Middle East crisis: another recession?

KINGSHUK NAG

One country that will be watching the Middle East crisis closely is Bangladesh, especially because 90 percent of Bangladesh's oil demand is met from international markets Last year, Bangladesh Petroleum Corporation (BPC) imported 4.3 million tonnes of oil, which cost $2.6 billion to the exchequer. This year, BPC plans to import 4.5 million tonnes of oil at a cost of $3 billion

The fact that globalisation due to integration of world economies is able to generate economic impacts in different countries is well known, but the phenomenon of self immolation having similar economic ramifications is unheard of. The recent protests across the Middle East had its roots in Tunisia when on December 18, 2010, Mohamed Bouazizi burnt himself when local police authorities seized his produce and publicly humiliated him. This caused a major uprising in Tunisia against unemployment and subsequently led to the fall of the 23-year-old regime of the ousted President Zine El Abedine Ben Ali. Due to similar conditions of high unemployment, high food prices and similar governments, 12 deaths have taken place till date through self immolation as the unrest continue to grip the Middle East and North African countries.

While the US and the EU are still battling the effects of recession, the Middle East crisis threatens to stall the pace of global economic recovery and fears of a double dip recession looms large. Egypt, which is now taking centre stage of the Middle East protests, has forced oil and food prices to inch higher. Oil prices, specifically the price of Brent, the reference for crude oil sales across the world, increased to $103.37 a barrel, the highest level since September 2008 amid speculation that the Egyptian crisis could have a contagion effect on the Organisation of the Petroleum Exporting Countries (OPEC).

Soon after the Tunisian protests, an unemployed Egyptian set himself on fire in Alexandria and what followed was a series of self-immolutions in the capital city of Cairo that rocked the 30-year-old regime of Hosni Mobarak. Egypt is a $200 billion economy and the largest country by population in the Middle East. Given its size, it's a major voice in the Arab world and any disruptions could be very significant.

In just 10 days of the political unrest, Egypt is estimated to have lost $3.1 billion as a result of the ongoing crisis and is slated to lose $310 million daily until the protests wane significantly. The world witnessed oil prices climb from $75 a barrel to $100 a barrel in just a week, as the Egyptian protests threaten to stall the shipments of crude oil along the Suez Canal and the Suez-Mediterranean pipeline.

AFP

An anti-government protester covered with his national flag shows the thumb-up as he takes part in a protest in Cairo's Tahrir square on February 9, as Egyptians mark the 16th day of protests against the 30-year-regime of President Hosni Mubarak.

Egypt at present produces close to 700,000 barrels a day, which roughly makes up 1 percent of the global oil output. Any shortfall in Egypt's ability to produce oil in the short run would be easily met by the members of the OPEC countries and have little impact on global oil production. Egypt however has control of the Suez Canal and the Suez Mediterranean pipeline, which saw close to 2 million barrels of oil being shipped every day. Both the Suez Canal and the Suez-Mediterranean pipeline oversee 2.5 percent to 4 percent of the global oil and gas shipments. As such, if oil traffic gets clogged in any manner like in 1956 or after the 1967 Israeli war for eight years, the results could put brakes on the world economy.

The Suez Canal and the pipeline are so important that the only alternative for ships would be the longer route around Africa's Cape of Good Hope. According to the US Energy Department, the costs for using the alternative route if the Suez Canal and the Sumed pipeline (also known as Suez-Mediterranean pipeline) were to close would be adding 6,000 miles to the vessel's journey. Such is the importance of the Suez Canal that crude oil prices could reach $200 a barrel if the Egyptian crisis leads to the closure of the Canal according to Rafael Ramirez, oil minister of Venezuela. This would easily surpass the earlier peak of $147 a barrel reached in 2008 and if oil prices were to reach that high, the world would witness another recession with catastrophic results.

While the possibility of the Suez Canal and the Suez Mediterranean pipeline being closed amid the rising tensions strikes fear among policymakers. Another major worry is the Egyptian crisis entering its second week and showing no signs of withdrawal either from President Hosni Mobarak or from Muslim-brotherhood led protestors.

If the unrest continues, there is a high possibility that the moderately affected Middle East countries, like Saudi Arabia, could see renewed protests and endanger oil supplies. Fierce demonstrations and street protests were staged in Jeddah, after an unidentified man burnt himself alive on January 21. A week later, thousands of demonstrators protested against poor infrastructure after floods ravaged Jeddah. Saudi Arabia accounts for 12 percent of global oil production and if it were to be gripped by violent protests, oil prices could very well go over the roof.

One country that will be watching the Middle East crisis closely is Bangladesh, especially because 90 percent of Bangladesh's oil demand is met from international markets.

Last year, Bangladesh Petroleum Corporation (BPC) imported 4.3 million tonnes of oil, which cost $2.6 billion to the exchequer. This year, BPC plans to import 4.5 million tonnes of oil at a cost of $3 billion.

