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State Failure and External Debt Crisis in the MENA region

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A thesis submitted for the Joint Master in Global Economic Governance and Public Affairs

Supervisor: Professor Michel-Henry Bouchet

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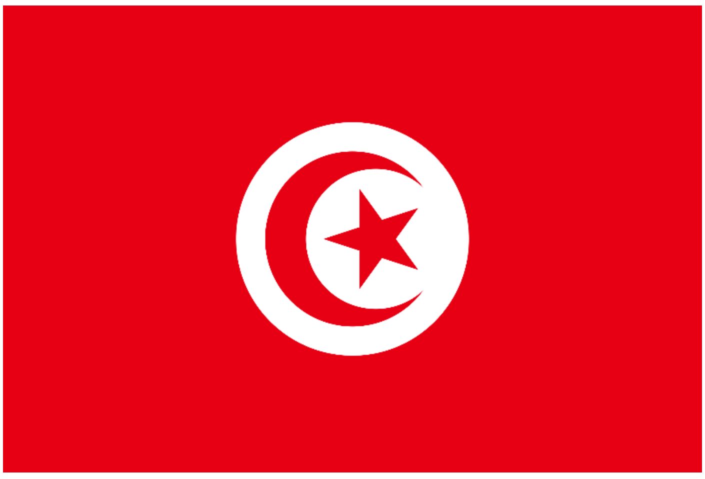

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To Cairo, the city to which I owe my existence to!

I hereby declare that I have composed the present thesis autonomously and without use of any other than the cited sources or means. I have indicated parts that were taken out of published or unpublished work correctly and in a verifiable manner through a quotation. I further assure that I have not presented this thesis to any other institute or university for evaluation and that it has not been published before.

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Abstract

This thesis uses a comparative case study methodology with a focus on Lebanon, Egypt, and Tunisia to examine the complex causes of external debt crises in the Middle East and North Africa (MENA) region. It examines how historical, social, political, and economic elements interact to cause debt accumulation and state fragility. The study finds recurrent themes, such as poor governance, instability in the region, and the effect of oil wealth—or lack thereof—on stability and economic diversification. While Egypt struggles with internal issues and ambitious megaprojects amid regional tensions, Lebanon is a prime example of state failure brought on by sectarianism and corruption. Political unrest and deteriorating industries are impeding Tunisia's democratic transition. The analysis emphasizes how important governance is to debt management and sustainable development. For the MENA region to have a more resilient future and reduce the risk of debt crises, this thesis emphasizes the necessity of tackling governance issues, encouraging economic diversification, and advancing regional stability.

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Background and Context:

The MENA region is one that has been in a constant state of political instability, social instability and constant economic issues which have had a damaging effect on the region. The region continues to bleed to this day and while in certain cases there seems to be a light at the end of the tunnel, those seem to be very far and few between. The countries chosen were done so on purpose so that they represent the multiple issues the region faces. Lebanon has already had its big economic and social fallout a couple years back, they had a liquidity crisis which ruined the country's economy and destroyed a good part of their chances to realize their goals of becoming the "Singapore of the Middle East". Egypt is building their new capital, and for which they might be going into an unrecoverable debt crisis. They already had to sell a couple of islands to Saudi Arabia to be able to afford building the new capital, or at least avoid debt for some more time. Tunisia on the other hand is having a lot of social troubles, which are also slowly unveiling their economic troubles too. Tunisia's external debt to GDP ratio is currently at around 90%, while also not giving any signs of improvement. According to COFACE and their country risk assessment team, none of the countries pass the C mark in either their overall risk or business climate, the worst being Lebanon clocking in at a D score in both while Egypt and Tunisia being at a C in both categories. It is interesting to note however that both Egypt and Tunisia fell in the business climate score from a B to a C, which shows a potential degradation and worsening of the situation in these countries, which might stem from a regional political and economic crisis as it will be explored later in the thesis. These case studies however have also an element of regional diversity in them, as Lebanon is the representative of the Middle East region, and has a lot of the elements and problems typical of the countries there socially and politically, like religious diversity, Islamic extremism, and political instability. Egypt is the typical "superpower" of the region, with a cult of personality on its leadership, a huge but ageing military and some oil wealth as well to go by it, but also with elements of religious diversity. Egypt also finds itself in an interesting situation in the middle of North Africa and Middle East. Tunisia represents the North African element of this thesis as well, with elements typical of the region like ethnic diversity between Arab and Amazigh (Berber), it is relatively stable compared to the Middle Eastern nations, however finds itself in a worsening situation due to political instability in relation to the failures of the Jasmine Revolution, and also has a fair income coming from sources like tourism and agriculture trade which is very typical to its sub-region. Oil is also a very important aspect in the crisis of these countries, as there tends to be important differences in these countries and the way they manage their countries depending on if they have oil reserves and production. Egypt fills this part, with the other two countries lacking oil reserves, which will be crucial for analysing the differences in economic governance and how it is, or if it is really affected by the presence of oil in the country.

Methodology

The thesis will mainly be focused on using a comparative case study methodology, the thesis focuses on three MENA nations: Egypt, Tunisia, and Lebanon. These nations were specifically chosen to reflect the range of difficulties the area faces, such as social problems, political unrest, and economic instability. This method enables a thorough analysis of the particular causes of debt crises and state fragility in every nation, as well as cross-comparison to find recurring themes and particular situations. The thesis also includes a historical perspective, which charts each nation's development from independence to the present. The major occurrences, political shifts, and economic policies that have influenced their current circumstances are examined in this historical analysis. Understanding the long-term structural elements that lead to debt accumulation and state fragility requires this method. The thesis makes a distinction between the internal and external causes of debt crises. A more sophisticated comprehension of the intricate interactions between domestic policies, regional dynamics, and global economic forces is made possible by this framework. The analysis takes into account elements like:

External factors: Access to foreign markets, regional instability, geopolitical conflicts, and worldwide commodity prices.

Internal Factors: Social divisions, economic policies, fiscal mismanagement, corruption, and governance practices.

The thesis visualizes and supports claims regarding debt levels, economic trends, and other important indicators using data from multiple sources, including the World Bank, IMF, and Trading Economics, in conjunction with charts. The goal of this strategy is to present the empirical data in an understandable and persuasive manner. The analysis also takes a turn at emphasizing the role of governance in managing debt and promoting economic stability. It examines how corruption, weak institutions, and political instability contribute to debt accumulation and hinder effective policy implementation. It also explores how governance structures affect a country's ability to diversify its economy, attract foreign investment, and manage its natural resources. For countries with significant oil reserves, the thesis explores the "resource curse" and its potential impact on economic development and political stability. This analysis examines how oil wealth can lead to corruption, rent-seeking, and a lack of economic diversification, ultimately contributing to debt crises and state fragility. To conclude, the thesis is created based on a mixed blend of research methods between qualitative and quantitative research method.

Literature Review

The literature on the topic is, for the most part, fairly expansive as it covers most aspects of these countries socio-political, economic and financial crisis. It is worth mentioning however that is not always the case, as for each of the countries the literature tends to mostly focus on only one of these aspects. In the case of Egypt for example, one of the main pieces of literature on the matter is "The Egyptian Economy in the Twenty-first Century: The Hard Road to Inclusive Prosperity", a book which mainly looks at the financial and economical side of Egypt and its crisis. The book is an important piece of literature that explains very well the history of the troubled political history of the country, and how it and the economic side are interconnected deeply to each-other, while also trying to use trends to predict the future of Egypt in regards to its labour force and other parts of its economy. In the case of Egypt, and the other countries as well, I will take also a lot from IMF, Coface and other risk assessment companies that have made reports on these countries. These reports are very important because they usually include details on the socio-political, economic and financial sections of a country. In Tunisia's case we have a country that is potentially on the verge of collapse due to socio-political factors mainly, and the literature shows that as well, being mainly focused on these issues. It is not difficult however to find sources talking about the economic and financial issues of the country, all thanks to the reports previously mentioned before and other forms of literature written on the topic. A book that I will be using to portray the general situation of Tunisia is "Tunisia" by Oscar Scafidi, which takes a very general and comprehensive review of the situation in the country. Lebanon perhaps has the most complete literature of them all because of the particularity of their case. A very important book in explaining the political, social and economic history of Lebanon is "Lebanon, The Politics of a Penetrated Society" by author Tom Najem. The book also explains as well the history of the reconstruction of the economy. They are already considered a failed state, due to many parts of their government having completely failed, which has left the country in a chaotic state. There are many books written on the topic, which will be part of the literature taken, but also the reports from Coface, IMF, World Bank, Sace, Cesce, and Credendo will be crucial in getting a better explanation of the situation. The literature on the general concept of state failure and external debt crisis is also very extensive, as reports from DeFi (Developing Finance) and other pages where experts have worked on have provided a very comprehensive overview of the concept. A book which will be utilized a lot in regards to explaining and giving a general idea on the concept of state failures is "Why Nations Fail, from world renowned economists and Nobel Prize winners

Daron Acemoglu and James A.Robinson. What this situation reminds most is a puzzle, where most of the pieces are there for the taking and the only thing left to do is to pick them up and put them together. What I will be doing is picking up the pieces and put them together, in creating a full and expansive image on the topic and the failures of all 3 countries. My work will act as a comprehensive and clear guide to explain the failure and risks of the states in the MENA region, explain the sources of their struggle and whether they are of External or Internal origins and to also explain the effects of Oil in these states and whether it contributes in the crisis of these states.

Chapter 1: Targets Acquired

1.1 Why the MENA Region?

The MENA region as of the last 80 years or so, has been a region in a lot of conflicts and troubles which seem to be never-ending, or in other cases they take a new life or a new different shape and form. Sometimes countries even try dipping their hands into proxy wars, like in the case of Yemen, where its civil war is starting to look more like a proxy war between the two emerging regional powers of Iran, who support the Houthi “Ansar Allah” Movement, and Saudi Arabia, who support the UN officially recognized Republic of Yemen. Such a region filled with high corruption levels and social problems, is not without its countries who have economic problems which have led to external debt crisis and eventually even to state failures. The selection of the region of MENA, due to its history and issues, was the perfect first puzzle piece to fall nicely in the grand puzzle of my thesis. The MENA region is also one of huge oil reserves, which has played a big hand in its history post-industrialization and why it has been craved by nearly all of the world’s superpowers. The MENA region's political climate is characterized by persistent instability, conflicts, and reform initiatives. Authoritarian rule, economic hardships, and social unrest fuelled by calls for more rights and governance reforms are among the internal issues that many nations face. Although the Arab Spring initially raised expectations for change, its aftermath has produced a range of results, from new forms of repression to revolutionary uprisings. There are still tensions in the region, particularly in relation to the Israeli-Palestinian conflict, the Saudi-Iranian proxy war, and the wars in Syria, Libya, and Yemen, which have caused millions of people to be displaced and caused humanitarian crises. Political transitions are frequently brittle; in certain countries, there have been coups or persistent acts of violence.

1.2 The final selection of the countries

When selecting the countries the process that I wanted to take was fairly simple, there was the desire to get one country that had already was already considered by most metrics as a failed state because of a mix of a mix of their economic, financial and political. This led to the perfect candidate appearing to me in the perfect moment. Lebanon is considered by most metrics to be a failed state, according to the UN Special Rapporteur Olivier De Schutter. Lebanon has already defaulted on its debt and with foreign troop presence in its borders and Hezbollah still being an active force in the country, the situation is looking fairly grim for the Middle Eastern republic. Lebanon is also in a very frightening situation regarding its ranking as the most indebted country in the world, with a Debt to GDP ratio of 195% according to the IMF. Egypt was the perfect choice for the other role due to it being in a better situation than Lebanon, but not an envious one nonetheless. The country has one of the strongest militaries in the world and a young population, but problems with public deficit and debt, weak investment, and also a high level of corruption have all been reasons for the country being held back economically and financially. There was also need for my analysis on the thesis to find a country with sizeable oil reserves and production, which Egypt accomplished as need flawlessly. Tunisia on the other hand, the progenitor country of the Arab Spring, has fallen, according to Democracy International, into a hybrid regime which has not been able to manage the economy well. While advantages like proximity to Europe and natural resources have been a big help for the country to stay afloat, the increase of corruption and political instability and youth unemployment have made life in Tunisia very hard for a lot of the young population there who are looking for ways to get out of the country through illegal and legal immigration north of the Mediterranean sea onto Europe. These three countries were the perfect candidates due to their diversity in location as well, since each one comes from a different locality from each-other and it is also worth mentioning that none of these countries have a border with the other adding even more to the diversity in selection. Overall, it appears that these countries were the perfect selections to conduct the research on, given the diversity between them in regards to ethnicity, religion, economic situation, geographical position and political situation between the three.

Chapter 2: Why are these countries in a debt crisis?

