approaching the red zone: having a high level of vulnerability and a low level of readiness. Additionally, the representation of what are commonly referred to as "Fragile or Conflict Affected States", such as Congo, is also significantly high in the region, namely Iraq, Lebanon, Libya, Syria, Palestine, and Yemen. Conflicts in these countries have a spillover effect, affecting neighbouring countries politically and economically. Considering the

Figure (1) : General Government Gross Debt in 2022

As % of GDP



Source: IMF World Economic Outlook

arguments put forth about climate finance in this paper, its prospects come with concerns for the already unstable region and its capacity to prepare for the effects of climate change.

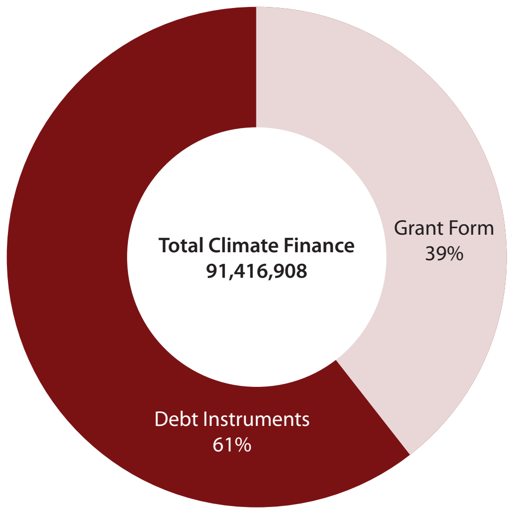
In the area of economic and governance readiness, the debt burden created by loans within climate finance packages is one major concern. Research by Oxfam reveals that over half of the funding to fragile states in 2019-2020 came in the form of debt-creating instruments such as loans and only about one-tenth as non-concessional loans thus, potentially pushing them deeper into debt distress. This is alarming, considering 78% of these states already face moderate to high debt. Given that only 9.4% of provided loans were non-concessional, the trend could mean further weakening of these countries' economic and political autonomy in the future. The chart below shows debt levels in MENA countries:[24]

Climate-induced debt could be particularly destabilising for countries such as Lebanon and Yemen who are already facing collapsing economies, devastating conflict and high public debt. While some climate finance initiatives may prioritise renewable energy investments, concerns remain regarding their intended beneficiaries and potential unintended consequences. Investments primarily focused on export-oriented projects could neglect the needs of local communities and potentially harm sustainable livelihoods, as exemplified by past cases. Figure (2) summarises the forms of climate finance given to Lebanon in 2019-2020, showing that over half came in the form of debt-creating instruments. The report categorises Lebanon as having a high level of institutional and social fragility.

More recently, in 2024, the Lebanon Green Investment Facility (LGIF) was launched by the United Nations Development Programme and the Lebanese Ministry of Environment. The facility aims to enhance access to financing for climate-informed projects through grants, soft loans, interest rate subsidies and loan guarantees.[25] According to the World Bank's 2024 Lebanon Country Climate and Development

Figure (2) : Climate Finance Forms in Lebanon (2019-2020)

% of total climate finance



Source: Oxfam

Report (CCDR), mobilising private sector financing and reducing government spending can improve fiscal and debt dynamics, which are necessary for economic recovery and climate change resilience.[26] While the LGIF aims to accelerate climate action through private sector investment, its private structure raises concerns about transparency and accountability. The emphasis on private investment raises questions about whether the most pressing social and environmental needs, like water conservation for struggling communities, will be addressed.

In general, Green Investment Funds are an emerging trend in the region. In Egypt, Green Finance investors include local banks but also DFIs, including the European Bank for Development and Reconstruction (EBRD), and foreign government agencies such as the French Development Agency. The EBRD and the European Union are also promoting green investments in Jordan through the Green Economy Financing Facility. Despite their rapid growth, the impact of green investment funds on climate change mitigation and sustainability is still unclear. Although they claim to include environmental, social and governance (ESG) criteria in their investment strategies, understandings of ESG remain broad and there is no internationally accepted definition. Also, research shows that these funds often only take ESG criteria into consideration without necessarily acting on them they are quite similar to regular funds.[27]

The current practices of some DFIs also raise concerns about transparency and accountability. It is important to note here that DFIs and development banks are not always approached or asked to provide assistance to Global South countries. In reality, these institutions are consistently seeking out investment opportunities and engaging in advocacy efforts in order to promote their proposed projects to these countries. An example of this is the EBRD's quest to apply its Green Economy Transition approach to climate change mitigation and adaptation by boosting agribusiness, improving banking services and supporting renewable energy and energy efficiency in the southern and eastern Mediterranean egion. This includes Egypt, Morocco, Tunisia, Lebanon and the West Bank and Gaza. However, this would mainly be done by promoting open market economies and boosting the private sector.[28] It may thus be an example of what many academics have recognized to be "forced privatization." Forced privatization, combined with potential resource scarcity caused by climate change, could further strain societies that are struggling with high poverty and unemployment rates, ultimately increasing the risk of social and political unrest.

