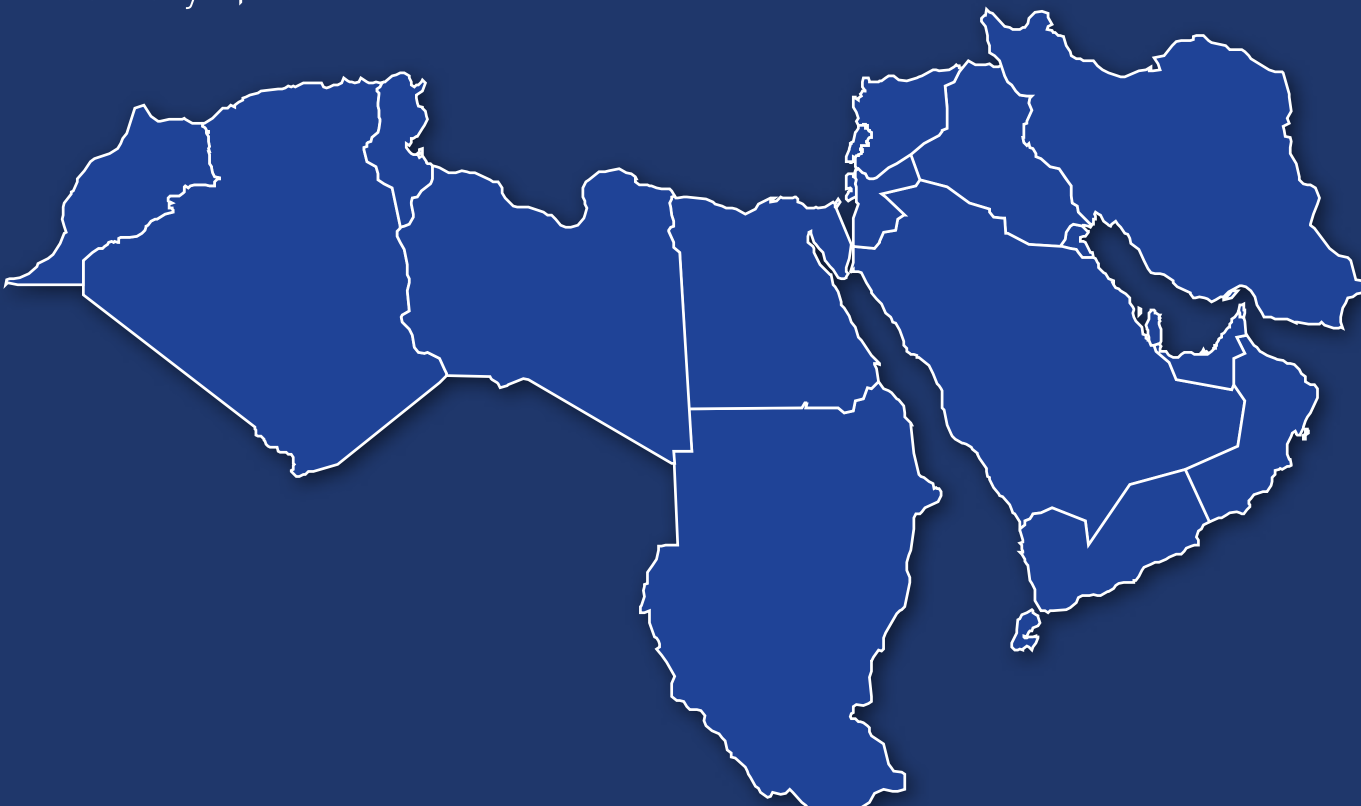
SIDAR GLOBAL ADVISORS

The Possibility of Contagion: A Case By Case MENA Risk Forecast

February 4, 2011



Sidar Global Advisors is a Washington based strategic advisory & risk assessment firm. Tailoring to the client's needs, SGA specializes in foreign market penetration strategy design, deal sourcing, due diligence, market analysis, local partnerships and subcontractor relations, and other related business services.