2.1. Why do countries usually enter into debt crisis?

Debt crisis, as defined by the IMF and World Bank, is considered to be a situation when a country is unable to pay back its debt obligations in the form of being unable to pay back the principal or interests. What this leads to usually is countries defaulting on their debt due to being unable to pay, which often leads to debt restructuring. Perhaps the most famous country in regards to its debt crisis is Greece and its default on the debt in 2012. Greece never outright officially declared foreign sovereign default, however the Private Sector Involvement (PSI) agreement, where creditors agreed to a significant haircut of around 53.5%, acted as reduction of debt obligations through including non-payment on certain debt bonds as well. The "Olive Country" was known to have massive expenditures from their government, which they could we keep up with their earnings in their main sectors in maritime transport and tourism. In 2008, due to the economic crisis that had engulfed the entire world, maritime trade and tourism stood still and Greece lost their main source of income. This right here is what we call an external cause for a crisis, due to the origin of the problem being outside of the jurisdiction of the country. Meanwhile some other problems countries face come from internal causes. Internal causes of debt refer to factors within a country's jurisdiction or related to domestic policies that lead to the accumulation of debt.

2.2. External causes for debt

A nation's financial instability can be easily triggered by a number of important external factors. The changes in the price of commodities around the world are one of the main causes. Massive drops in the price of minerals, oil, or agricultural products can significantly cut export earnings for nations that depend on these resources, making it more difficult for them to pay off debt. Countries with external debt, particularly those that depend on borrowing from outside sources, pay higher borrowing costs as a result of rising global interest rates, this showing the importance of interest rates in a countries economic response to the debt crisis (Acemoglu, 2020). Such increases raise the risk of default and put pressure on national budgets. Furthermore, abrupt changes in investor sentiment can cause volatility in global financial markets, which can result in capital flight, currency devaluations, and an inability to pay off foreign debt. Recessions or downturns in the world economy are also detrimental for the economy. This case was perfectly encapsulated by Greece in 2008. In 2008 with the economic downturn, Greece's economy was mainly revolved around maritime transporting of products and tourism. Because a good part of the world was in a major economic crisis and buying power decreased by a lot, so Greece which was a country mainly based on service providing was hit massively since people did not spend money to do their vacations in Greece or buy products online which would then be transported by Greek companies. This was a main external cause for the economic crisis in Greece. The demand for exports from emerging markets usually tends to decline as a result of a slowdown in major economies like the two "big boys" of the west US and EU, which usually tends to deplete the foreign exchange reserves required to pay off debt. A global recession may as well result in lower FDI (Foreign Direct Investment) and remittances, which would hurt a nation's standing abroad. A lot of developing countries, particularly in Eastern Europe, countries like Kosovo and Albania for example where remittances stand for 17.51% and 8.65% respectively as of 2023. Furthermore, external shocks like natural disasters or geopolitical conflicts can destabilize economies, cut off foreign investment, and disrupt trade routes, all of which increase the likelihood of debt distress, like in the particular case of the Middle East, where the conflicts frightened investors who stopped investing in the region. For example, political unrest in the nations that supply commodities may raise their prices, which would be detrimental to the economies of debtor nations. Last but not least, export flows and financial transactions can possibly be hampered by international regulatory or policy changes, such as new trade restrictions or sanctions. These events that are usually outside of a country's juridical control can have a huge effect on the sustainability of debt, particularly if the nation depends significantly on exports or borrowing from outside sources. What we can get from this is that external causes for debt crisis are very important in understanding debt crisis in general.

2.3. Internal Causes for Debt

The domestic policies, economic structure, and governance practices of a nation are frequently the internal causes of a debt crisis. In order to diagnose and treat the underlying problems that lead to these crises, it is essential to comprehend these internal causes. Mismanagement of finances is a significant internal factor. Governments that depend significantly on borrowing to pay for spending when they don't have steady sources of income eventually end up in debt. A cycle of rising public debt is created by ongoing budget deficits, which are frequently brought on by excessive spending on defence, infrastructure, and social programs. Governments are compelled to borrow more money when tax and other revenue revenues fall short of spending, which can occasionally result in unmanageable debt levels. Administration and tax policy are important. It is frequently difficult for nations with ineffective tax structures to raise money. There aren't enough resources to meet public obligations because of widespread tax evasion, corruption, and a small tax base. As a result, governments borrow money to fulfil their obligations, which makes the debt load worse. Inadequate tax collection mechanisms erode budgetary restraint and enable deficits, thereby creating the conditions for a crisis. Internal causes of debt distress can also be exacerbated by economic mismanagement. Ineffective monetary policies, like printing too much money to cover deficits, increase inflationary pressures and undermine economic confidence. Although the real value of debt temporarily declines during inflationary spirals, this leads to economic instability and deters investment. Growth prospects and revenue generation may be restricted by inconsistent policies, a lack of economic reforms, and a failure to diversify the economy. Again here we can take a look at an old favourite of experts when they talk about external debt crisis, the country of Greece. While we mentioned the “Olive Country” even before when talking about external reasons, that does not mean that internal reasons did not play a role at all. In particular Greece was known for huge spending in the public sector, like in the case of the Athens 2004 Olympics infrastructure investment. According to the OECD report on Greece and Olympics, it is estimated that $3 billion were spent by the Greek government. These costs included only things like building new sports venues, transportation infrastructure, security measures, and urban upgrades, however other estimates as well get the total cost of the 2004 Olympics in Greece at a total of $9 billion including other public sector costs related to the massive event. Much of this spending contributed to Greece’s increased debt burden and was criticized for inefficiency and overspending, which played a role in the country’s later fiscal and debt crisis. Greece had a large and heavily subsidized public sector. Another country that was hugely affected by internal causes to then go into an external debt crisis is the country of Argentina. Also known as the country of football and good steakhouses, Argentina is unfortunately mostly known for its financial woes that came to an unprecedented peak in 2001. The main reasons for the debt crisis in Argentina were internal ones, while similar to the crisis in Greece it also has its own major differences. In the late 1990s, according to multiple IMF reports made at the time, as a prelude to the crisis that Argentina was about to have, the country started to massively increase public sector wages and also started to hire numerous public employees. All in all, internal causes play a big role into a debt crisis and as we have seen from the cases mentioned before, they tend to also be a major showing of the level of governance a country has.

2.4. Governance and its effects on debt

Governance is known to play a crucial role in a country's ability to manage its debt effectively. If governance is strong, transparent, and accountable, it tends to ensure prudent fiscal policies, responsible borrowing, and efficient use of public funds, which help prevent debt accumulation to unsustainable levels. However, poor governance, when characterized by corruption, mismanagement, and lack of transparency, can lead to excessive borrowing, debt accumulation, misallocation of resources, and reduced investor confidence. This often results in higher borrowing costs and difficulty in servicing existing debt, increasing the risk of a debt crisis. Weak institutions and lack of oversight do also tend to delay necessary reforms, exacerbate economic instability, and impede efforts to stabilize debt. A famous case of when governance has affected debt is in the African country of Zimbabwe. The country has long struggled with bad governance, characterized by corruption, mismanagement, and lack of transparency in public institutions. These issues have severely affected the country's economic stability and development. To finance budget deficits and sustain basic government functions, Zimbabwe has increasingly relied on external borrowing and domestic debt. All of these issues however can be traced to the low level of quality of governance from ZANU-PF and its leader, "Robert Mugabe". Zimbabwe, according to Transparency International, has constantly been ranked as one of the countries with the highest corruption in the world. They only score at a 21 out of 100 in the CPI (Corruption Perception Index) and rank as 158th out of 180 countries evaluated by Transparency International based on this index. According to the World Bank and IMF joint report on the Joint Bank-Fund Debt Sustainability Analysis, Zimbabwe is classified as a country in debt distress as of the end of 2020, a situation which still continues. In most cases of bad governance and debt, there is a clear correlation between debt and governance.

Chapter 3: Lebanon, a complete state fallout

3.1 The history of Lebanon from independence to modern day, the prelude to disaster

Lebanon, as the modern day entity known today, gained independence from France on November 22, 1943 from French Colonial Rule, which was set up by the famous Sykes-Picot agreement that carved up the Ottoman Empire after World War 1, and later ended up establishing a fragile but diverse parliamentary system, which as about to be explored later, did not hold up for a long time. The country's unique confessional power-sharing arrangement was formalized in the National Pact of 1943, balancing the many religious communities that live in the country. In the post-independence era, Lebanon initially experienced huge economic growth and relative stability, becoming a regional hub for finance, trade, and culture. However, internal tensions persisted, fuelled by sectarian divisions, with events like the Palestinian refugee influx after 1948 only adding to the problems that the country had on top of the political rivalries that have impended the country ever since. After 32 years, the storm would start with a heavy explosion as the Lebanese Civil War would commence and signal the beginning of the country's decline. The war formally began in April 1975 after a series of skirmishes and escalating violence in Beirut. It rapidly involved various militias, including Christian Lebanese, Muslim and Sunni groups, Druze factions, and Palestinian militias. Regional powers, notably Syria and Israel, intervened, backing different factions. Israel invaded Lebanon in 1982 to push out the PLO (Palestinian Liberation Organization), resulting in the siege of Beirut and the Sabra and Shatila massacre, where Lebanese Christian militias massacred Palestinian refugees. The conflict was known for cycles of violence, massacres, and shifting alliances, resulting in approximately 150,000 deaths, widespread destruction, and mass displacement. Beirut was divided physically into sectarian zones, being an epitome of the war's fragmentation. Despite the signing of the Taif Agreement in 1989-1990, which aimed to restore stability, Lebanon remained fractured, and the legacy of the war continues to influence its politics and society today. Since then, Lebanon has faced ongoing challenges including political corruption, economic crises, and repeated foreign interventions. The 2005 assassination of Prime Minister Rafik Hariri, a very important leader who played a crucial role in the rebuilding the country after the Civil War, marked a turning point, leading to widespread protests and the withdrawal of Syrian forces. More recently, the 2019 economic collapse, compounded by the Beirut port explosion in 2020, has plunged the country into a severe humanitarian and economic crisis. This overview of the history of Lebanon, shows briefly the country's trajectory and decline into the undesirable situation it is currently.

3.2 Lebanese External Causes, the former oasis in the desert.

3.2.1. Regional Instability

Lebanon used to be known for a long time as the “Switzerland of the Middle East”, but with the Middle East going through political and economic crisis after crisis, its “Switzerland” would be affected by this issue as well no doubts. One of the main causes for the Lebanese economic downturn is without a doubt the regional instability that has plagued the Middle Eastern Region. Since the 1950s there have been articles speculating on how Syria could make a play on turning Lebanon as its proxy in the region (Peersen, 1958), and in the civil war these fears were all but confirmed with Syria being actively involved in the conflict through the invitation of the then Lebanese president “Suleiman Frangieh” (Lawson, 1984). Syria has always been a constant in the Lebanese history, as seen even in the Syrian Civil War, which had spill overs in Lebanon as well. Lebanon is at an abundance of neighbours that have a history in interfering in the country’s affairs, as Israel as well on the other side of the border is well known for its interventions as well. The country occupied the Southern part of Lebanon, or what was called for a while the “Lebanese Free State” (United Nations, 1985), and ever since there have been a number of instances when Israel has influenced politics in Lebanon or have taken actions to protect their interest in the “Switzerland of the Middle East”. The most recent case of the latter happening was on October of 2024, when they moved their troops in Lebanese territory and conducted the assassination of “Hashem Safieddine”, the leader of Hezbollah (New York Times, 2024). Iran as well have is a country that has had an interest in Lebanon and has influenced the country through its proxy in the country, “Hezbollah”, and have used Lebanon for their proxy wars with Israel (Gardner, 2024). All of these external causes have had a huge influence in the economy of Lebanon, as seen in the FDI (Foreign Direct Investment) that has entered in the country. In 2009, before the start of the Syrian Civil War, Lebanon had an FDI of 4.8 billion USD and made for 13.6% of the GDP according to the World Bank. After the beginning of the Syrian Civil War in 2011 the drop started, and in 2011, FDI was at 3.52 billion USD and made for 7.9% of the GDP. This shows the fall of the trust of foreign investors in the country due to a regional issue and proves immediately the correlation that regional instability holds in a very important sector of the economy.

3.2.2. Dependence on imports for the economy

One of the major issues with Lebanon can be considered to be its heavy dependence on imports, something which heavily exacerbates its ongoing trade deficits and fuels the country's external debt crisis. Lebanon had a trade deficit of about $17 billion, or more than 30% of GDP, in 2018 as a result of importing $20 billion worth of goods, which include mostly food, fuel, and machinery, while exporting a relatively small amount which clocks in at only $3 billion (World Bank, 2019). This disparity, which has existed since the post-civil war years, is caused by Lebanon's rather small industrial base and dependence on imports to satisfy its domestic demand. Nearly all essential goods, such as wheat, oil, and medications, are imported, depleting foreign exchange reserves and requiring borrowing from outside sources to maintain the trade imbalance. As important foreign exchange inflows, such as remittances, tourism, and Gulf state investments, decreased, the trade deficit grew. The export capacity of the country was even further strained by the disruption of regional trade routes and tourism that came through due to the by the Syrian civil war. Due to high production costs and little diversification, Lebanon's exports—which are primarily jewellery and agricultural goods—are not competitive. Since 1997, Lebanon has joined the countries that have pegged their currency to the USD (United States Dollar), with the currency peg being 1,507 LBP (Lebanese Pound) to every USD. This has resulted in the driving up of the prices and the decreasing of the viability of exports while promoting reliance on imports. Lebanon’s external debt soared to 289% of GDP by 2021, with trade deficits absorbing reserves needed for debt servicing (World Bank, 2021). So to conclude, Lebanon being dependent on imports makes them vulnerable to the regional instability that plagues the Middle East, but also creates a big hole in the financial books of the country due to their need to spend more money than they earn, which only increases the external debt and puts a bigger hole in the Lebanese economy.