The social implications of climate finance are equally troubling. Another recent Oxfam analysis shows that debt burden forces some developing nations to cut public spending on crucial areas, impacting livelihoods and potentially exacerbating conflicts.[29] Neoliberal policies often associated with debt restructuring can further strain social cohesion and erode the already shaky trust in governance structures. These examples offer a glimpse of how climate financing could unfold in the region.

Compounding Threats & Spillover Effect

Climate change acts as a threat multiplier in the MENA region. If low-income and fragile countries accumulate more debt without effectively improving mitigation and adaptations, climate change and disasters can exacerbate existing vulnerabilities and create a cascade of negative consequences. Resource scarcity, such as water or arable land, becomes a breeding ground for competition and conflict. Non-state armed actors (NSAA) can exploit these conditions, weaponising resources to gain legitimacy and control over territory. This, in turn, can lead to increased violence, displacement, and humanitarian crises. The rise of NSAAs can further weaken state sovereignty and create a power vacuum that invites foreign intervention, potentially escalating regional tensions. Previous years have already shown that this is likely.

Prolonged droughts in Syria in the preceding decade were considered to be a contributing factor to the destruction of the 2011 civil war.[30] The drought displaced hundreds of thousands of people from rural areas to cities, fuelled sectarian tensions and creating fertile ground for the rise of ISIS. While political competition is the primary driver of the conflict in Yemen, it is further complicated by water scarcity, which Houthi rebels exploit by controlling access to water resources as a weapon of war. A similar pattern is seen in Iraq, where resources wars between ethnic tribes are a looming threat.

The resource competition and instability fuelled by climate change also have a domino effect by driving migration and disrupting agricultural production, food distribution networks and food security. The Gulf states, for example, import a large portion of their food staples due to limitations on arable land and water resources. However, climate change is a global threat, and disruptions to food production in key exporting regions can have a ripple effect across the MENA region. Droughts and extreme weather events driven by climate change can disrupt global food supply chains, leading to price hikes and shortages. This, in turn, can intensify existing tensions and further instability in conflicts such as the Israeli-Palestinian conflict and the civil wars in Yemen. Instability in countries like Somalia or Djibouti are also considered threats in this regard.

Changing geopolitical dynamics resulting from wars and potential foreign interventions are also possible consequences of the domino effect. The latter, in particular, may become increasingly complicated due to economic ties and development aid or finance, which can threaten national sovereignty in the face of growing conflicts.

Moving Forward: Reevaluating Climate Finance is Necessary

The narrative surrounding climate finance in the MENA region rests on a foundation of questionable efficacy. While poor governance is often cited as the root cause of environmental challenges, the traditional tools employed to address it have yielded mixed results. These interventions, encompassing everything from financial aid packages to knowledge transfer programs based on models and experiences in the Global North, haven't always translated into demonstrably improved governance structures.

Furthermore, the very structure of development finance has historically prioritised the interests and profits of the Global North. Yet, economic arguments are still used to justify strategies that prioritise the interests of lenders over the needs of local communities. When the gap between these interests becomes too wide, loopholes emerge that conceal these conflicts and allow institutions to escape accountability. The World Bank's involvement in land grabs across Africa via financial sector interventions, the IFC's coal investments in Indonesia, and the case of Feronia Inc. in the DRC serve as stark examples of this dynamic.

Climate finance, as a descendant of development finance, inherits these potential pitfalls. With its emphasis on debt and market-based instruments, climate finance risks becoming a new frontier for neo-colonial exploitation, identified here as climate colonialism, particularly in the MENA region. This is especially concerning for the region's fragile and conflict-affected states, which play a crucial role in regional stability but are highly vulnerable to climate change. While climate action is essential, it cannot come at the cost of perpetuating these dynamics and further burdening already indebted states.

As the instruments and approaches to climate finance are still being developed and tested in the MENA, it is too soon to develop comprehensive data on its long-term impact on the region. However, this should be a top priority for governments and stakeholders. Such an evaluation must move beyond a narrow focus on economic metrics and encompass the impact on governance, social cohesion, and regional stability. Additionally, the challenge of cognitive dissonance must be addressed. While some institutions may launch projects that provide temporary relief, we must evaluate their broader systemic impact. Are these efforts truly mitigating climate change and promoting regional stability in the long run? Are these institutions providing solutions in some areas while simultaneously creating problems in other areas? Only through a data-driven and transparent approach can we ensure that climate finance truly serves the needs of the region, promoting a just and sustainable future. Governments and stakeholders must prioritise research and evaluation to ensure climate finance becomes a tool for genuine progress rather than a new form of exploitation.

Finally, it is true that the physical and environmental impacts of climate change, compounded by existing conflicts and wars, could be considered the primary threat to regional stability. However, the potential to effectively mitigate these effects through alternative approaches should not be underestimated. That is precisely the reason to pay attention to how they are being implemented, by which institutions or actors and to what extent they actually improve climate mitigation and adaptation. Climate finance can be a remedy, but it can also create a disease.