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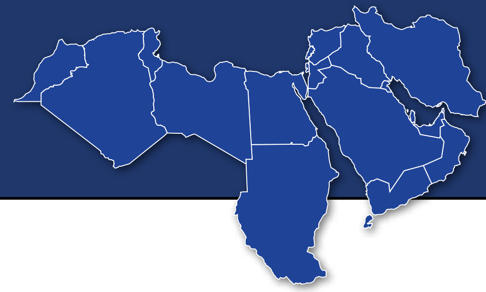
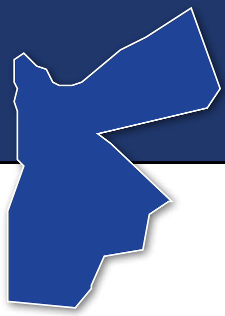
Executive Summary



- The events in the Arab world are unfolding at an impressive pace. To the surprise of many commentators, the unrest which started in Tunisia quickly spread to Egypt, and the Egyptian protestors seem to have learned much from their Tunisian counterparts. It appears that the Tunisian demonstrations have not only inspired others in the Arab world to stand up against their oppressors. They have also provided a model which opposition groups in other Arab countries could seek to emulate in order to press for their demands and perhaps garner international support.
- Arguably, the Tunisian government was the first domino in the line--and the easiest to topple. But the turmoil in Egypt demonstrated that even the largest of dominoes is in danger of collapsing. The manner in which events unfold in Egypt over the next days may have a significant bearing on the fate of protest movements in other Arab states. President Mubarak declared on February 1 that he would only remain in power until September, when presidential elections are scheduled to be held. But the fierce clashes that then ensued between the supporters of Mubarak and his opponents revealed the precarious nature of the political situation in Egypt, in which the stance of the armed forces appears to be crucial. Nevertheless, the unrest in Egypt, the closest ally of the United States in the Arab world, has proven quite clearly that no repressive regime in the region is completely secure.
- In this report, SGA analysts look at seven MENA countries in order to forecast the risks and potential consequences of the unrest which has shaken the Arab world. Various political, social, and economic factors are analyzed within the framework of each national government. A checklist and a risk rating have been established for each country. Additionally, a list of major foreign companies is provided at the end of each country section, in order to give an idea of which sectors and major actors might be most affected.
- **Who is next?**
  Yemen, Syria, Jordan, and Algeria are the most likely candidates for further unrest in the region. However, risk level varies from one country to the next. Yemen remains the most risky country, followed by Jordan, Syria, and Algeria.
- **Safe bets**
  Saudi Arabia appears to be the safest from waves of unrest emanating from Tunisia and Egypt, followed by Libya and Lebanon. Lebanon's own political problems caused the country to rank as a high risk on our list.
- **Should we be worried?**
  The potential effect on the global economy should be limited in the short- and medium-term, as the high-risk countries on our list tend to have limited potential to influence the world economy directly. However, high-risk countries like Yemen or Jordan could present serious threats for regional markets if they, too, dissolve into chaos. These threats could stem from political crisis, diplomatic tensions and increasing terrorist activity due to loss of authority following political turmoil. In terms of wider implications, Algeria has the most potential to affect the Western world among the four risk-prone countries, largely because of its substantial natural gas reserves. Europeans should particularly follow the events in Algeria closely due to the strategic importance of its natural gas exports for the continent's energy security. Saudi Arabia carries the highest stakes for the global economy with its vast oil reserves, but the country looks set to navigate the rocky waters surrounding the region with minimal damage.



Jordan

Political risk: Moderate-High
Potential global effect: Low-Moderate

Population: 6.4 million
Unemployment rate: 13% *(unofficial unemployment is believed to be around 30%)*
Median age: 21.8
GDP (official exchange rate): $27.13 billion
GDP per capita: PPP $5,300
GDP real growth rate: 3.2%
Inflation: 4.4%

IN FOCUS
King Abdullah has attempted to curb rising political opposition by sacking the government and appointing a new prime minister, Marouf Bakhit. Political and economic reforms have been promised, including greater popular participation in decision-making. However, mindful of Bakhit's failure to introduce liberal reforms when he was prime minister in 2005-2007, the IAF has refused to accept posts in a new cabinet. The Islamists and other opposition groups are pressing for electoral reform, and, in particular, are demanding that the King relinquish his right to appoint the prime minister. With the monarchy determined to maintain its control over the country, and the IAF calling for further demonstrations, tensions may continue to escalate. However, opposition groups are basically pressing for reform and not revolution. King Abdullah remains popular and is seen as an important symbol of national unity in a country fragmented along tribal and ethnic lines. In these circumstances, the violence and upheavals witnessed in Egypt are not likely to be replicated in Jordan.