3.2.3. Dependence on Remittances

For what it has been long a crucial source of foreign exchange inflows into Lebanon's economy, remittances from its international diaspora have shaped its financial stability and increased its susceptibility to crises. Remittances, primarily from the Lebanese community in the Americas, Europe, and the Gulf, have historically made a substantial contribution to GDP; they reached a peak of 24% in 2008 but dropped to 12% by 2018 (International Monetary Fund, 2019). Due to regional insecurity and host country economic slowdowns, remittances fell from $8.9 billion in 2010 to $7.6 billion in 2018 in absolute terms (World Bank, 2019). Lebanon found it more difficult to finance its ongoing trade imbalance and maintain its 1997 currency peg of 1,507 LBP to USD as a result of this decline. Due to a persistent trade deficit caused by imports ($20 billion in 2018) that greatly exceed exports ($3 billion), remittances have been crucial the Lebanese economy, which is well known to be heavily import-dependent (World Bank, 2019). These inflows were responsible for the supply of the foreign exchange required to pay off Lebanon's external debt, which by 2021 had grown to a staggering 289% of GDP, and to finance the importation of necessities like wheat and fuel (World Bank, 2021). The contributions of the diaspora also supported industries such as real estate, where remittances were frequently invested in real estate, driving up prices while maintaining economic activity. But as geopolitical tensions, especially over Hezbollah's influence, caused Gulf States to reduce their support, the 2011 Syrian civil war upended regional stability and reduced Gulf remittances (UNDP, 2020). A 20% decline in remittance flows was recorded in 2020 as a result of global economic downturns impacting expatriate earnings, which were exacerbated by the 2019 economic crisis, the Beirut port explosion, and COVID-19 (World Bank, 2020). Since 50% of households depended on remittances for basic necessities, the collapse of the banking industry and capital controls limited families' access to these funds, thereby exacerbating poverty (UNDP, 2020). Remittance inflows partially recovered to an estimated $6.5 billion by 2023, but the 98% devaluation of the Lebanese pound reduced their purchasing power (World Bank, 2023). Lebanon’s dependency on remittances highlights the vulnerability of the economy of the fragile Middle Eastern Nation, showing need for reforms and diversification to cut down on the reliance on erratic outside flows.

3.3 Lebanese Internal Causes, the trouble in paradise

3.3.1. Corruption and political paralysis in the country

With a public debt of more than $100 billion by 2020, Lebanon's economic crisis is largely caused by political paralysis and systemic corruption, which are made worse by a post-civil war sectarian power-sharing structure. Instead of promoting representation among the 18 religious sects, this system has strengthened patronage networks, which has hindered governance and contributed to economic collapse. One of the main problems that Lebanon has constantly faced and has continued to hinder it for a long time is the level of corruption in the country. Transparency International's 2024 Corruption Perceptions Index, which ranks Lebanon 154th out of 180 countries with a 22/100, demonstrates how widespread corruption is in Lebanon at all levels. State institutions have been viewed as instruments for self-enrichment by political elites, who are frequently wealthy businessmen or former warlords. Public funds have been embezzled through inflated contracts, phantom workers, and poorly run public entities such as Electricité du Liban (EDL) and the Port of Beirut, making the Lebanese state a "vehicle for self-enrichment and patronage-distribution." For example, government corruption and negligence were implicated in the 2020 Beirut port explosion, which killed over 190 people and caused $15 billion in damages due to 2,750 tons of ammonium nitrate that had been stored improperly. A culture of impunity has been highlighted by the fact that no senior officials have been held accountable. One example of this corruption is the banking industry. According to a 2023 study, 15 out of 20 large banks had political connections to their board chairs, which resulted in high loan default rates from politically motivated lending. Political elites benefited from a Ponzi-like financial system that crashed in 2019, wiping out savings and devaluing the lira from 1,500 to nearly 25,000 to the dollar. The central bank, led by former governor Riad Salameh, was accused of embezzling millions(Duparc, 2025). This combined with the political analysis in the country has been a real recipe for disaster that the country still has not got itself over from. But this paralysis has been a long time coming and it all has its genesis with an agreement made in 1990 called The Taif Agreement, which established Lebanon's confessional system, which divides authority among religious communities and necessitates agreement on important issues. This system causes perpetual deadlock because sects put their own interests ahead of the welfare of the country. This paralysis is highlighted by the more than two years until 2025 that there will be no president and by the repeated failures to form a government, such as the difficulties faced by Prime Minister-designate Najib Mikati in 2021. In order to keep control of profitable ministries that they use to transfer funds to allies, political elites oppose reforms. This sad reality of the struggling nation has been that the political elite is too corrupt, which has led to the country being stuck in a limbo where it can only watch as it falls apart. This paralysis has led to Lebanon’s debt being made worse, due to the fact that in paralysis the body cannot function, and same thing has happened to the country and its ability to pass legislation to ease debt through better economic policies.

3.3.2. Chronic Fiscal Management and Budget Deficits

Chronic fiscal mismanagement and ongoing budget deficits have been some of the main causes for Lebanon's external debt crisis, which is expected to reach $41.6 billion by January 2023.

Public debt skyrocketed to 183% of GDP in 2021 as a result of these internal factors, plunging the nation into one of the worst economic crises in history (World Bank, 2021). The causes and effects of Lebanon's fiscal mismanagement are examined in this essay, with a focus on structural inefficiencies, political inaction, and unsustainable spending. For many years, Lebanon's economy has been characterized by fiscal deficits. A weak revenue base and excessive government spending were the main causes of the 2019 deficit, which reached 11.3% of GDP (IMF, 2020). Public spending has prioritized subsidies, particularly for Electricité du Liban (EDL), which accounted for 4% of GDP in 2019, and personnel costs, which consume 9.7 trillion LBP annually (World Bank, 2021). Poor resource allocation is exemplified by EDL's inefficiencies, which include 43% production losses and drain public funds without providing dependable services. The government was forced to borrow money from outside sources to cover these expenses, which resulted in an increase in debt denominated in foreign currencies, such as Eurobonds. The revenue deficit is made worse by a lax tax system. Fiscal capacity is limited by Lebanon's regressive tax system, which has low compliance and widespread evasion (Chaaban, 2019). Political opposition has halted attempts to reform taxes, such as raising VAT or plugging loopholes, leaving the government dependent on borrowing. Debt interest payments took up almost half of revenues in 2016, which prevented investments in social services or infrastructure (World Bank, 2017). Fiscal unviability has been solidified by this cycle of borrowing to pay off debt. Fiscal mismanagement has been made worse by political dysfunction and corruption. A culture of patronage has been cultivated by Lebanon's sectarian power-sharing system, where political loyalty is obtained through public sector employment and contracts (Dibeh, 2005). Resistance from firmly established elites defending vested interests is reflected in the government's inability to carry out reforms, such as those suggested by the IMF since 2019. The economy became even more unstable in 2019 as a result of corruption scandals, such as the misappropriation of public funds, which have damaged confidence and sparked protests (Chaaban, 2019). Mismanagement of finances can have disastrous results. Public debt has increased as a result of ongoing deficits, with external borrowing filling funding shortages. A pivotal event that led to a banking crisis and currency collapse was the 2020 default on $1.2 billion in Eurobonds (IMF, 2020). Since then, the economic crisis has gotten worse due to hyperinflation and lira devaluation, which have raised the actual cost of servicing foreign debt. Structural reforms, such as a progressive tax system, fewer subsidies, and anti-corruption initiatives, are necessary to address Lebanon's fiscal mismanagement. Political will is still a barrier, though. In the absence of prompt action, Lebanon's budget deficits will prolong its economic collapse by feeding its external debt crisis.

- Public Debt to GDP Ratio of Lebanon from 1998 to 2023

3.3.3. Monetary Policy and Currency Pegging to the USD (United States Dollar)

In order to stabilize the economy after the civil war (1975–1990), Lebanon's monetary policy was based on a currency pegged to the US dollar since 1997 at 1,507.5 LBP/USD. By using high interest rates and financial engineering to draw in foreign currency inflows—which are essential for covering trade deficits and public debt—the Banque du Liban (BDL) was able to maintain this peg. But by 2019, this tactic and ongoing fiscal mismanagement had created an unsustainable economic model that culminated in a serious financial crisis. Real GDP increased 7.8% a year between 1993 and 2003 as a result of the peg's initial control of hyperinflation, which promoted confidence and growth. However, the overpriced exchange rate discouraged productive industries like manufacturing and agriculture, creating a rentier economy that depends on banking, tourism, and remittances. In addition to drawing deposits, high interest rates raised the risks facing the banking industry because banks were more exposed to sovereign debt. By 2016, BDL's "financial engineering" activities, which involved exchanging Lebanese pound debt for Eurobonds at an estimated cost of $13 billion while banks made substantial profits, were prompted by dwindling foreign inflows. The collapse of the peg started in 2019, and by 2023, the LBP had lost more than 98% of its value, reaching 88,000 LBP/USD on the black market. This led to a 40% economic contraction since 2019 and hyperinflation (221.3% in 2023) as a result. A cash-based, dollarized economy (45.7% of GDP in 2022) was fueled by informal capital controls that limited dollar withdrawals, undermining trust. Arbitrage profits were made possible by the Sayrafa platform, which was designed to stabilize the exchange rate but was unable to unify rates. The peg's long-term economic harm is highlighted by recent studies. Financial inflows have impeded economic activity, and monetary tools slowed growth. In order to restore stability, the World Bank highlights the necessity of a new monetary framework that includes reforms to the banking industry and a floating exchange rate (World Bank, 2023). Though political unrest impedes progress, BDL ended fiscal dominance in 2023 by stopping government funding and switching to a floating rate system through a platform backed by Bloomberg. The crisis in Lebanon highlights the dangers of long-term currency pegs in dollarized economies, calling for structural changes to restore confidence and economic stability.

3.4 Conclusion, a failed state in a struggling region

So to draw conclusion one very simple question has to be asked to create a better understanding of the situation, "Is Lebanon a failing state?" To create a conclusion there is first need to establish what constitutes a "Failed State". Well according to Professor Michel-Henry Bouchet, failed states are considered to be countries with Political Power Concentration, which would consider things like Weak institutions, Corruption and Loose Regulations, and Economic Power Concentration, which would consider things like Deficient Infrastructure, Wealth Gap, Low Investment and Capital Flight, while also including Regional Turmoil and Internal Political and Civil Turmoil. As it has been established before in the paper, Lebanon already has Political Power Concentration, with the country having weak institutions set after the civil war to in an effort to appease as many of the communities as possible, however failing to and instead creating a corrupt system that according to Transparency International is one of the worst in the world(Transparency International, 2024). As for the Economy, it was established before that a lot of the efforts by the government to fix the country's economy have backfired massively. The currency pegging led to the currency getting weaker, which then later lead to Hyperinflation starting in 2019. Lebanon is a country with an elected government and an alternative government in the form of Hezbollah, which even has its own military to go with it (BBC, 2025). This also covers the part of internal political and civil turmoil, since Hezbollah is a manifestation of the extremist part of the Shia community in Lebanon and their want to set a whole new system based on fundamentalist Shia Islamic values. The country also finds itself in a region with many problems that only keep getting bigger, as seen with the Israel-Iran conflict escalating further (The AP, 2025). Lebanon, being that it fills all of these prerequisites, is safe to say that it can definitely be considered a failed state. A number of bad decisions made in an economic and political sense have led to Lebanon. The future of the country remains uncertain, however what is certain is that the country will have even more trouble navigating this new age that is unveiling for the region and the country itself.