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Cyberspace

The New Arena of Warfare

By Ahmed El Saeid

The exact origins of "digital transformation" are difficult to pinpoint to a singular moment, it is however, a continuous story intertwined with the evolution and adoption of technology. While the 1990s saw the term gain traction, early seeds were sown decades earlier with the emergence of computers and basic digital tools. The 1980s saw businesses automate through enterprise resource planning systems, and the 1990s ushered in the internet revolution, with e-commerce platforms like Amazon and eBay appearing alongside the term "digital transformation". Mobile technology and social media then exploded in the 2000s, followed by the cloud's accessibility and big data's potential in the 2010s.

During the COVID-19 Pandemic it became necessary to maintain operation of key services without risking human interaction, further accelerating digital transformation across sectors. Today, artificial intelligence (AI) and automation represent the new frontier of digital transformation, potentially expanding the efficiency and reach of digital transformation while exposing us to greater risks.

Digital transformation, while a force for progress and connection, has also cast a long shadow — one increasingly filled with the spectre of cybercrime. As every facet of our lives, from banking to shopping to communication, shift online, the forms of crime we knew have adapted, morphing into digital threats that exploit the very vulnerabilities inherent in our ever increasingly connected world.

The digital migration of crime has opened a vast, uncharted frontier — cyberspace. While traditional forms of crime haven't vanished, they at times operate in conjunction with their digital counterparts. Cyberattacks, ranging from data breaches to ransomware, can threaten national security and identity theft, fuelled by stolen personal information can destroy lives. Furthermore, the various kinds of cyberattacks can be used to further fund rogue nations, terrorism, and physical crime. For example, the U.N. investigated 58 cyberattacks between 2017 to 2023, believed to be conducted by North Korea, which was able to bring in approximately $3 billion, which was then used to fund the development of nuclear technology and missiles.[1]

While numerous countries are embracing digital transformation and its benefits, the transition to the digital realm has concurrently exposed vulnerabilities. In 2021 alone, hackers caused approximately $6 trillion in damages,[2] underscoring the challenges associated with digital transformation. This transition to the digital realm not only redefines the nature of warfare but with the introduction of AI, its soldiers will be able to use their efficiency to cause havoc.

Amidst these advancements, the convergence of AI and cyberattacks introduce vast risks, within the domains of digitization and digital transformation. This convergence becomes our focal point, and within it our focus on the MENA region in particular which provides an unequal digital transformation, attractive targets for cyberattacks, and is quickly emerging as a hub for AI innovation. Recognizing the intricacies of this landscape necessitates a thorough examination of challenges, drawing lessons from past incidents, and considering the trajectory of future developments in AI and cyberattacks. This enables us to address the dynamic and evolving nature of threats in cyberspace, anticipating new forms of disruption and warfare.

Before delving into the potential impact of AI on cyberattacks, we must first define what cyberattacks are, classify the actors that commit these cyberattacks, and finally provide examples of the use of cyberattacks by threat actors. By defining, categorizing, and exemplifying cyberattacks, we create a framework that facilitates a deeper understanding of how AI is poised to augment the capabilities of these malicious activities.

Cyberattacks, Threat Actors, and their Tools?

Defining cyberattacks is a complicated endeavour due to the ambiguity of definitions used in the field, take for example the following definition "A cyber-attack consists of any action taken to undermine the functions of a computer network for a political or national security purpose." Although it covers acts of cyberwarfare the use of "undermines the function" excludes certain acts of cybercrimes and cyber-espionage altogether, because they only observe and copy data and do not impact the function of a computer network.[3]

Therefore, for the purpose of this study a wider definition of cyberattack is adopted to encompass both cybercrimes, cyberwarfare, and cyber-espionage. Simply put "a cyberattack uses and targets computers, networks, or other technologies for malevolent, destructive, or disruptive purposes."[4] This will allow us to expand our viewpoint on what constitutes a cyberattack and better allow us to comprehend the potential impact of the use of AI by the following threat actors now and in the not-so-distant future.

Threat actors are those that perform cyberattacks and vary significantly in their motives and objectives. IBM categorizes these actors into six groups; nation-state actors which are funded by sovereign states and carry out cyberattacks to gain access to confidential information or disrupt critical infrastructure for political purposes. Cyberterrorists initiate political or ideological cyberattacks, these actors pose a threat of violence as they target systems to promote their extremist views. Cybercriminals are motivated by financial gain and engage in cyberattacks to achieve monetary benefits. Hacktivists are driven by political or social agendas and employ cyberattacks to further their causes and influence public opinion. Thrill seekers engage in cyberattacks purely for the excitement, with no specific ideological or financial motivation. Insider threats, while not necessarily malicious, may inadvertently cause harm due to poor security practices that can be exploited by external parties. For the sake of simplicity, we will divide them into two groups; state-actors which are under the control of sovereign states or receive funding from sovereign states and non-state actors which include everyone else.[5]