Government

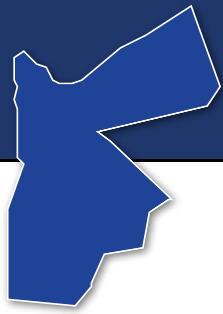
Jordan's government is a constitutional monarchy under King Abdullah, who took the throne in 1999. Abdullah remains an authority figure and exercises considerable power. The King and his Council of Ministers are charged with executing all laws, but laws can be overturned by a two-thirds decision in the National Assembly. The Prime Minister is appointed by the King. The Jordanian Parliament is bicameral and includes a 60-member Chamber of Deputies, all of whom are appointed by the king, as well as a Chamber of Deputies composed of 120 elected officials. King Abdullah briefly dissolved the parliament in 2001-2003; over 100 temporary laws were passed during this time period.

Opposition

While political parties have been legal in Jordan since 1989, the only party which exercises any parliamentary might is the Islamic Action Front, or IAF. The opposition has been calling for the dissolution of parliament, which was elected in November in an election widely regarded as fraudulent, and new elections. They also asked for political reforms that would enable them to elect the Prime Minister. However, the mixed population of Jordan which includes opposition factions from Palestinian refugees and East Bank Bedouin keeps the opposition from establishing a strong unity.

Potential for Organized Demonstration

Jordan has been reported to be one of the least corrupt nations in the region, with one of the best human rights records. Jordan is much better off in economic terms than many of its regional neighbors, and in spite of an elevated unemployment rate, political demands are generally modest. Wage hikes for civil servants and members of the military, as well as a subsidy plan for fuel and other basic necessities, failed to end opposition. The resignation of Prime Minister Rifai and dismissal of the cabinet by King Abdullah were both motivated, at least in part, by the concerns of the population. In a marked contrast with the protest in Egypt, the state and protesters engage in a more open dialogue and opposition demands are considered, not dismissed.



Jordan

Political risk: Moderate-High
Potential global effect: Low-Moderate

WHAT IS AT STAKE?

- Small country but maintains good relations with other states in the region; important peace treaty with Israel.
- A free trade agreement with the US, which came into full effect in January 2010. Any potential regime change in the country, especially if followed by the Islamists coming to power, might result in trade restrictions coming back into effect. Such a scenario would dramatically affect the US companies actively engaged in the country's flourishing construction, energy, real estate and lodging sectors.
- The king's pro-Western stance, a cornerstone of his foreign policy, might be jeopardized. A potential rise of Islamists or anti-Western groups would be highly detrimental for the current pro-business environment.
- Jordan's financial sector is small and has limited exposure to world financial market. Thus, domestic troubles alone would not mean major repercussions for the global economy.
- The country's bourgeoning uranium sector might be affected. Following the discovery of large reserves of uranium by a joint Jordanian-French venture (with Areva in 2008), many international companies, including China National Nuclear Corporation (CNNC) and Anglo- Australian mining giant Rio Tinto showed interest in the country's uranium reserves. Jordan is the only country in the Middle East which has uranium reserves (112,000 tonnes in 2008, 2 percent of the world reserves), adding to the country's strategic importance.