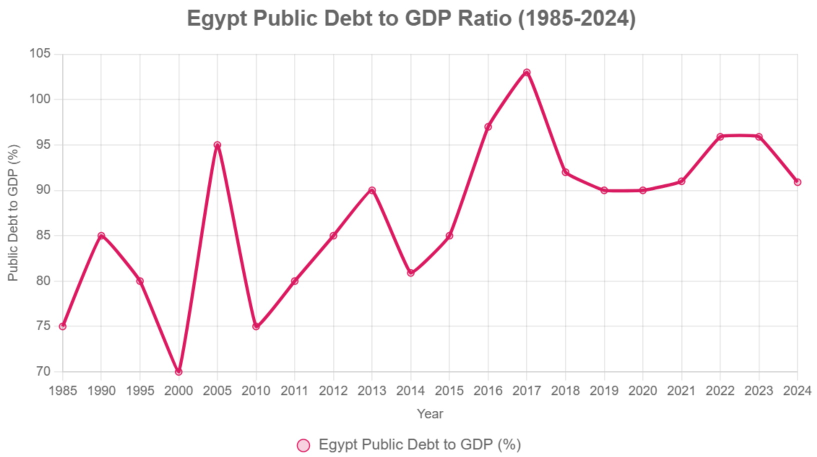
Chapter 4: Egypt, an eagle treading familiar ground

4.1 The history of Egypt from independence, to regime change to modern day, the path of the Eagle

Egypt is a country that for a long time was considered to be the "Superpower of the Arab World", having the status as a regional power not be in question for the longest time due to their size, population, resources and military. "The Gift of the Nile" has the biggest population in the Arab League, while also bolstering the biggest military, with the military even being in the Top 20 of the whole world (GFP, 2025). With all of these said, it is rather surprising for people when they find out that the economic situation of Egypt is a rather depressing affair to say the least. To understand the economy of Egypt, there is also need to understand the history of the country. In 1952, what was called the Free Officers Movement conducted a Coup D'état, where they officially ousted the monarchy and created the current modern-day republic under the leadership of General Gamel Abdel Nasser. Nasserist Egypt started with agrarian and social policies which were very successful, as they ushered in an age of welfare never seen before in the country and with their diplomatic victory in the Suez Crisis, they started becoming a force to be reckoned with (Cook, 2011). A short lived union with Syria however, a huge military failure in the Six-Day War and the North-Yemen Civil War started became chips on the shoulder for Egypt in a social and geopolitical sense. Egypt signed the Camp David accords and under the leadership of Anwar Sadat it reached some stability geopolitically, however after the assassination of the leader Hosni Mubarak took over and continued the economic policies of Nasser, however with less success as it could not keep the annual 9% GDP increase that was being achieved under Nasser (Osman, 2010). The reign of Mubarak however came at an end at the 2011 Egyptian Revolution, which happened due to the widespread protests and revolutions happening in the Middle East known as the Arab Spring, and Egypt for the first time had democratic institutions that ensured free elections and a new system compared to what it had even before the Free Officers Movement. The Muslim Brotherhood won these new elections with Mohammed Morsi as the leader, with huge backlash by the Coptic and liberal communities as fear of the scale back of the rights for religious, ethnic and other marginalised communities increased. A military coup with the help of some activists as well happened in 2013 and Abdel Fattah al-Sisi took control of the country and became its new president, ousting the previous and completely banning a lot of the Islamist parties involved with the Morsi Government (Wederman et al., 2013). Sisi was considered as Mubarak's successor and Egypt politically has followed a similar path, however there have still been many problems hindering "The gift of the Nile" that have been keeping it from reaching its full potential.

4.2 The External debt in Egypt, the eagle that took the wrong path.

According to Coface, the external debt of Egypt is currently at a stable level (25.6% of the public debt) and with an IMF funded program things should be theoretically going at a positive note, however the truth is much different. By 1956, external debt had decreased significantly under Nasser, particularly after the nationalization of the Suez Canal, as revenue had skyrocketed and larger investments could be made in the nation without requiring loans. But by 1973, non-military debt had risen to over $2 billion as a result of the 1967 war and the breakup of Western relations, which forced borrowing to the Soviet bloc. Due to Arab aid and Western loans linked to political realignment, debt increased at a rate of 28% per year during Anwar Sadat's tenure, reaching $17 billion by 1980. Following Egypt's 1991 support for the Gulf War, the Paris Club offered a relief package in 1990 as a result of the severe debt crises of the 1980s, which peaked at $49 billion (150% of GDP). Because of Nasser's increased revenue and the ability to make larger investments in the country without the need for loans, external debt had drastically reduced by 1956, especially after the nationalization of the Suez Canal. However, the 1967 war and the disintegration of Western relations, which compelled borrowing to the Soviet bloc, caused non-military debt to increase to more than $2 billion by 1973. Under Anwar Sadat, debt grew at a rate of 28% annually, reaching $17 billion by 1980, thanks to Arab aid and Western loans associated with political realignment.



⇨ Graph showing the history of the Public Debt to GDP ratio from 1985 to 2024

4.3 Egypt Internal Causes, a look at the eagle's nest

4.3.1. Corruption, bureaucracy and lack of judicial independence

As with most countries that face issues with perceived authoritarianism, lack of real opposition, and recent political instability, it seems that Egypt is facing many problems in regard to corruption and bureaucracy. According to Transparency International, Egypt ranks as 130th out of 180 countries in its CPI (Corruption Perception Index) rankings, with a score of 30, higher than that of Lebanon but still at a level that shows a level of perception of corruption in the country (Transparency International, 2025). Corruption in Egypt often comes in the forms of bribery to government officials or embezzlement of public funds from people higher in the food chain of power. The corruption in Egypt also comes from a middleman system called "Wasta", which basically entails a system where business and personal connections take over as the primary role in hiring practices in governmental positions, but also in government-sanctioned auctions for public goods. This last one leads to worse offers being accepted for public goods, such as roads, telecommunications infrastructure, and other public goods infrastructure (Business Anti-Corruption Portal, 2015). Bureaucracy also is a problem that has constantly haunted the "Gift of the Nile", stemming from a historic issue of red tapes and inefficiency. In 2015 there were laws approved by the government to decrease the number of employees in public positions; however, this was then followed by a contradictory increase of public workers' wages up to 16% (Golia, 2015). Rigid administrative procedures endure, however, as shown in a report by the World Bank in 2022 on doing business in the country (World Bank, 2022), posing a real threat to the country and its future as a regional economic power. Egypt, however, may be walking the right path, as Egypt Vision 2030 has entailed a very detailed and specific way to streamline procedures and modernize the country and bring it into a new era where bureaucracy plays a lesser role in the everyday processes of the world (OECD, 2024). The judiciary in Egypt seems to have huge issues in regard to the independence of its judiciary, as proven by the report made by Human Rights Watch in 2022. Despite guaranteed judiciary independence by laws and provisions in the constitution, the Egyptian judiciary system has many perceived issues and more often than not finds itself in a situation where it takes decisions in a political basis instead of a judiciary one (Human Rights Watch, 2022.). These intertwined issues have led to a number of problems that have had an effect in the managing of the debt. As established before, governance is a very important factor in the keeping of a healthy debt structure, and Egypt is no different. In the mid-2010s, there was a spike in the debt-to-GDP ratio of Egypt, as seen by the ratio reaching a staggering 85% in 2016, only two years after the end of the political crisis in the country and still a somewhat chaotic country politically (IMF, 2021). In the moments of crisis, it seems clear that the debt would increase, which shows a direct correlation between debt and governance, as under Nasser in the 1950s and 1960s, the debt was shown to be kept at a more stable level due to better levels of governance and stability. Another problem that Egypt will have to face in regards to its region is its conflict with Ethiopia in regards to the dam that is being created in the latter, however that will have huge effects on Egypt as well. The dam supposedly will decrease the flow of the Nile, a main component in the country's economy and agriculture. If this latter issue is not resolved it could lead to Egypt suffering heavy economic issues on the inside, and a new enemy in the region that might want to put itself on the map as a new regional power, and what better way than to take down another regional power economically and politically.

4.3.2. Megaprojects straining the economy

Egypt's current capital is Cairo, a historic city that also holds the title of being one of the biggest cities in the world and the biggest city in the continent of Africa, with a population of over 23 million in the urban area (World Population Review, 2025). Cairo is well known to be one of the most overcrowded cities in the world, and the government decided that the best way to help with this issue and for it to have a positive effect on the economy, with the promises of this megaproject being flown high by the government to make the New Administrative Capital (NAC) sound as appealing as possible to both the population and investors. The NAC will span over 700 Km^2 and it is already nine years in the building, costing well over 59 billion USD in the process (Walsh and Yee, 2023). Designed to have a population of over 6.5 million people, and largely managed by the military it has already started housing important governmental departments, like The Ministry of Defence and their new Octagon, inspired by the Pentagon of the United States (Egyptian Presidency, 2020). This megaproject however has also had a huge economic strain on the "Gift of the Nile", with the country's external debt going to 152.84 billion USD in 2023/2024, with more than half of public spending going toward debt repayment. Critics contend that the high expenses of the NAC, which are partially financed by high-interest bonds and Chinese loans, worsen financial strain by taking funds away from social services like education and health. While the NAC's limited short-term economic returns—due to its focus on luxury real estate inaccessible to the majority of Egyptians—fail to offset borrowing, the devaluation of the Egyptian pound (from 7 to nearly 50 EGP per USD since 2015) has increased the cost of debt repayment (IMF, 2024a). The $8 billion IMF bailout in 2024, which is conditioned on reducing such spending, emphasizes the necessity of reform. Saudi Arabia has also been helping with investment in Egypt with new capital up to 10 billion USD. A common theory is also that The NAC is also the reason that Egypt was so adamant to sign the Red Sea Islands deal with Saudi Arabia, since their money and investments were most needed to inject funds to build the new capital (Saleh and Al Omran, 2018) (BBC, 2017) . The NAC runs the risk of making Egypt's economic crisis worse if it does not prioritize inclusive growth.

4.3.3. Currency Devaluation and Inflation

The economy of Egypt is one of incredible heights, being a country that economically was believed to be the "Superpower of the Middle East", to lows that made the country an IMF dependent nation in regards to running its economy (Coface, 2025a). "The Gift of the Nile" uses the Egyptian Pound (EGP) as its currency, and as of writing 1 USD can be exchanged to 50.31 EGP, which has been rather stable for the past year, but the same cannot be said for the last 5 years (WISE, 2025a). According to the same source, on June 17th 2020, 1 USD would've bought you 16.18 EGP, showing a clear devaluation of the EGP in the span of 5 years (WISE, 2025a). This is not a new thing for Egypt however, as the country has faced multiple devaluations since 1952, most notably when the EGP fell to EGP 50.5 per 1 USD when it was floated in 1979 (44% drop), 1989–91, 2016 (45% drop), January 2023 (40% drop), and March 2024 (60% drop) (Reuters, 2024). These policies, which are frequently brought on by shortages of foreign currency, are intended to increase exports and win support from the International Monetary Fund (IMF), but they usually lead to inflationary spikes that lower living standards. Inflation as well has been a constant in Egypt, as "The Gift of Nile" has been persistently facing inflationary issues, with inflation peaking at a staggering 36.5% in 2023 (Trading Economics, 2025a). By May 2025 inflation rose up to 16.8%, an increase from the 13.9% of April of the same year (Central Bank of Egypt, 2025), which clearly shows a worsening situation in the country, also partially due to external causes. The 2024 floatation, alongside a 600-basis-point interest rate hike to 27.75%, aimed to stabilize the economy but risks further price spikes (IMF, 2024b). While devaluation may offer short-term export competitiveness, it also has a huge burden on the households and businesses in the country, not too dissimilar to the case of Türkiye, where inflation and devaluation has become a burden for most people living in the country. In the case of Egypt, this also has led the country to request more money in the form of loans from the IMF, which has contributed negatively in the external debt as the country still tries to balance its revenues and spending, something which seems harder by the day for "The Gift of Nile".

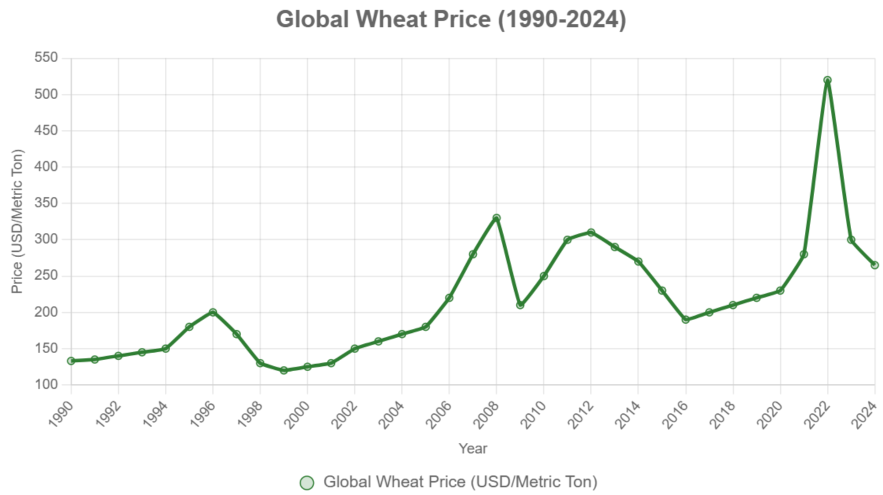
4.4 Egypt External Causes, the eagle witnessing the fallout.

4.4.1 Regional Instability

Unlike Lebanon, Egypt doesn't fully find itself in the Middle Eastern part of the MENA region, instead it finds itself being the land bridge between the Middle East and North Africa. This does not mean however that Egypt has been unaffected by the recent geopolitical troubles that have unfolded in the Middle East. For starters, Israel has currently stopped exporting gas to "The Gift of Nile", as the country has declared a lockdown of its natural resources and to stop all exports coming from The Leviathan, which has led Egypt to rushing to find alternatives to the Israeli solution to Egypt's heavy dependence for exports for its natural gas needs (El Wardany, 2025). Egypt has already issued a tender to import around 1 million tons of fuel oil, which shows the need of Egypt for a way to replace the gas imported from Israel, as Egypt has oil fields of its own which are not able to fill its demand (El Wardany, 2025). Regional instability has also had a big effect on the tourism sector of Egypt, as the country relies for a big part of their revenues on tourism in destinations like "Sharm-El-Sheikh", "Giza Necropolis", "Alexandria" , and "Luxor", just to name a few. The tourism sector in Egypt contributes around 8.1% to the national GDP as of 2024, while also employing around 4 million people (SIS, 2024). This sector is bound to get a hit from the recent crisis that has been hitting the Middle East, with general fear most likely taking over in regards to the safety of the country, which will most likely have a hand in the decrease of tourism numbers. The future of the region is currently very unpredictable, as the Israel-Iran conflict continues and there is no telling what other countries it might affect directly, as Egypt has already been indirectly affected as previously shown and risks of being affected directly because of geopolitical alliances that might make it impossible for them to remain neutral in the war.