State and non-state actors primarily use a mix of the following tactics and tools; Malware which is harmful software that damages or disrupts computers, often spread through email attachments, infected websites, or compromised software. It enables threat actors to steal data, control computer systems, and attack others. Ransomware, a type of malware, locks up victim data or devices, demanding a ransom, to return it. Phishing deceives users through email, text, or fake websites to obtain sensitive data. Social engineering, a form of human manipulation, exploits emotions or urgency to compromise personal or organizational assets. Denial of service attacks flood networks or servers, making them inaccessible, with distributed denial-of-service attacks (DDoS) using multiple computers for faster and more challenging detection. Advanced persistent threats are sophisticated, prolonged cyberattacks, typically initiated by well-funded actors, infiltrating networks for espionage and data theft. Backdoor attacks exploit unprotected openings in systems, allowing undetected entry and exit for threat actors.

How Have Cyberattacks Occurred?

Looking at state actors it would be difficult to not immediately think of Russia and its long history of cyberattacks which are known for their sophistication and targeting of government institutions; however, we will focus particularly on the United States given their long history. Russian cyberattacks against the United States began in 1996 with an attack on NASA, the Department of Defence (DoD), the Department of Energy, and various public and private sectors entities. An investigation named "Moonlight Maze" was launched and found that large amounts of classified documents were stolen and, if the documents were printed out and stacked, they would triple the height of the Washington Monument, the attack lasted for three years and is considered the first government sponsored cyberattack.

Since 1996 Russian cyberattacks have been persistent and more sophisticated, in 2008 the DoD was infected with malware in what Pentagon officials called "the most significant breach of U.S. military computers ever".[6] The attack started when a malware-infected flash drive was plugged into a military computer connected to Central Command in a base in the Middle East. The simple act of plugging in a flash drive infected DoD computers and took 14 months for the Pentagon to clear the malware from military computers in a process called "Operation Buckshot Yankee", the incident led to the creation of the United States Cyber Command.[7]

Most impressive was Russia's ability to directly interfere in the 2016 U.S. Presidential Election with the goal of harming the presidential campaign of Hillary Clinton, assisting that of Donald Trump, and undermining the U.S. democratic process. Although cyberattacks were not the only tool used, they played a significant part which included the hacking of computer networks and subsequent leaking of emails from the Clinton presidential campaign, the Democratic Congressional Campaign Committee, and the Democratic National Committee with Russia's efforts continuing into the 2018 Midterm Elections, and the 2020 Presidential Election.[8]

Other prominent state actors involved in cyber operations are Israel and the U.S., who often collaborate together in the creation and deployment of cyberattacks, such as the targeting of Iranian enrichment operations in Natanz through Operation Olympic Games. This saw the creation and deployment of the Stuxnet computer worm, a joint effort involving Israel's Unit 8200 and the U.S. National Security Agency (NSA). Stuxnet successfully infected Iran's nuclear centrifuges, leading to a 30% reduction in operational capacity and was the first documented use of a cyberweapon. Discovered in 2010, Stuxnet had likely been active for an extended period, potentially spanning months or even years before its detection.[9]

In another cyber offensive against Iran, Israel employed the Flame malware. Once it infiltrated a computer or network, Flame enabled the capture of screenshots, recording of audio conversations, monitoring of network traffic, interception of keyboard strokes, and potentially stealing information from infected computers.[10] All of this gathered information could be accessed remotely, underscoring the invasive nature of the cyberattack. Although the focus of Flame was Iran, the malware was also found to have infected machines across the Middle East, in countries such as the UAE, Saudi Arabia, and Egypt.[11]

Iran has not been the only target of Israeli cyberattacks in the region, in 2007 Israel was able to use cyberattacks to assist combat operations against a Syrian nuclear reactor; Israel was able to penetrate Syrian air space and bomb the reactor without Syrian air defences becoming aware, it accomplished this by taking control of Syrian radar systems and making it seem that they were operating as normal, rather than disabling them which could have alerted Syrian officials of a potential attack.[12]

The development and deployment of these tools underscore the intricate and varied nature not only of the tools themselves but also the diverse objectives they are able to accomplish. These technologies have facilitated the sabotage of critical infrastructure, espionage, military operations, and directly influenced the outcome of the 2016 U.S. Presidential Election. The intricacy of these tools is made possible by the substantial support of sovereign states, providing the essential resources for their development and implementation on both the macro — state — and micro — individual — levels.

However, the developers of these tools have failed to be confine them in impenetrable fortresses. Much like everything on the internet, once unleashed, these tools become accessible to anyone. Consequently, a pipeline of sophisticated cyber weapons has made their way to state and non-state actors, who lack the necessary resources to craft sophisticated tools independently.