POTENTIAL RISKS

- The Islamic Action Front (IAF) -the political wing of the Muslim Brotherhood – is already a major opponent of the country's participation in US-led military missions; this raises fears of dissent from within the army.
- Islamic outbursts have always risked jeopardizing stability in the country. However, the real danger is when the opposition manages to direct religious-based protests in an organized fashion. This remains rather unlikely for the moment due to strong popular support for King Abdullah.
- The rapid change of cabinets and the king's history of resorting to cabinet change in times of hardship might create the popular feeling that these changes are mere attempts to save face by the king, given the fact that the country's Hashemite kings changed prime ministers several times before.
- Major companies active in the country: Nestle SA, Nestle Waters, Aldeasa SA, Target Corp, Wal-Mart, Hikma Pharmaceuticals PLC, France Telecom, The Gap Inc, Liz Claiborne, Societe Generale, Citibank, Standard Chartered

Syria

Political risk: Moderate
Potential global effect: Moderate

Population: 21 million
Unemployment rate: 8.3%
Median age: 21.5
GDP (official exchange rate): $59.63 billion
GDP per capita: PPP $4,800
GDP real growth rate: 4%
Inflation: 5.9%

Government

The government of Syria is de jure a republican system, which includes a President, two Vice Presidents, a Prime Minister, and a cabinet body called the Council of Ministers. The legislative body, the People's Council, is composed of 250 representatives elected to 4-year terms. In practice, the Syrian government is typically described as a hereditary dictatorship. Since 1970, the nation has had just two presidents—Hafiz al-Asad, who died in June 2000, and his son, Bashar al-Asad. Under the Emergency Law enacted by the Baath party in 1963 (continued war with Israel is presented as the justification for the Emergency Law), most constitutional rights have been revoked. President al-Asad and his close aides have control over economic, social, and military policy. Bashar al-Asad was elected to his second term as president in 2007 referendum, and is set to serve until 2014. The country's next parliamentary elections are scheduled for April 2011, however they are not expected to make a significant impact, since the main role of the parliament has been to approve President Asad's decrees.

Opposition

Around 15 other legal political parties are tolerated; there are also at least fourteen Kurdish minority parties which are technically illegal. The Syrian opposition, which has kept a low profile over the last couple of years, is planning a mass rally on February 4. The success of such demonstrations, clearly inspired by the events in Tunisia and Egypt, is questionable due to the presence of strong and experienced security forces in the country. The president's confident foreign policy, mainly defined by its anti-Israel and anti-US tones, has boosted his popularity.

Potential for Organized Demonstration

Syria has a rather pathetic human rights record; arbitrary arrests, torture, gender discrimination against women (including systemic legal leniency for "honor crimes") and disappearances are common. From 1976 until February 1982, the Muslim Brotherhood led an armed insurgency against the authoritarian government. In early 1982, the government cracked down on the insurgents, shelling the city of Hama and causing an estimated 15,000 deaths. Following the death of Hafiz al-Asad in 2000, demand for political reform increased, and Bashar al-Asad, the former President's son, appointed several reformist individuals to positions in the government as he assumed his father's position. The period which would be known as Damascus Spring was short-lived, however, and Parliamentarians Ma'mun al-Humsy and Riad Seif were arrested for their reformist views late in 2001. In March of 2004, Syrian Kurds protested in Brussels, Geneva, Germany, and Turkey. Protesters were reported dead over the course of the following days, reportedly endorsed by the Syrian government. The nation has not seen a large-scale domestic protest since the silencing of the Muslim Brotherhood insurgency in 1982, and the willingness of the ruling party to use torture, death, and arbitrary imprisonment in order to silence opposition groups remains a powerful deterrent. In a recent interview with Wall Street Journal, President Bashar al-Asad expressed his confidence that events like in Tunisia would not occur in Syria.

IN FOCUS
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Syria

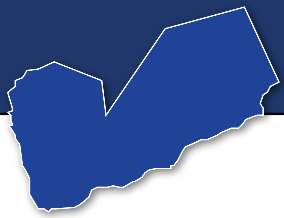
Political risk: Moderate
Potential global effect: Moderate

WHAT IS AT STAKE?