4.4.2 Global Economic Shocks

As previously mentioned, Egypt is an import-reliant country for many of its commodities, not least of which wheat and energy. The Israel-Iran conflict has already had an effect on the energy imports of the country, however another big conflict that has had a huge influence in the Egyptian economy is the Russian-Ukraine War, which escalated after the Russian invasion in Ukraine began in 2022. While the conflict is happening in a completely different continent, it does not mean that it has not affected the economy all over the world, Egypt included. As previously stated, Egypt relies on imports for wheat supplies and the war has had its effects on the pricing. The main component here is Russia because of two main facts, the first being that it is the third biggest producer of wheat in the world, and the second being that it accounts for 6% of the imports coming into Egypt (Coface, 2025a). In 2022, Egypt had to borrow more money due to a 30% increase in the cost of importing food, which inflated its trade deficit (IMF, 2024b). Increases in energy prices have put additional strain on the public coffers, as fuel subsidies have taken up large amounts of the budget, taking money away from development and making people more dependent on loans. This clearly marks another reason as to why global economic shocks have had crucial effects on the debt of Egypt. Along with reducing purchasing power and causing social spending that further strains fiscal reserves, which devaluation also contributed to inflation, which reached 39.7% in 2023. The reduction of foreign investment inflows due to global monetary tightening, especially the hikes in interest rates in the United States, has restricted Egypt's access to capital markets and forced it to rely on Gulf aid and IMF loans, which will total $8 billion in 2024 (Coface, 2025a).



=> Global Wheat Prices (USD/Metric Tonnes) from 1990 to 2024 (CEIC Data, 2024)

4.5 Conclusion, the end of the eagle's flight?

So to close the book on Egypt, what can be said on its situation, is it as bad as Lebanon, is it beyond repairing? Well for starters, the main takeaway from this chapter should be that Egypt is not exactly on the right path. High unemployment, among the youth in particular, and high levels of spending have been detrimental to the Egyptian economy and have left its coffers mostly dry, with an inability to invest large numbers without needing to apply for a new loan to either the IMF or the Gulf States (Coface, 2025a). Egypt also finds itself in, what could be considered as of recently, the unstable and unsafe region in the world. The shocks from the wars happening in proximity to the country and conflicts that have a direct impact to Egypt will have a huge economic for the time to come. The wars happening in the Middle East are expected to affect the tourism in the country, as tourists would rather go to countries situated in stable regions, and the dam as well in Ethiopia is sure to affect the agriculture sector. It is worth to keep in mind however that this is not anything like the situation that Lebanon finds itself in, as Egypt is simply in a way better position compared to the earlier. Egypt has a very young population, a very powerful army, political stability, and its economy is bolstered by an IMF driven program and loans from the United Arab Emirates (UAE) and Saudi Arabia (Coface, 2025a). The NAC is also seen as a huge burden to the economy, however it is worth noting that it will help congest Cairo, making it less populated and therefore less chaotic, while also it will allow for a number of new opportunities to open up to the country. So to conclude, Egypt is perhaps taking the wrong path as its revenue is far away from what it's spending, and the earlier is looking less and less likely to improve while spending will remain at similar levels, if not increase, due to external and internal issues discussed before. The country however is not at risk of state failure, as it is simply too big and too well supported from the outside to through something similar as to what Lebanon went through.

Chapter 5: Tunisia, the end of the spring and start of the winter

5.1 The history of Tunisia from independence to modern day, from autumn to spring.

Habib Bourguiba, who was the first prime minister and then president when the republic was proclaimed in 1957, ending the Husainid monarchy, which had led Tunisia to independence from France on March 20, 1956 (BBC News, 2017). After the revolution, modernization was spearheaded by Bourguiba's Neo-Destour Party, which set Tunisia apart in the Arab world by promoting secularism, education, and women's rights through the 1956 Code of Personal Status, which outlawed polygamy and gave women the right to divorce, contrasting it with other countries in the North African region (Alexander, 2016). The policies of Bourguiba were in line with Western nations and promoted economic growth through tourism, oil, and phosphates (BBC News, 2017). Bourguiba, in Tunisia, was seen as a revolutionary and important figure, with his policies bringing Tunisia into a more modern path with the country as well pushing forth modern ideas like gender equality, however in the 1980s a number of crisis would start that would put the country in a difficult position. This then later lead to the reforms of 1986, when economic challenges persisted, Bourguiba decided to enact a policy to adjust the economic structure of the country and liberalize it. Bourguiba was an authoritarian, and the best figure to compare it would probably be Mustafa Kemal (Ataturk). Similarities standing from both leaders being crucial in getting independence for their country, creating a cult of personality around them and navigating their countries through tough geopolitical times. Unlike Mustafa Kemal however, Bourguiba outstayed his welcome, and in 1987 he would be overthrown by General Zine al-Abidine Ben Ali, who came in a bloodless coup with sweet promises of democratic reforms (Alexander, 2016). Those promises were not kept, but Ben Ali remained in power for many years nonetheless. While economic growth persisted during Ben Ali’s rule, corruption and violations of human rights increased, which then led to the 2011 Tunisian Revolution that served as a trigger for the Arab Spring. On January 14, 2011, Ben Ali was forced to leave due to protests sparked by political repression and economic hardship. Democratic reforms were brought about by the revolution and a semi-presidential system was established by a 2014 constitution, while the National Dialogue Quartet—a group of civil society organizations—won the Nobel Peace Prize in 2015 for helping to facilitate the transition. Beji Caid Essebsi became president after the secular party Nidaa Tounes won the 2014 elections. But progress was hampered by economic stagnation and Islamist terrorism, such as the 2015 Sousse attack that killed 38 people. On a platform against corruption, independent Kais Saied won the presidency in 2019, with his suspension of the legislature and judicial reforms in 2021 sparked worries about a reversal of democracy, which was made worse by persistent economic problems like high unemployment and inflation(Clarke and Barbour, 2025). Tunisia still has one of the most inclusive and functional democracies in the region, however it faces constant challenges of the economic and social kind, while also being at a political impasse, as uncertainty increases and authoritarianism takes over what was once considered the only full democracy in the North African region (Alexander, 2016).

5.2. External debt in Tunisia, the withering of the Jasmine flowers.

Tunisia kept a rather impressive stable external debt during the Ben Ali administration, however that was about to change after the Jasmine Revolution. Since the 2011 revolution, Tunisia's external debt has increased dramatically, rising from $41.0 billion in Q2 2024 to $42.6 billion (128,855.5 TND million) in Q3 2024 (Trading Economics, 2025b). The COVID-19 pandemic and economic stagnation caused the debt-to-GDP ratio to peak at 98.2% in 2020 (CEIC Data, 2024), while reliance on outside funding, dwindling tourism and phosphate exports, and ongoing trade deficits being important factors at the rise of the ratio of debt-to-

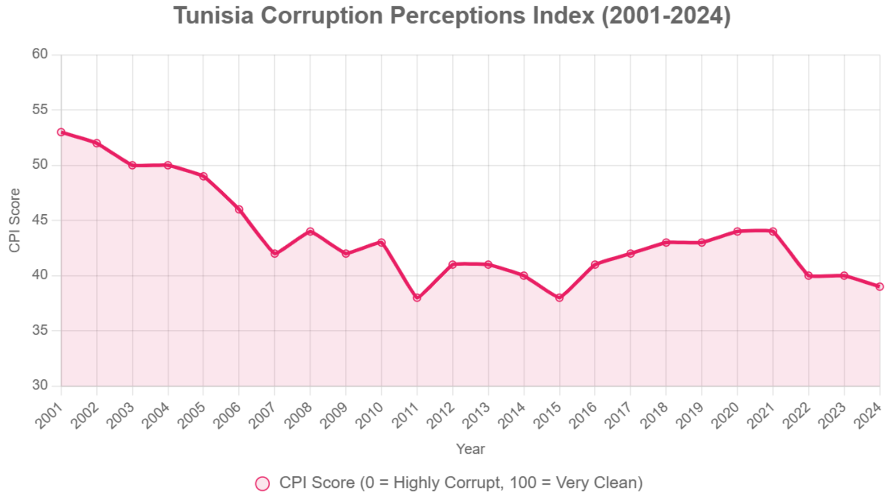
GDP (CEIC Data, 2024). Tunisia's credit rating was downgraded as well, and a 20% Eurobond yield, and limited market access. Tunisia seems to be a classic case when a number of internal and external causes have combined together to hit the country where it hurts most.

⇨ Tunisian External Debt as % of GDP from 2009 to 2024 (CEIC Data, 2024)

5.3 Tunisia's Internal Causes, the flower inside the withering garden

5.3.1 Political Instability and Governance Challenges

Tunisia's external debt increased from 47.8% of GDP in 2010 to 98.2% in 2020, largely due to political instability and governance issues (CEIC Data, 2025). The democratic transition set off a decade of frequent government changes, demonstrations, and policy paralysis. Political fragmentation, with polarized parties like Ennahda and secular factions, delayed critical measures such as subsidy cuts or tax base expansion. This vacuum eroded investor confidence, reducing foreign direct investment (FDI) from 3.5% of GDP in 2010 to below 1% by 2020 (World Bank, 2021). To bridge fiscal gaps, Tunisia relied on external loans, including $1.9 billion from the IMF in 2016 and Eurobonds at high interest rates (Reuters, 2023). Fiscal indiscipline was made worse by poor governance. Public funds were depleted by off-budget spending and inefficiencies in state-owned businesses, which cause 10% of GDP losses each year (IMF, 2022). Persistent since the Ben Ali era, corruption misallocated borrowed resources, diminishing their economic impact and extending debt dependency. For example, stalled loan-funded infrastructure projects did not increase growth, which averaged just 1.2% after 2011 as opposed to 4.5% before the revolution (World Bank, 2021). As it can be clearly seen, in Tunisia there seems to be a correlation between the level of governance and the level of the external debt, the country also seems to perform better economically when politically stable. Political instability seems to be the trigger which then leads to poor governance, which then leads to debt levels increasing.



⇨ Tunisia CPI score from 2001 to 2024

5.3.2 Corruption and overreliance on the public sector for employment

At first hand it might be very hard to see how corruption and overreliance on the public sector for employment can be correlated to each other, however this is a simple case of market economy. The job market on its own is supposed to be a very dynamic market, where jobs are the commodity being served, the clients are the people waiting to be hired and the supplier are the private sector corporations and the public sector institutions. If, in an economy, we have a monopoly, that usually leads to a decrease in quality of the product or complacency or even a control in the supply, which leads to the people wanting to be hired having to use underhanded tactics to get hired. One of the underhanded tactics that can be used is corruption, which, as about to be discussed later, has become a primary way for people to get ahead in the job market. Tunisia’s external debt crisis is deeply tied to internal issues, and corruption along with overreliance on the public sector for employment make for big reasons for it. After 2011, Tunisia's long-standing corruption, which was a legacy of the Ben Ali regime, still exists. Corruption is used to misallocate public resources, discouraging foreign investment and compromising economic efficiency (World Bank, 2021). Due to persistent problems, Tunisia was ranked 92nd out of 180 countries in 2023 by Transparency International's Corruption Perceptions Index. Corruption in state-owned businesses and public procurement drives up prices and lowers competitiveness. For example, government bailouts that put a strain on budgets, have been necessary due to persistent losses caused by poor management in public companies such as the Tunisian Chemical Group (OECD, 2022). This undermines institutional trust, making reforms more difficult to implement in order to stabilize finances and obtain foreign assistance. Around 700,000 people are employed in Tunisia's public sector, which has one of the highest wage bills in the world, accounting for 16% of GDP in 2020 (IMF, 2021). Salary increases implemented after 2011 in an effort to curb social unrest bloated the payroll, leaving little for debt repayment or investments. Because government borrowing absorbs domestic credit, the public sector's dominance pushes out private enterprise (World Bank, 2021). This over-reliance prolongs unemployment (15.3% in 2023) and economic stagnation by inhibiting the creation of jobs in dynamic sectors. Powerful unions' political opposition to public sector reform or downsizing exacerbates this problem and makes fiscal consolidation elusive. Corruption and an unsustainable public wage bill are two interrelated issues that contribute to Tunisia's debt crisis, which will reach 81.2% of GDP in 2024 (IMF, 2024). Tunisia runs the risk of experiencing another economic collapse if these are not addressed.