As was the case in April 2017, when a hacker group called The Shadow Brokers (TSB) was able to acquire and then leak hacking tools developed by the NSA, most prominent of which was an exploit called EternalBlue.[13] The exploit targeted Microsoft software and had been developed and used by the NSA for years to access data on Microsoft devices, following the leak the NSA informed Microsoft of the exploit in order to update its security. However, the damage had been already done and by May 2017 the WannaCry ransomware attack began.

The WannaCry ransomware impacted an estimated 300,000 computers worldwide and caused $4 billion in damages, locking users from accessing their information and holding it hostage. To regain access to their information, victims were shown a message demanding a ransom payment in Bitcoin. The U.K.'s National Health Service was impacted with thousands of hospitals targeted,[14] additionally, companies vital to the global supply chain were shutdown with Taiwan Semiconductor Manufacturing Company — the world's largest maker of semiconductors and processors — shutting down due to the infection of its computers with the ransomware.[15]

The EternalBlue exploit was used again in June 2017, in the NotPetya attacks which began in Ukraine, and at one point managed to disable the radiation monitoring system of the Chernobyl Nuclear Power Plant,[16] it continued to spread infecting more and more computers, causing further chaos across the globe.

Although it has been nearly a decade since the leak of EternalBlue by TSB to the general public, the utilisation of the exploit continues to this day, showing the potential of advanced cyberweapons when made available to the general public and non-state actors. Apart from the use of advanced cyberweapons, non-state actors are more commonly known for their use of smaller scale and less damaging methods that target individuals or private businesses in an attempt to extract monetary gain, usually using phishing.

In 2023 there were 4,987,809 recorded phishing attacks across the world with 1,077,501 occurring in Q4 2023 alone.[17] Although these are not all attributed to non-state actors, the ease and non-complexity of phishing attacks make them attractive for non-state actors and they are accessible to anyone without the need of specialised knowledge or equipment, all you truly need to pull off a basic phishing attack is an email, relatively good grammar, and a lapse in judgment from the recipient.

Because of their ease to conduct and their relatively high success rate — the average click rate for a phishing campaign was 17.8%, increasing to 53.2 % during more targeted campaigns[18] — phishing attacks are usually used as a gateway to conduct further more complex cyberattacks, such as the Colonial Pipeline ransomware attack, which is assumed to have started with the theft of data following an employee using their password on a malicious site which was part of a phishing attack.

Using the data from the phishing attack, a ransomware attack was initiated that shutdown the Colonial Pipeline which provides nearly 50% of gasoline, diesel, and jet fuel used on the United States's East Coast in what marked the most significant attack on U.S. energy infrastructure.[19] The Colonial Pipeline was shut down for six days due to the ransomware attack and was only able to restart operations following the payment of $4.4 million to the cybercriminals.[20]

The attack on Colonial Pipeline highlighted the vulnerability of critical infrastructure to cyberattacks, their ability to be caused by non-state actors, and the potential for widespread disruption. While the Colonial Pipeline incident targeted the U.S., it serves as a stark warning for the MENA region, which also relies heavily on energy infrastructure.

Cyberattacks in MENA Region: Past and Future

The MENA region is unique and can provide a useful example for a region ripe for cyberattacks. Throughout the region there exists the largest hydrocarbon reserves and a multitude of conflict points that have made the region no stranger to cyberattacks and have not been limited to Israel and Iran's exchanges, other countries in the region have been targeted by state actors, such as the spread of the Shamoon virus in 2012, which impacted Saudi Aramco, wiping the data from over 30,000 computers impacting Saudi Aramco's ability to supply the world with oil, with another attack two weeks later targeting Qatar's RasGas. Although Shamoon was able to halt distribution at Saudi Aramco it was unable to affect oil production. Despite its inability to halt production, the possibility of such an attack on oil and gas infrastructure and critical infrastructure at large is ever present.

For example, due to mostly arid climate, countries in the MENA region have some of the lowest water availability levels in the world, to address this there has been a shift to water desalination as an alternative source of fresh water.[21] Although the general trend of the MENA region is shifting toward more water desalination,[22] the GCC is already largely reliant, providing an attractive target for either state and non-state actors who could cause disrupt water supply if they were able to disable a number of desalination plants in the region.

Another potential critical infrastructure target is nuclear power plants (NPPs), although the UAE has the only functional NPP in the MENA region, there have been plans amongst other countries to shift to nuclear power to diversify their energy production. Egypt is already constructing its own NPP in El Dabaa and Saudi Arabia has been reported as planning to build two nuclear reactors and increase nuclear capacity up to 2040.[23] A cyberattack on a NPP presents risks not only for the country where the NPP is located but those in the region as well, should the damage caused by the cyberattack be extensive, the Russia-Ukraine War has already showcased cyberattacks by state actors against NPPs, and existing malware such as Triton — which infected the U.S.'s Wolf Creek Nuclear Operating Corporation and a petrochemical plant in Saudi Arabia[24] — has the potential to create disasters at power plants.