However, oil prices having surged from $75 a barrel to $100 a barrel might cost BPC an additional $1 billion or even more. Bangladesh has over the years tackled such an upward spike in oil prices by passing subsidy burdens to the corporation. BPC, in turn, has incurred losses for the past five years and subsidies on domestic fuel prices have led to higher budget deficits and diversion of funds meant for education, healthcare and employment.

Policymakers world over are trying to gauge the economic impacts that the Middle East crisis might have on their economies as oil and food prices continue to soar. As politicians around the world look forward to a stable and peaceful Arab world, speculators try to understand whether the Egypt contagion would spread to the rest of the Arab world causing major volatility in oil and commodity prices. For Bangladesh, stakes are high as a lengthier turmoil could have a similar story back home.

The writer is a banker and can be reached at kingshuk_nag001@yahoo.com

New hotels banned as Bali struggles with success

AFP, *Denpasar, Indonesia*

On the edge of Bali's palm-fringed Kuta Beach, where thousands of tourists flock each day, four cranes are busy at work on a massive beachfront development.

Dubbed the Beach Walk, the $70 million "lifestyle resort" linking two luxury hotels with high-end restaurants, shops and conference facilities, is a testament to Bali's post-bombing resurgence as a tourist destination.

A decade ago, about 1.3 million foreign visitors came to the island, according to official figures. Then, after Islamic extremists bombed Kuta nightclubs in 2002, killing 202 people, the figure plummeted to 990,000.

But in 2010, despite a second bombing in 2005 which killed 20 people, foreign visitor numbers surged to a record 2.3 million.

This year, 2.5 million are expected, putting significant strain on the island's infrastructure and sparking an explosion in hotel numbers.

With the Indonesian island's rising appeal have come concerns its image as a tropical oasis is being tarnished by rampant development, overcrowding and gridlock.

"Tourists come to Bali to relax," Bali Hotels Association secretary-general Perry Markus said. "I can imagine how frustrated they will be if they end up getting stuck in horrendous traffic jams like in Jakarta."

Fearing the island could become a victim of its own success, Bali Governor Made Mangku Pastika in January took the extraordinary step of slapping a moratorium on new hotel development in the island's three busiest areas.

They include the famous surfing strips of Kuta and Sanur, the exclusive beachfront resort district of Nusa Dua and the rice-terraced hills around Ubud.

With its warm climate, friendly people and smorgasbord of accommodation options, ranging from luxury beachside villas to bungalows in the rainforest, the appeal of Bali is easy to understand.

"I think we are one of the best destinations in Southeast Asia," Bali Tourism Board chairman Ida Bagus Ngurah Wijaya said. "We make everybody happy when they come to Bali."

But he too has noticed the increase in traffic jams along the narrow, potholed streets and has thrown his support behind the hotel moratorium.

"We don't want the development of tourism in Bali to backfire," he said.

There are now almost 50,000 rooms available across Bali on any given night, according to government figures. Most of these are in the congested south, where the moratorium on hotel development will be enforced.

"There is a lot of hotel accommodation already built in these three regencies (local council districts)," the head of the Bali government's Investment Board, Nyoman Suwirya Patra, said. "So we need to spread out the building of accommodation to other regencies."

It remains to be seen how effective the moratorium will be. But as an added incentive to shift tourism facilities to less-developed areas, there are plans for a second international airport in Bali's north and a new cruise ship terminal in the east.

Hotels Association secretary-general Markus believes the island's appeal as a "quality destination" is also under pressure on another front -- the recent success of low-cost chains like Tune Hotels, which promises "five-star beds at one-star prices".

"We don't want Bali to be viewed as a cheap destination because this island is too small. A cheap image will attract too many backpackers and result in overcrowding," Markus said.

He said 80 percent of Bali's hotel rooms are priced between $50 and $2,000 a night, but Tune, which follows the business model of low-cost airlines, charges just $15.

It is clean and comfortable but lacks the aesthetic charm Bali is famous for, such as luxuriant tropical gardens and rooms with homey rustic touches. At Tune, customers are charged extra if they want "non-essentials" such as towels, soap or air-conditioning.

"We don't need any more budget hotels like Tune which will stir unhealthy competition and drive our poor local guest houses out of business," Markus said.

"We want to project Bali as a quality destination so we can attract quality tourists who stay longer on the island and spend more."

It is a concern not shared by tourists like Arif Budiman, a professional photographer from Malaysia who spent four nights at one of Tune Hotels' two establishments in Bali.

"Here at Tune, you can't see much of the traditional Bali concept," he said. "But I don't bother about that, as long as I can get a really clean room, good security, and most importantly, at a cheap price."

AFP

Tourists flock to Kuta Beach on the resort island of Bali while in the background construction cranes are busy at work on the massive beachfront development dubbed the Beach Walk.

With its warm climate, friendly people and smorgasbord of accommodatio n options, ranging from luxury beachside villas to bungalows in the rainforest, the appeal of Bali is easy to understand. This year, 2.5 million visitors are expected, putting significant strain on the island's infrastructure and sparking an explosion in hotel numbers