5.3.3 Decline in important industries and constant fiscal deficits

Tourism plays a big part in the economy of Tunisia, accounting for 14% of the GDP and used to hire about 150,000 people in 2019, before the COVID-19 pandemic (Statista, 2025). The country's growing external debt amounted to 79.8% of GDP in 2024. Along with structural inefficiencies, the collapse of vital industries like manufacturing, agriculture, and tourism has put a strain on public finances, necessitating the use of foreign borrowing to close budgetary gaps(Coface, 2025b). Due to international competition from nations like China and Turkey, Tunisia's industrial competitiveness has decreased over the past 20 years, especially in manufacturing (16% of GDP). Strikes, underinvestment, and social unrest all disrupt the extractive industries, which include phosphates and hydrocarbons, further lowering output. The historical backbone of agriculture suffered from drought in 2023, which caused GDP growth to decline to 0.4%. Since the 2011 uprising, tourism—a major source of foreign exchange—has fluctuated due to security concerns and outside shocks like the COVID-19 pandemic, which resulted in an 8.8% GDP contraction in 2020. Due to these decreases, Tunisia is forced to borrow money from outside sources as export earnings are reduced and trade deficits worsen. Persistent fiscal deficits, averaging 7.8% of GDP from 2021–2023, stem from high public spending on subsidies, wages, and debt servicing. Subsidies for food and energy, alongside a bloated public sector wage bill (16% of GDP in 2020), strain budgets. Despite tax revenues reaching a record 30.1% of GDP in 2023, expenditure outpaces income, with debt servicing consuming 20% of export revenues. The government's inability to secure an IMF bailout in 2023, due to resistance against subsidy cuts and privatization, limited access to international markets, increasing reliance on domestic borrowing and central bank financing (TND 7 billion in 2024). Foreign debt has grown by 250% between 2010 and 2020 as a result of fiscal imbalances and declining industries. A current projected account deficit (4% of GDP in 2023 according to the African Development Bank), low foreign reserves, and exchange rate depreciation all increase the need for borrowing. With debt expected to surpass 90% of GDP by 2025, Tunisia faces default risk if structural reforms are not implemented, such as strengthening competitiveness, cutting subsidies, and improving governance.

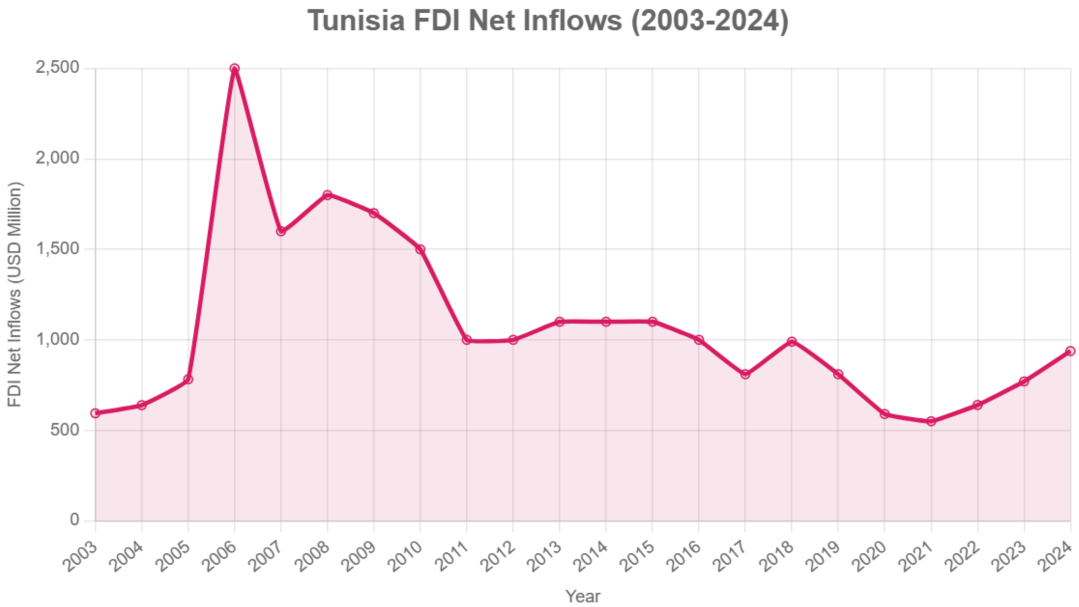
5.3.4 Exchange Rate Depreciation

The external debt crisis in Tunisia has been exacerbated by exchange rate depreciation, which has increased the cost of servicing foreign debt and exacerbated fiscal imbalances. Since the 2011 revolution, the Tunisian dinar (TND) has experienced significant depreciation; by 2024, it had lost more than 60% of its value in relation to the US dollar and the euro (World Bank, 2025). The cost of repaying foreign-denominated debt, which accounts for 79.8% of Tunisia's GDP in 2024, is directly raised by this depreciation (Carnegie Endowment, 2024). As the dinar declines, the cost of Tunisia's external debt, which is primarily in US dollars and euros, increases. For example, in 2015, at a rate of 2 TND/USD, a $1 billion loan needed to be serviced with TND 2 billion. The same loan demanded more than TND 3 billion by 2023, when the rate was approaching 3.1 TND/USD, placing a burden on public finances (CEIC Data, 2025). In 2023, debt repayment accounted for 20% of export earnings, taking money away from vital areas like infrastructure and education. A persistent current account deficit (2.8% of GDP in

2023), low foreign exchange reserves (enough to cover only three months' worth of imports), and waning export competitiveness in important industries like phosphates and tourism are the main causes of depreciation (Coface, 2025b). The government's reliance on external borrowing to cover fiscal deficits, averaging 7.8% of GDP from 2021–2023, further pressures the dinar, creating a vicious cycle of depreciation and debt accumulation (World Bank, 2025). Without reforms to boost exports, stabilize reserves, and reduce fiscal imbalances, exchange rate depreciation will continue to inflate Tunisia's external debt, projected to exceed 90% of GDP by 2025 (Carnegie Endowment, 2024).

5.4.1 Weakening Foreign Direct Investment (FDI)

Tunisia's decrease in FDI is partly due to internal political issues as well, since a clear correlation can be seen with the decrease of FDI and start of the instability in the country. Due to a decline in foreign currency inflows and an increase in borrowing, Tunisia's external debt crisis has been greatly exacerbated by the country's declining foreign direct investment (FDI). Political unrest caused FDI inflows to plummet after 2011, reaching a peak of USD 2,500 million in 2006; by 2020, they had fallen to USD 590 million, a 26.91% decrease from 2019 (CEIC Data, 2020). Even though FDI recovered to USD 938 million in 2024 (CEIC Data, 2025a), it is still below pre-revolution levels. Political unpredictability, as mentioned before, brought on by the 2011 Arab Spring discouraged investors, especially in the manufacturing sector (62.1% of 2024 FDI) and the energy sector (19.7%) (Ecofin Agency, 2024). Investor confidence was further undermined by strict labor laws and security issues, such as the terrorist attacks of 2015 (US Department of State, 2024). Even with reforms like the 2016 Investment Law, the economic impact of foreign direct investment was limited by a sizable informal sector (40–60% of the economy) and administrative roadblocks. Foreign investment was further deterred by the inability to obtain an IMF bailout in 2023, which limited access to concessional financing (Coface, 2025 With export revenues constrained by declining sectors like phosphates, Without robust FDI to fund development, external debt is projected to exceed 90% of GDP by 2025, risking default unless structural reforms enhance the investment climate



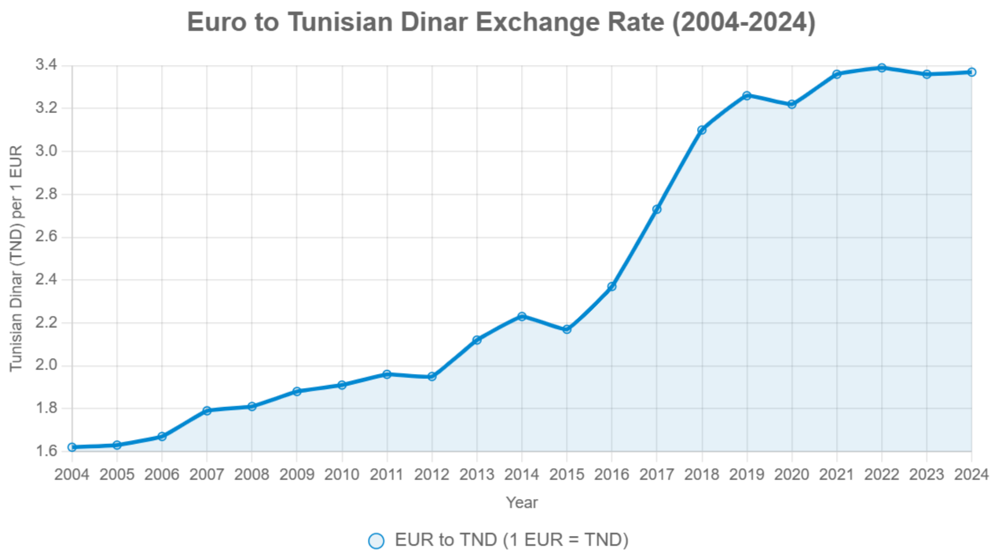
⇨ Tunisia FDI Net Inflow from 2003 to 2024 (CEIC Data, 2025a)

5.4.2 Limited access to international markets

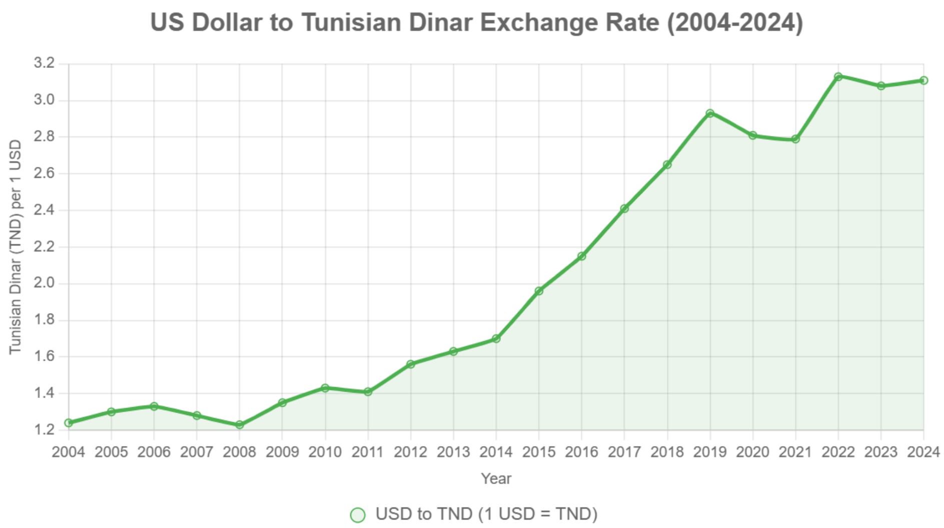
A factor that has played a huge hand in regards to Tunisia's external debt crisis has been its restricted access to global financial markets, which has resulted in expensive domestic borrowing and depleting reserves. Due to limited market access since 2017, external debt increased to 79.8% of GDP by 2024 (World Bank, 2025). By 2022, Moody's put Tunisia on review for a further downgrade after Fitch had lowered it to CCC, thereby cutting off access to the Eurobond market. Due to President Saied's rejection of austerity measures, Tunisia was unable to obtain a USD 1.9 billion IMF loan in 2023, further cutting off the country from concessional financing and EU macro-financial assistance, both of which are dependent on IMF agreements (Trading Economics, 2025c). Due to the fact that multilateral lenders such as the World Bank only offer project-specific loans, this restricted the options for external funding (Coface, 2025b). Limited market access weakens the dinar and raises debt servicing costs, which accounted for 20% of export earnings in 2023. It also decreases foreign exchange inflows (CEIC Data, 2025a).Tunisia turned to domestic borrowing and central bank financing (TND 7 billion in 2024) because its reserves could only cover 3.4 months' worth of imports in 2025. This forced out private investment and increased the risk of inflation. If reforms are not implemented to restore market confidence, persistent fiscal deficits (6.3% of GDP in 2024) and a current account deficit (1.7% of GDP) will force external borrowing, driving debt toward 90% of GDP by 2025 (World Bank, 2025).