This is the current potential of cyberattacks now, introducing AI into the equation will lead to more sophisticated and potentially more destructive cyberattacks.

How will AI Further Complicate Cyberspace

AI is here and will continue to improve as time goes on. Therefore, it is necessary to understand how these AI models can be leveraged by state and non-state actors to further enhance their cyberattacks which risk not only sovereign states but also individuals.

The rise and availability of AI presents a problem that arises from 3 main vectors; its use, its continued adoption, and its development.

Firstly, as AI models continue to become more powerful and readily available to the public, their use for malicious purposes will become more efficient. There are already at least two generative AI models that are available to the public and are marketed as for malicious use, built using large language models, the same technology used to create ChatGPT and Gemini.[25] In a 2023 study, 78% of IT professionals predicted that a severe cyberattack will be attributed to ChatGPT within two years, and 71% believed that state actors were already using ChatGPT for malicious purposes.[26]

A more concerning aspect regarding the use of AI is that it will significantly decrease the barrier of entry for threat actors while providing them with powerful tools, it is already possible for AI to support large scale phishing campaigns making them more difficult to identify as threat actors leverage AI to create more realistic communication meant to deceive users, and where and where the traditional advice of watching out for misspellings or bad grammar will no longer be relevant. Additionally, by using AI to analyse an individual's social media profiles, tailored phishing campaigns can be created at a faster rate and will likely lead to higher success rates than traditional phishing campaigns.

Furthermore, with enough samples, AI can be used to clone an individual's voice to be used for a multitude of reasons; from creating fake songs to spreading misinformation. The rapid development of voice cloning is so pressing that President Joseph Biden made note of the technology during his 2024 State of the Union address, following phone calls made to large numbers of New Hampshire voters that urged them not to vote using the cloned voice of President Biden,[27] which seems to not have been listened to by OpenAI, as two months following Biden's State of the Union they announced their own voice cloning tool, capable of recreating a person's voice from a 15 second recording.[28]

The use of AI in further enhancing cyberattacks is not limited to phishing and voice cloning, AI could be used to generate entirely new strains of malware. Unlike traditional, pre-coded malware, AI-generated malware could be constantly evolving, making it significantly harder to detect and defend against, allowing them to better target critical infrastructure and individuals.

Secondly, as AI models continue to be adopted and become prevalent in everyday life, the targets of cyberattacks may shift to the AI models themselves. When AI models learn they generally go through two stages; a training stage where the model is learned, and a deployment stage where the model is deployed to generate predictions. Cyberattacks on AI models can occur in both phases. The most dangerous of these occur during the training stage, and can lead to threat actors controlling and altering the training data of an AI model, or controlling the parameters of the models themselves in what are called poisoning attacks, which allow threat actors to subvert and skew the outputs of an AI model for their benefit.

During the deployment stage evasion attacks and privacy attacks can occur. Evasion attacks aim to change the alter the behavior of the AI model to benefit the threat actor, with autonomous vehicles in particular being vulnerable to evasion attacks, which, for example, can make the AI that identifies civilians not register them as civilians and potentially cause collisions.[29] Alternatively, privacy attacks attempt to extract the data used to train a model, or extract information about the model itself.[30]

Finally, these risks are further amplified by the very process of developing AI models themselves. Training a powerful AI model necessitates a tremendous amount of resources — capital, energy, expertise, and time — all of which are in short supply for the majority of the world. These significant barriers to entry have, unfortunately, limited the diversity of the resulting AI models. Consequently, a large portion of AI models will be built upon just a handful of foundational models, like OpenAI's GPT-4, Google's Gemini, and Meta's Llama.

The lack of variety presents significant concerns. Firstly, if most powerful AI models share a similar origin, they are likely to inherit similar weaknesses; an exploit in a single foundational model can potentially impact every other model built on it. Secondly, there seems to be a quasi-arms race between the major developers of AI in the West. This hyper-competitive dynamic has already led to the release of powerful AI models with biases, such as Google's Gemini image generation overcorrecting and refusing to display images of white people. More importantly, it has also led to the acceleration of development and mobilization of investments at the expense of safety and security. Creating sophisticated models without proper security that could put the MENA region and the World at risk.[31]