- An important political actor in the region. Syria has not had good relations with Israel or Lebanon. The country has long-lasting rift with Lebanon's Hariri clan. Syria, along with Iran backed Hezbollah last month to topple Saudi-backed Hariri government. The country is attempting to gain more leverage in Lebanon's political crisis. While the country has been seen as more of a troublemaker by the West in the last two decades, its involvement in Lebanon and its strong ties with critical players in the region, including Iran, makes a possible toppling of al-Asad a major risk for regional stability.
- Unrest in Syria would leave Israel, the most important US ally in the region, surrounded with countries in political turmoil (to the north, Lebanon is having its own political problems, unrelated to the waves of protest in the Arab world, and Jordan's political situation is looking more and more unstable). There is no risk of the current wave of anti-government protests spreading to Israel because of the democratic nature of the country. However, the growing tension and turmoil in the region have already made the Israeli government question the security of the nation's border with Egypt, and would have negative repercussions for the region's trade.
- The country has some oil and gas production, but the volume thereof is not significant in global economic terms.
- While still small in size, the Damascus Securities Exchange (DSE) performed very well in 2010. The index rose by 75 percent in 2010, becoming the best-performing stock market in the Middle East and North Africa region. A political uprising in the country would put a halt to the market's good run.

POTENTIAL RISKS

- President Assad's support is largely drawn from his Alawi sect, and any move against him would risk facing violent repercussions from the Alawis.
- The country's reformers and conservatives could join any potential mass protests or uprising in the country; many among these groups resent Alawi rule.
- The country is one of the worst performers in the world in terms of democracy and human rights. Repression could backfire suddenly, as was seen in Tunisia and Egypt.
- The government's plans to attract $55 billion in FDI over the next five years would be disrupted, around $25 billion of the investments were to be used to improve the country's subpar infrastructure system.
- Major companies active in the country: Bel Fromageries SA, Nestle SA, CNPC, Petro-Canada, MTN Group Ltd Mobile Telecom, Honda Motors.



Yemen

Political risk: High
Potential global effect: Low

Population: 24 million
Unemployment rate: 35%
Median age: 18
GDP (official exchange rate): $30 billion
GDP per capita: PPP $2,600
GDP real growth rate: 5.2%
Inflation: 12.2%

IN FOCUS
On 3 February, in spite of the presence of a group supporting the president, around 20,000 demonstrated peacefully in the streets of the capital Sana'a against the Saleh regime.
The opposition coalition, the Joint Meeting Parties, mindful of the reversal of a decision to retire from political office five years earlier, called for Saleh to step down before 2013. It appears, though, that the president has given himself enough room to maneuver to prevent an escalation of tensions. In a 2 February speech, Saleh called for the formation of a national unity government and has promised to delay the parliamentary elections which had been scheduled for April. This could give the president the opportunity to relaunch the dialogue on political reform with the opposition. In contrast to Mubarak, Saleh appears to enjoy the confidence and backing of the US, which is concerned about the presence of al-Qaeda in Yemen. It seems that the president may be able to reach an accommodation with opposition groups and remain in power for at least the foreseeable future.

Government

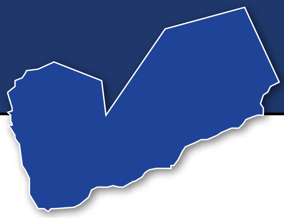
The government of Yemen includes a President, a Prime Minister, and a bicameral legislative branch. The two legislative houses have a combined 412 representatives: the 301 elected members of the Assembly of Representatives and the 111 members of the Shura Council, who are appointed. The President is legally the head of state, while the Prime Minister he appoints serves as the head of government. President Ali Abdullah Saleh was re-elected most recently in 2006. He was originally elected President of North Yemen in 1978, and became the President of a newly-unified Yemen in 1990. Saleh is a member of the General People's Congress, the party which won 58% of the popular vote in the 2003 Assembly of Representatives elections. Yemen is one of the least-developed Arab nations, suffering from 65% unemployment (unofficial figure) and rapid population growth; the nation began an economic development plan with the help of the IMF in 1995. Privatization, water management, and social sector programs aimed at reducing poverty were the major policies covered in the plan, and Yemen's macroeconomic indicators improved considerably following IMF intervention. (Yemen is the poorest of the seven countries in our analysis with GDP per capita of $2,600 at purchasing power parity.) Government has recently introduced various measures to win over popular support, including income tax cuts and increasing in civil servant salaries. The country's next elections are scheduled for April 2011.