5.4.3 Stronger USD and EUR

Tunisia, due to its proximity with the continent, does most of its trade with the European Union (EU), as Tunisia exports 70% of its output to the EU with the rest being split between Libya and the United States mostly (Coface, 2025b). It only makes sense that a stronger USD and EUR would affect Tunisia and their economy, but not in a positive way regarding their debt. The external debt crisis in Tunisia has been greatly worsened by the strengthening of the US dollar (USD) and euro (EUR), which has put a strain on public finances and increased the cost of servicing debt denominated in foreign currencies. More than 70% of Tunisia's debt stock was denominated in USD and EUR by 2024, when its external debt had grown to 79.8% of GDP (World Bank, 2021). Since 2011, the Tunisian dinar (TND) has lost more than 60% of its value in relation to these currencies, increasing the burden of repayment and necessitating borrowing (CEIC Data, 2025a). Tunisia's debt servicing costs went up as a result of a stronger USD, especially after 2014 when the US Federal Reserve raised interest rates and there was a global demand for dollar assets. A USD 1 billion loan from 2015, for instance, required TND 3.1 billion by 2023 at 3.1 TND/USD after initially costing TND 2 billion at 2 TND/USD (CEIC Data, 2025a). Similar to this, the strength of the EUR, which was fuelled by the Eurozone's recovery and the ECB's post-2017 policies, increased the cost of euro-denominated debt, which makes up a sizable amount of Tunisia's debt to European creditors. In 2023, debt repayment accounted for 20% of export earnings, taking money away from vital areas like infrastructure (CEIC Data, 2025a). This effect is amplified by Tunisia's structural flaws. A declining phosphate and tourism exports lower foreign exchange earnings and further devalue the dinar. The central bank's ability to stabilize the currency is limited by low reserves, which can only cover three months' worth of imports. As a result, the central bank must rely on external borrowing to meet repayment obligations (World Bank, 2025). Due to the inability to obtain an IMF bailout in 2023, Tunisia was forced to turn to more expensive domestic financing and central bank advances (TND 7 billion in 2024), which fuelled inflation and fiscal deficits that averaged 7.8% of GDP between 2021 and 2023. The stronger USD and EUR will continue to push Tunisia's external debt toward 90% of GDP by 2025, putting the country at risk of default unless reforms are made to increase competitiveness, stabilize reserves, and diversify exports (Coface, 2025b).



⇨ Euro (EUR) to Tunisian Dinar (TND) Exchange Rate (WISE, 2025b)



⇨ United States Dollar (USD) to Tunisian Dinar (TND) Exchange Rate (WISE, 2025c)

5.5 Conclusion, the withering of the Jasmine flower

To conclude, it is clear that Tunisia faces an uncertain future. The country faces a lot of issues and uncertainty in regards to its economic, social and political future. Most of Tunisia's causes for its debt stem from internal causes, due to the problems that have arisen because of the mismanagement of the country post-Jasmine Revolution. Internal causes like political instability, like the decline in important industries, political instability and corruption, and also issues with the currency are bound to affect the country and leave their mark in Tunisia in case they are not dealt with in a proper manner by the higher-ups in the government. External causes of Tunisia stem less from regional instability, unlike Egypt and Lebanon, and more from Global Economic Shocks that have been responsible for crisis in countries not associated with the

MENA region. It is worth noting however that even external problems like the lack of access to external markets, stems from the lack of good governance in the country and the IMF will not entertain any request from Tunisia unless they start managing their economy better and fix some of the political problems that have been plaguing the country. Tunisia, unlike Lebanon perhaps, has its own future in its hands and if they fix their internal problems and enact effective policies they will have a bright future upon them, and if they fail to do so, then Tunisia might face a similar fate to other failed states in the region, with restricted access to international markets and internal social and political problems eating the country up.

Chapter 6: The effects of Oil on the politics and the external debt of the countries in the MENA region

6.1 Oil and the economy, the positives of being blessed by the black gold.

Often referred to as "black gold," oil has historically had a big impact on a nation's economy, especially for those with large reserves, turning poor underdeveloped countries that relied heavily on fishing into economic superpowers that have a big influence in the world's economy. Theoretically, oil has a lot of positive effects on the economy, bringing in cash flows, trade dynamics and wealth accumulation. First off, oil exports bring in a lot of money, which greatly increases GDP and foreign exchange reserves. To ensure long-term economic stability, nations such as Saudi Arabia and Norway, for example, have established sovereign wealth funds and used their oil wealth to finance public services (World Bank, 2019). Governments are able to raise living standards and economic capacity by investing in infrastructure, healthcare, and education thanks to these revenues. Oil earnings can also help countries' trade balances by enabling them to import capital goods that promote industrial development. Through higher domestic consumption, the multiplier effect of government spending from oil revenue boosts non-oil industries like services and construction (Auty, 1993). To conclude, oil can greatly boost a nation's economy by generating income, drawing in foreign investment, and promoting sectoral growth. To optimize these advantages, these resources must be managed strategically.

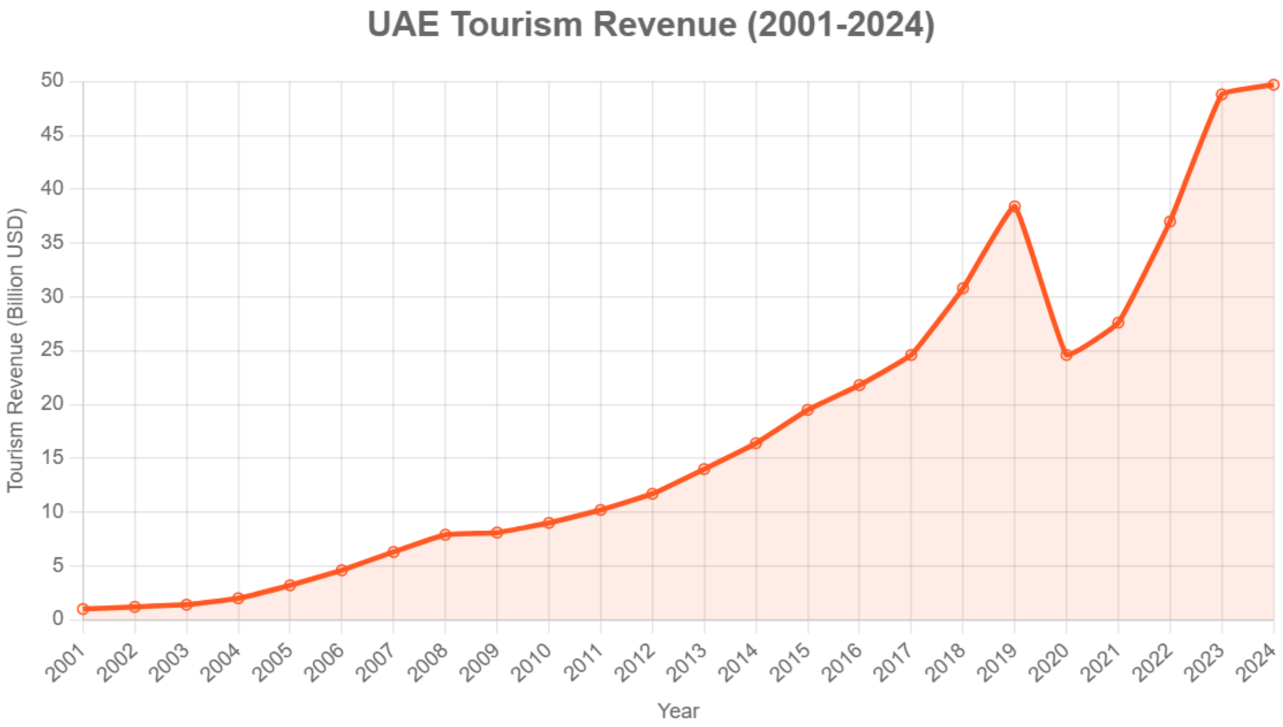
MENA Country	Saudi Arabia	UAE	Algeria	Libya	Iraq	Tunisia	Morocco	Egypt	Syria
OPEC member or not	Yes	Yes	Yes	Yes	Yes	No	No	No	No

6.2 Oil and the economy, the negatives of being cursed by the black gold.

Oil has been known to be a cause for celebration in many countries, as it usually means a lot of money moving in, wealth and overall increased living qualities for whoever is lucky enough to find deposits of the "black gold" in their territory. It is worth mentioning however that it is not just a blessing when finding oil in your country, as a matter of fact oil in the country brings a lot of curses with it as well. The resource curse, in which economic structures are distorted by reliance on oil, is one significant problem. Deindustrialization results from the Dutch Disease phenomenon, which happens when oil earnings boost a nation's currency and reduce the competitiveness of non-oil exports like manufacturing and agriculture (Corden & Neary, 1982). There are many countries that have gone complacent when finding oil, failing to diversify and relying solely on oil for their economy. Economies that depend on oil revenue are also destabilized by fluctuations in oil prices. Nigeria is one country that has suffered from these deep price fluctuations, fiscal stability was negatively impacted by sharp price declines, such as the 2014 crash, which led to an economic contraction and currency depreciation (IMF, 2016). Such swings worsen budget deficits, undermine long-term planning, and erode investor confidence. Wealth from oil can also encourage corruption and rent-seeking, which weakens government. As elites siphon off oil profits, resource-rich nations frequently suffer from weakened institutions, which diminishes accountability and fair wealth distribution (Ross, 2012). Usually oil rich countries have issues with inequalities in their countries, and these governance issues are exemplified by Angola's and Venezuela’s ongoing inequality in spite of its oil wealth (World Bank, 2025). Dependency on oil also deters economic diversification, making economies more susceptible to changes in the world market. Because of their over-reliance on petroleum, nations like Iraq find it difficult to develop non-oil sectors, which hinders innovation and job creation (World Bank, 2020). Economic fragility is sustained by this lack of diversification. Long-term financial burdens are also imposed by environmental costs associated with oil extraction, such as pollution and habitat destruction. These externalities impact industries like tourism and agriculture and put a strain on public resources (Auty, 1993). In conclusion, The Dutch disease, volatility, corruption, and environmental costs are some of the issues that oil can affect economic stability. To reduce these risks, diversification and strong governance are crucial.

6.3 UAE, oil money well spent to diversify the economy

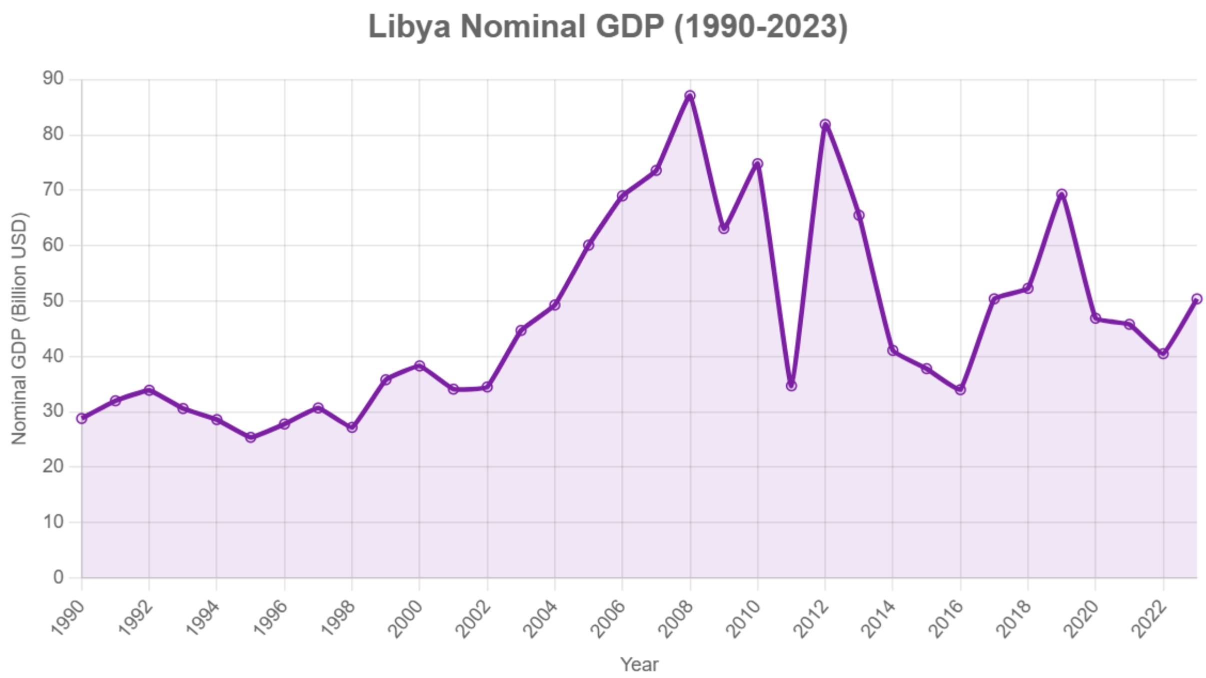
United Arab Emirates (UAE) is perhaps the best country to exemplify the use of oil money to diversify the economy in order to reduce its reliance on the oil industry. The UAE was not always the economic superpower we know today, instead, after it got its independence in 1971, the country mainly focused on fishing, pearl diving and seafaring, taking advantage of their coastal nature (Hvidt, 2013). In 2009, oil accounted for around 90% of the UAE economy, especially in Abu Dhabi which houses the biggest oil reserves in the small country. The story changes completely however when in 2021, estimations showed that 73% of all income to the UAE came due to non-petrol and oil related activities, relying mostly on tourism and the emerging financial sector in Dubai (IMF, 2022.). These huge achievements have been attributed to two huge projects which were undertaken by the UAE, Vision 2021 and UAE Centennial 2071. Despite having very little oil, Dubai has become a major international center for trade, finance, and tourism. Events like Expo 2020 increased tourism, and its infrastructure—which includes Jebel Ali Port and Dubai International Airport—supports its function as a re-export hub (Oxford Business Group, 2023). Abu Dhabi continues to use its oil wealth to invest in renewable energy through Masdar City and culture through the Louvre Abu Dhabi, with the goal of becoming a leader in sustainable technology (UAE Government Portal, 2024). In 2024, non-oil trade expanded by 12.4%, demonstrating strong diversification (Gulf News, 2024). By 2025, more than 4,000 businesses had relocated to Dubai's International Financial Centre (DIFC) thanks to the UAE's free zones, which provide 100% foreign ownership and tax exemptions (DIFC, 2025). Global talent is attracted by long-term visas like the Golden Visa, which promote fintech and AI innovation (World Bank, 2024). Thanks to Comprehensive Economic Partnership Agreements (CEPAs), the UAE's advantageous location facilitates trade with Asia, Africa, and Europe (IMF, 2024). The UAE has positioned itself as a leader in GCC diversification thanks to its aggressive and rapid reforms, investments in digitalization, and green energy. The UAE is bound to be an economic power even in the post-oil era thanks to its business-friendly atmosphere.