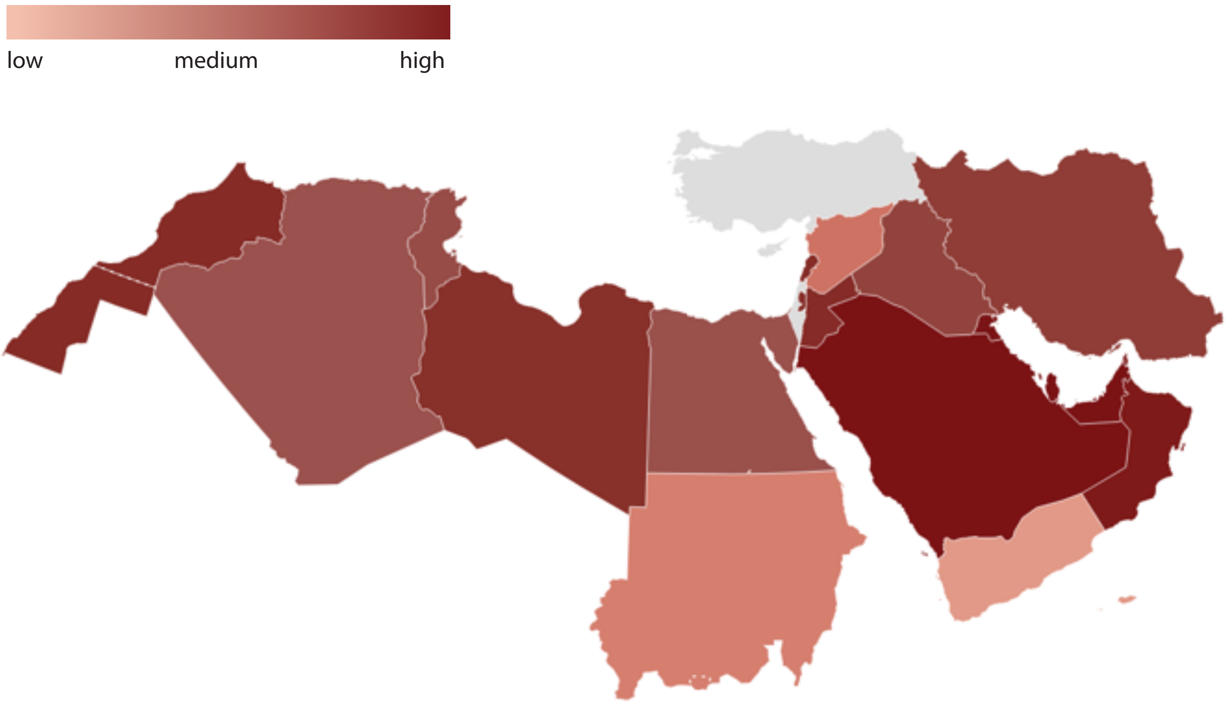
What Needs to Be Done in the MENA Region?

As discussed previously, the MENA region provides a unique landscape for cyberattacks, this is further complicated by the various degrees of digital transformation across the region and the differing goals of countries in leveraging AI, particularly the UAE and KSA. Digital transformation has been ongoing throughout the region at extremely different rates, with countries in the GCC regularly ranking ahead of others in the region across a wide variety of indicators,[32] coupled with far reaching national initiatives, this has placed the GCC at the forefront of cyberspace in the region.

This shift to digital transformation is not without its risks and as more sectors and industries are uploaded to the

Figure (1) : Individuals using the Internet

% of population as of 2022



Source: International Telecommunication Union

digital realm, becoming more interconnected, the risk of cyberattacks in general increases as does the risk of a major cyberattack with far-reaching implications. Already the UAE's public sector entities stop 50,000 cyberattacks a day ranging from DDoS to ransomware, with the private sector possibly facing triple the amount.[33]

Although the GCC makes for a more valuable target for threat actors, they may not be the most at risk to cyberattacks. The constant flow of cyberattacks in the GCC means that there is a higher need for vigilance than the rest of the MENA region, the need for vigilance pushes countries in the GCC to adopt more state-of-the-art cybersecurity technology and more importantly exposes the GCC to the wide array of tools used by threat actors, providing them with valuable experience when facing cyberattacks. State-of-the-art cybersecurity technology and experience in combatting cyberattacks may be out of reach for many countries in the MENA region. These countries lag behind the GCC in terms of digital transformation and digital literacy. This creates a double challenge: limited resources to defend against increasingly sophisticated cyberattacks, and the potential for a successful attack to erode public trust in digital initiatives altogether, significantly stalling or even reversing progress.