Opposition

The 2003 Assembly of Representatives election included four minority parties. The Yemeni Congregation for Reform, which garnered 22.6% of the popular vote, is the main opposition party. Its membership is diverse and party leaders include Mohammed Qahtan (a member of the Muslim Brotherhood), Sheikh Abdullah al-Ahmar (a tribal chief), and Abdul Majeed al-Zindani (a religious scholar). Human rights activist Tawakal Karman, who founded the group Women Journalists Without Chains in 2005, is a prominent member of the party and represents it in the Assembly of Representatives. Other opposition groups represented in the parliament include the Yemen Socialist Party, led by Dr. Yasin Said Numan, the Nasserite Unionist People's Organization, and the Arab Socialist Rebirth Party. In the 2006 Presidential election, Saleh won 77% of the popular vote, while a coalition of the top five opposition groups known as the Joint Meeting Parties (JMP) earned 21% of the vote with candidate Faisal Bin Shamlan. The opposition JMP has recently threatened a boycott of the country's upcoming elections in April. President Saleh announced on February 2 that he would not stand for reelection in 2013. However, given a similar promise before 2006, the opposition is sure to keep a watchful eye to see whether he will keep his promise this time.

Potential for Organized Demonstration

Protests in Yemen have occurred concurrently with the recent unrest in Tunisia and Egypt. On January 27, an estimated 16,000 people gathered in the streets of Sana'a, the capital, to demand improvement of economic conditions. United States diplomat Angie Bryan had stated in 2009 that President Saleh was facing opposition among his closest advisors. There are indications that Tawakal Karman's party, the Yemeni Congregation for Reform, supports the removal of President Saleh from office. Northern Yemen, especially Sa'dah, is home to the Houthi insurgency, an armed Shi'ite movement under the leadership of cleric Hussein Badreddin al-Houthi. The Yemeni army redoubled their efforts against the insurgents in 2009, an offensive which left hundreds of thousands of people displaced. Allegedly, Iran has supported the Shia group's efforts.



Yemen

Political risk: High
Potential global effect: Low

WHAT IS AT STAKE?

- The poorest of the Arab states. Rapid population growth and rising unemployment, already estimated to be well above 50 percent in defiance of the official figure of 35 percent. The country's poverty reduction programs and IMF-led reform programs are crucial for its 24 million people. The country is also heavily reliant upon multilateral donor support, which would be disrupted if the country suffers from a full-blown political crisis.

- Yemen is an important US ally in the fight against global terrorism. The US has stepped up its involvement in the region and the partnership has improved the overall security situation in Yemen over the last decade.

- Increasing concerns in Western countries for Yemen's stability and security due to the high level of terrorist activity in the country, would be compounded by a political crisis. Such a situation could even make Yemen a failed state.

- The country has modest oil production, but output is declining. Yemen produced 300,000 barrels per day in 2009. (Representing less than 0.375 percent of the world production) The government depends on these exports for income--oil revenues represent 25 percent of GDP and 70 percent of government revenues. While the impact on global prices would be limited, the disruption of oil exports as a result of unrest would bring down Yemen's government and fuel terrorist activities in the region. The world's second largest oil producer, Saudi Arabia, would certainly be affected by the escalation of terrorist activity in the region.

POTENTIAL RISKS

- Potential for instability was already high in the country, even before the uprising in Tunisia. The Zaydi rebels in the north, growing secessionist sentiment in the south, and the strong al-Qaeda presence are all serious threats to political sustainability.

- High level of activity by the terrorist group al-Qaeda in the Arabian Peninsula (AQAP), an al-Qaeda affiliate with branches in Yemen and Saudi Arabia. This compounds the risk of instability in Yemen.

- The recent demonstrations showed that the regime of Ali Abdullah Saleh might be on shaky ground. Despite his announcement that he will not stand for reelection in 2013, it seems that the opposition may not be prepared to bide their time until then.