⇨ Revenue from tourism in the UAE from 2001 to 2024 (CEIC Data, 2025b)

6.4 Libya, Armageddon thanks to the black gold?

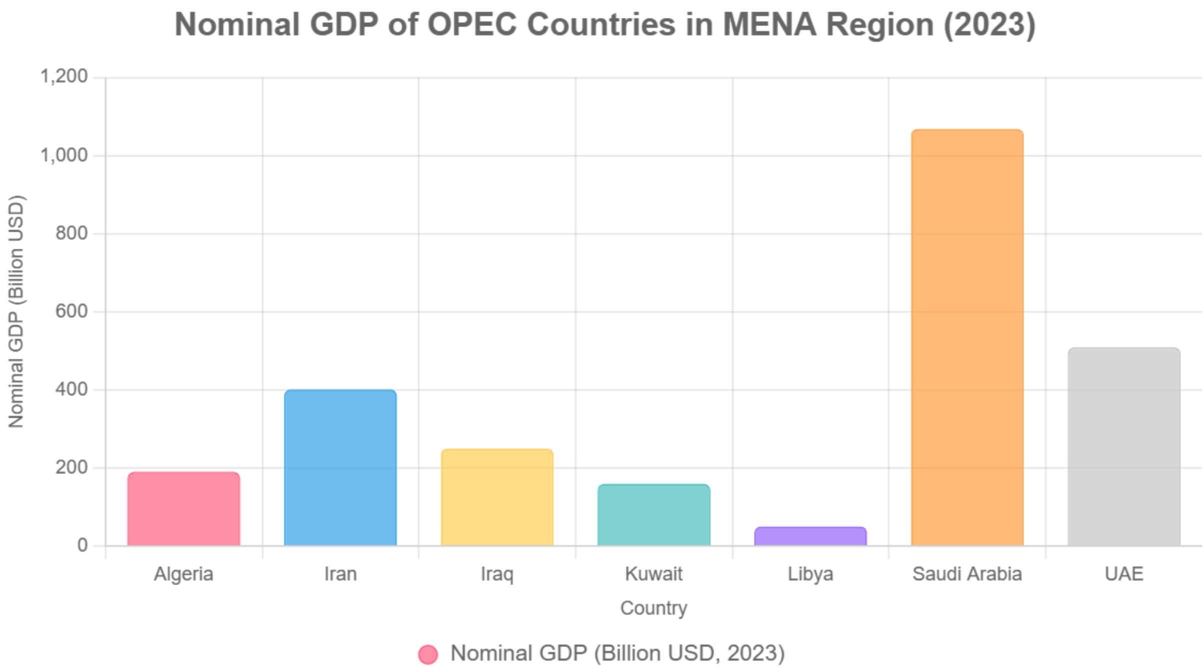
Libya perhaps perfectly exemplifies the case when talking about how a country can be negatively affected by oil. Nowadays it is a developing economy with an upper-middle income economy, however it is heavily plagued by political and social issues, especially after the fall of Gaddafi and the start of another civil war (Coface, 2025c). Libya has been an OPEC member since 1962, and according to the organization the economy of Libya mainly runs on its oil business, as in 2014, 95% of the country's earnings came from the export of oil (OPEC, 2014). However the country hasn't always been in a constant political crisis between two opposing sides, instead it used to be under the rule of the brutal dictator known as: "Muammar Gaddafi". Libya's economy was shaped by Gaddafi's rule (1969–2011) and its enormous oil wealth. With oil making up 95% of exports, GDP increased from $3.8 billion in 1969 to $24.5 billion in 1979, with per capita income reaching a peak of $8,170, one of the highest in Africa. Beginning with British Petroleum in 1971, Gaddafi nationalized the oil sector, gaining state control by 1973 and boosting funding for social programs. By 2010, Libya had the highest Human Development Index in Africa, at 0.755, thanks to free housing, healthcare, and education (World Bank, 2024). Water scarcity was addressed by the Great Man-Made River Project. But too much reliance on oil hindered diversification, and the expansion of the private sector was constrained by centralized planning. Development was hampered by tribal favouritism, inefficiency, and corruption. Due to economic isolation brought on by UN sanctions linked to terrorism accusations in the 1990s, GDP growth was slowed (IMF, 2012.). Libya's economy was in ruins after Muammar Gaddafi was overthrown in the 2011 revolution. During the civil war, oil production, which accounts for 60% of GDP and 95% of exports, fell from 1.6 million to 50,000 barrels per day, resulting in a 62.1% GDP contraction. The GDP recovered by 104.5% in 2012, but the Second Libyan Civil War (2014–2020) halted the recovery and by 2024, the per capita PPP GDP had dropped to 65% of 2010 levels. Diversification efforts were hampered by political unpredictability and militia control over oil facilities. Because of corruption and state domination, the private sector, which employs 14% of the workforce, is still underdeveloped. Unrest is fuelled by youth unemployment, which is made worse by an antiquated educational system. Neglect of infrastructure and restricted access to electricity, water, and health care continue. Economic recovery depends on political stability and structural changes to support non-oil industries like services and tourism, even with $69 billion in frozen assets. Libya is an oil rich country that failed to diversify in the same way UAE did, and that could partially be due to the fact that it used to be ruled by a dictatorship that showed tribal favouritism, creating huge inequalities in the country that remain to this day. Libya is a typical case study on how dictators overstay their welcome and after some time they lose sense on how to govern their country, as Gaddafi failed to diversify the economy and over relied on oil income to develop Libya. After the sanctions though in the 90s that was not a possibility anymore and Libya had to suffer from a struggling oil market which was not able to support anymore the spending of the dictator and the development of Libya. To conclude, Libya is a really good example on how oil wealth can lead to dictatorships and economic mismanagement, which then later leads to instability when these systems fall and an end to economic development.



⇨ Libya’s Nominal GDP from 1990 to 2022

6.5 Correlation between dictatorships and oil wealth in the MENA region

Oil wealth and the survival of authoritarian regimes are significantly correlated in the Middle East and North Africa (MENA) region; this phenomenon is commonly referred to as the "oil curse." Although the exact causes are complicated and up for debate, economic, political, and social factors all play a role in this phenomenon, which sees oil profits support dictatorships. With nations like Saudi Arabia, the United Arab Emirates, and Qatar among the richest per capita, the MENA region is home to more than 50% of the world's oil reserves; however, democracy is still elusive in the majority of these oil-rich nations (World Bank, 2024). Because oil wealth generates large rents, authoritarian leaders are able to hold onto power without facing widespread social accountability. Oil profits in Saudi Arabia and the United Arab Emirates support a wide range of welfare initiatives, such as government employment, free healthcare, and subsidies, which lowers public demand for democratic reforms (Mazaheri, 2023). As demonstrated in Qatar, where political participation is low despite per capita income exceeding USD 80,000, this "rentier state" model enables regimes to "buy off" citizens (Ross, 2012). Oil's stabilizing effect was demonstrated during the 2011 Arab Spring, when regime changes occurred in oil-poor countries like Tunisia and Egypt but little instability occurred in oil-rich Gulf monarchies, with the exception of Bahrain (Vox, 2014). By supporting strong security forces, oil also reinforces authoritarian rule. Although Libya's comparatively low oil wealth in comparison to Gulf States made it more vulnerable, pre-2011 oil revenues allowed Gaddafi's regime to repress dissent (Washington Post, 2014). Similar to this, Algeria's oil revenues after the 2019 uprisings aided military-backed rule and hindered the country's democratic transitions (SpringerLink, 2023). Oil-rich non-democratic states spend a lot on their militaries, which lowers the likelihood of coups or insurgencies, according to statistical studies (Tsui, 2011). The relationship between oil and democracy is complicated in MENA by colonial legacies, tribal structures, and religious influences such as Sunni-Shia divisions, which shape political outcomes (Yousef, 2004). As demonstrated in Iran, where oil rents after 1979 strengthened theocratic rule, critics contend that oil does not necessarily lead to autocracy but rather strengthens pre-existing power structures (ERF, 2017). Although authoritarian longevity in the MENA region is correlated with oil wealth, democratic transitions in oil-poor countries such as Tunisia indicate that lowering dependency on oil rents may promote pluralism. Reform opportunities are hampered by ingrained elites and geopolitical interests, such as Western backing for reliable oil suppliers (Geopolitical Monitor, 2016).



- ⇨ Nominal GDP of all OPEC member countries in the MENA region, where we can see that Libya has the lowest GDP

6.6 Conclusion, what is oil to the MENA region?

It is clear that countries which find oil have a huge advantage. It allows them to have a "Cash Cow" that brings in a huge amount of revenue that benefits the country in many ways, usually bringing FDI and other investments that go into the development of the country. The UAE, for example, is a country that has used its oil wealth in brilliant way, using the money earned from oil to invest in other industries which are profitable for the country, like tourism and the financial industry. In other cases though, oil wealth can lead to over reliance on it and the ignoring of other industries that can be very profitable for the country. This is perfectly exemplified in the case of Libya, a country that became complacent with its situation in the oil industry and ignored many other industries that could have been profitable and more sustainable, like desalination and agriculture, two industries that are very famous in other MENA region countries like the UAE and Saudi Arabia. Oil wealth has also been proven to somewhat correlate to authoritarianism in the MENA region, however it is not the only reason for it as there are other reasons, like colonialism, that have contributed to the rise of authoritarianism in these countries. To conclude, oil to the MENA region nations can be either a blessing that has the ability to develop the country and its industries, or a curse that can lead to many industries being ignored and kept at an underdeveloped state.

Chapter 7: Conclusion, 1 gone and more to go?

This thesis is not just an economic and political analysis of the three countries analysed, but also a social and historical analysis that explains the reasons as to why these countries find themselves in the situation they currently are in. Through analysing Lebanon, Egypt and Tunisia, recurring themes and unique challenges to the states revealed themselves.

The thesis started off with Lebanon, which presented itself as a cautionary tale of state failure in the MENA region. “The Cedar Republic” has been plagued by a number of internal and external reasons which partly come from a sectarian power-sharing structure that fosters corruption, political paralysis, and economic mismanagement. Lebanon seems to act as a framework for all states in the region which are on the road of failure, however it does not seem that the two other countries analysed are following the same path.

Egypt is a totally different story and arguably more complex to analyse, because of its major advantages compared to Lebanon. It has a huge and young population, one of the strongest militaries in the world, and is located in a very strategic location. “The Gift of the Nile” still faces many issues, like corruption, bureaucracy, and a lack of judicial independence. The undertaking of massive megaprojects like the New Administrative Capital seem to have put a big strain on the country’s economy, while also issues that also plague Lebanon like regional instability compound the challenges the country has to face.

Tunisia, on the other hand, is the birthplace of the Arab Spring and the only country in the region to fully embrace democracy for a good amount of time, however all of these achievements have been snuffed out by the many issues facing the country. Tunisia faces challenges like limited access to international markets, a worrying strengthening of the USD and EUR and also corruption along with the over reliance on the public sector for employment. Tunisia is in a juncture, and its future as a democratic and free nation is in doubts, while its economic future does not look bright.

The study also explores the intricate connection between MENA political stability and oil wealth. Oil has the potential to spur economic expansion, but it can also result in the "resource curse," which is typified by a lack of diversification, corruption, and economic distortions. The thesis draws attention to the divergent experiences of the United Arab Emirates, which successfully used its oil wealth to diversify into tourism and finance, and Libya, which struggled with political instability and failed to diversify its economy. An excellent examination of how nations spend their funds.

The research's ramifications go beyond the particular nations that were the subject of the case studies. For investors, international organizations, and policymakers looking to comprehend the dynamics of debt crises and advance sustainable development in the MENA region, the findings provide insightful information. In order to reduce the risk of debt crises, the thesis emphasizes the significance of tackling governance issues, encouraging economic diversification, and cultivating regional stability.

In conclusion, this thesis offers a nuanced and comprehensive analysis of the factors that have been contributing to the external debt crisis and state failure in the MENA region. The research has shown itself valuable in providing insight for future policymakers and stakeholders seeking to mitigate the risks of debt crisis in a strategically important region. This research helps to better understand the complex dynamics at play as the region continues to change in the face of political and economic uncertainty. It also lays the groundwork for well-informed policymaking and successful interventions. However, only time will tell if these nations' economic issues will be resolved or if they will cause the foreseen collapse of these nations.

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