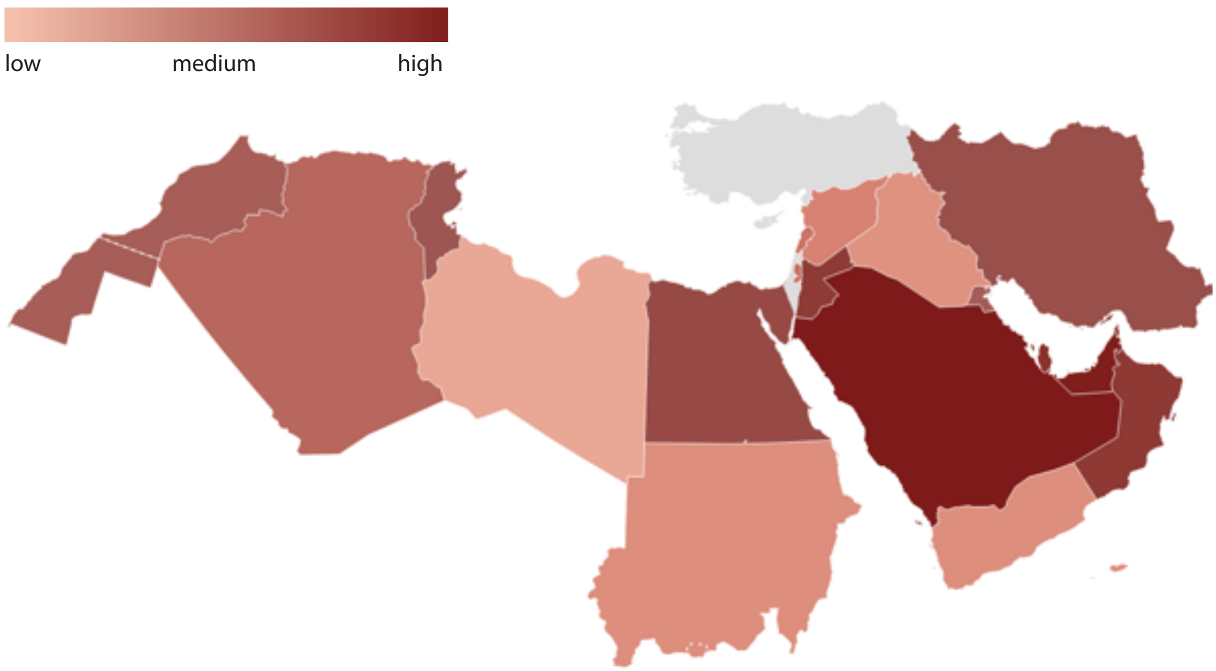
These issues will only intensify as AI becomes more widely available and adopted, and is further complicated by the goals of the UAE and the KSA in the development of AI. Both countries have abundant sources of funding and energy — significant constraints in the development of AI — providing them with a significant advantage over others in the MENA region and the World, and are aiming to become global leaders in AI, albeit through different methods.

It has been widely reported that the KSA is planning to create a $40 billion fund to invest in AI, which would make it the world's single largest investor in AI. It is unclear yet where and how the funds will be directed, but with such a large amount of potential investment the KSA can place itself at the center of any major AI development.

The UAE's AI policy is more developed and fleshed out than that of the KSA, the UAE has already developed and released

Figure (2) : GovTech Maturity Index

As of March 2023



The WBG launched the GovTech Maturity Index (GTMI) in 2020 as a composite index that uses 48 key indicators to measure critical aspects of four GovTech focus areas in 198 economies: supporting core government systems, enhancing service delivery, mainstreaming citizen engagement, and fostering GovTech enablers.

Source: The World Bank

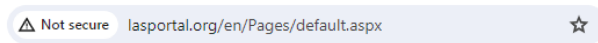
two AI models, Jais — the first Arabic AI[34] — and Falcon — developed by Advanced Technology Research Council (ATRC) — with Falcon being noted by many as particularly impressive, given that it was developed by the UAE without the resources available to the U.S. and China, and released as open source to the public, a step which many AI developers refuse to take.

The UAE's goal of becoming a global AI leader also includes incentives to attract AI developers to the country, these incentives include everything from better weather and no income tax to more relaxed data laws. One incentive in particular could pose the largest risk to the MENA region, the relaxation of AI regulations; as the world begins to come to terms with AI and its repercussions more stringent regulations will be taken to regulate the development of AI models, which would make AI safer and controlled. To lure in AI developers who might feel constrained by regulations the UAE may provide less oversight, which seems to be the direction it is leaning toward this with the ARTC's secretary-general saying that "Yes, you need some checks and balances. But in many places, it is overdone."[35]

While the KSA and UAE's AI strategies offer the MENA region a chance to be at the forefront of a transformative technology and secure access to future advancements, these ambitions come with significant risks. Lax oversight on AI models, even compared to current limitations, could lead to the development and spread of flawed or even malicious ones. This potential for the KSA and UAE to become hubs for unregulated AI poses a serious threat to the stability of the MENA region as AI could be leveraged to launch cyberattacks against less digitally advanced countries, which could hinder development or in the worst case, cause catastrophic damage to the region.

To avoid this scenario, more regulations need to be put in place not just in the KSA and the UAE, but the MENA region in general. The GCC countries that are leading in this development have a responsibility to others in the region to see through the correct adoption of technologies while providing their insights on how to defend from cyberattacks in their many forms.

This cannot be undertaken by the GCC alone but requires a collaborative effort by all countries in the MENA region, The The League of Arab States has already established the Council of Arab Ministers of Cybersecurity[36] to assist in cooperation in cybersecurity as well as called for regional cooperation in AI. However, given that The League of Arab States websites are considered unsafe by various internet browsers, it may not be the most appropriate or effective organisation to spearhead this effort.



Regardless of which organisation should lead the charge, more must be done now before it is too late. The question of whether a catastrophic AI powered cyberattacks occurs is not a matter of if it will occur but when.

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