- Major companies active in the country: Proctor & Gamble, Clorox Co, Occidental Petroleum, Total SA

Algeria

Political risk: Moderate
Potential global effect: High

Population: 35.9 million
Unemployment rate: 9.9%
Median age: 27.1
GDP (official exchange rate): $159 billion
GDP per capita: PPP $7,400
GDP real growth rate: 4.1%
Inflation: 5%

IN FOCUS
The Bouteflika administration appears confident that the call for a mass protest on 12 February will not receive widespread support. The regime appears to be pursuing a two-track policy. On the one hand, the authorities continue to emphasize that all demonstrations are banned. Food riots in January had resulted in the deaths of five protestors. But pro-government members in the country's parliament have for the first time proposed the lifting of the state of emergency which has been in effect since the civil war in 1992--one of the key demands of the opposition groups. President Bouteflika will probably hope that this move to ease restrictions will divide the opposition. Although unpopular, the president is credited with maintaining stability in the country after previous bloody clashes with Islamic radicals and the Berber minority. Provided the nation's security forces refrain from using excessive force against opposition demonstrations, it would seem that Bouteflika's position will remain reasonably secure.

Government

The head of the Algerian state is the President, who serves a five-year term, while the head of government is the Prime Minister, who is appointed by the President. The executive cabinet is called the Council of Ministers, appointed by the Prime Minister. The country is currently run by President Abdelaziz Bouteflika since 1999, with the continued support of the military. The president's mandate is set to end in 2014. Algeria is officially a multi-party state (the Ministry of the Interior must approve all political parties), and more than forty parties are currently active in Algerian politics. President Abdelaziz Bouteflika is also the president of the National Liberation Front (NLF), while Prime Minister Ahmed Ouyahia is the leader of the National Rally for Democracy (NRD) party. Despite having emerged from the 2007 National Assembly election with the plurality of votes, the NLF earned just 23 percent of the popular vote, and the NRD earned the second-highest proportion of votes, with 10.3 percent. Because of the nation's tumultuous history, the military wields significant power as well. The country has been in a state of emergency for almost two decades. The reelection of President Bouteflika for a third term required the parliament to abolish the two-term limit for incumbents, a move that was largely criticized by political observers.

Opposition

After the nation won its independence from France in 1962, the government maintained strict one-party rule until massive protests in 1988 forced the introduction of a multi-party system. The military stepped in shortly after the Islamic Salvation Front won the first round of elections in 1991, and all parties based on religion were banned. President Bouteflika was chosen by the military to lead the nation in 1999, after nearly a decade of civil conflict had claimed 160,000 lives. Algeria, along with Morocco and Mauritania, has endured an Islamist insurgency since 2002. Insurgents include members of the neo-Khawarij Islamist militia, the Salafist Group for Preaching and Combat, and the Free Salafist Group.

Potential for Organized Demonstration

The Algerian press exercises considerable freedom of speech, and roughly 30 daily newspapers are available in French and Arabic. Underemployment and unemployment, as well as poor infrastructure, are the main barriers to economic performance in Algeria. The government began a modernization and reform program in 1993 to help liberalize the Algerian economy. Because representation in the legislative houses is so splintered among parties, political repression and limitation of free speech are unlikely causes of civil strife. The country experienced riots in January, caused by food price inflation. As the nation is home to profitable energy resources, the government used some of its oil revenues to purchase wheat and order the import of grain, alleviating pressure to some degree.

Algeria

Political risk: Moderate
Potential global effect: High

WHAT IS AT STAKE?

- Security of Europe's oil and gas imports and potential impacts on global energy markets. Algeria is home to 2.1 percent of the world crude oil production (1.8 million barrels per day in 2009), and 2.7 percent of the world's natural gas production (81.4 billion cubic meters in 2009). While these figures might seem small, one should note that Algeria remains a crucial supplier of hydrocarbons to Europe. The country is the third-largest gas supplier to Europe and exported 30 billion cubic meters of gas in 2009. (As much as the total capacity of the planned Nabucco gas pipeline, a project seen by many to be the solution to Europe's natural gas problems) Italy and Spain rely heavily on Algerian natural gas exports, delivered through submarine pipelines and in the form of liquid natural gas (LNG). Deliveries to Italy are provided through the Trans-Mediterranean pipeline, which crosses Tunisia and terminates at Sicily, while Spain receives Algerian gas through the Maghreb-Europe pipeline, which reaches Andalusia through Morocco. While no disruption to gas shipments through the Trans-Mediterranean pipeline were reported so far, a possible uprising in Algeria might jeopardize natural gas supply security of southern Europe. This would also delay Algeria's plans to open a new submarine pipeline, TransMed, which will connect the country's supplies directly to Spain. Italian energy giant Eni and Spanish firms Enagas and Gas Natural would be negatively affected by such a disruption.

- An important ally of the West in the fight against Islamist terrorism in the region. (Especially against AQIM – al-Qaeda in Islamic Maghreb) Good relations with the European Union, largely led by economic relations.

POTENTIAL RISKS

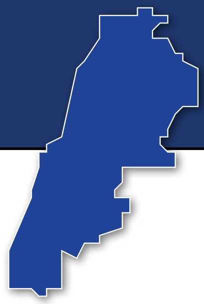
- Despite significant resource wealth, the country's 35 million inhabitants suffer from various problems including high unemployment (around 10 percent in 2010), corruption, and poorly-run public services. The January riots showed that food price inflation remains a major issue in the country.

- Minor social unrest, including small demonstrations and frequent strikes, remain a concern for businesses in the country.

- The National Coordination for Change and Democracy, a group formed in the wake of the riots in January, called for an end to the current government and the state of emergency that has been active in the country for the last 19 years. Depending on the success of the movement, the pressure on Bouteflika's government might increase significantly.

- President Bouteflika is a highly unpopular figure in the country, but several factors strengthen his hand significantly: the support of the military, the resource wealth at his disposal to address popular concerns (in the form of subsidies for basic goods), and the overall political apathy in Algerian society. This combination of factors makes massive anti-government demonstrations like those in Tunisia and Egypt unlikely.

- Major companies active in the country: Danone, Nestle Waters, Peugeot SA, Renault SA, Societe Generale, BNP Paribas, Alcatel Lucent, Michelin, Microsoft Corp.



Lebanon

Political risk: High
Potential global effect: Low-Moderate

Population: 4.3 million
Unemployment rate: 9.2%
Median age: 29.4
GDP (official exchange rate): $39.15 billion
GDP per capita: PPP $14,200
GDP real growth rate: 7.2%
Inflation: 3.7%

Government

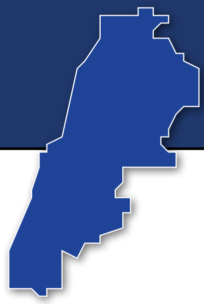
Lebanon is a parliamentary democracy which reserves certain positions in government for people of certain faiths--a government structure known as confessionalism. The President is a Maronite Christian, the Prime Minister is a Sunni Muslim, and the Speaker of Parliament is a Shi'a Muslim.

Opposition

The Hezbollah-led March 8 coalition, backed by Iran and Syria, gained significant political power in the country at the expense of Hariri's March 14 movement. Tensions stemming from the Special Tribunal for Lebanon caused Hezbollah party representatives to resign from government and caused the most substantial state leadership crisis since 2008 in the country. The unity government under Hariri collapsed in early January of 2011, and the Shi'a movement Hezbollah elected Najib Mikati, who is seen as a "neutral" figure in regional politics, as Prime Minister-designate. After stripping Hariri of his narrow majority, the Hezbollah-led faction currently holds 68 of the parliament's 128 seats.

Potential for Organized Demonstration

Lebanon is home to a mixed population of Muslim and Christian citizens who generally tolerate each other, and this tolerance is reflected in the political system. Major issues, including the resignation of Hezbollah party officials from government, the subsequent disintegration of Suleiman's unity government, and attitudes toward Syria, which maintained a military presence in Lebanon as recently as 2005, are among the main points of contention. Lebanon's financial sector largely dodged the 2007-2010 global crisis, and the nation reported 9% GDP growth in 2009. Demonstrations are more likely to be religious or political-religious in nature, but the nation's system of government also encourages proportional representation of the religious populations.



Lebanon

Political risk: High
Potential global effect: Low-Moderate

WHAT IS AT STAKE?

- Lebanon recorded five years of robust economic growth (7.2 % growth estimated for 2010), and despite the recent political crisis and change of government leadership, the country has managed to keep its economy on the balance. However, a possible spread of the Arab crisis to Lebanon, while very unlikely due to the democratic nature of the country, might cause protracted instability in Lebanon. Given the recent failure of the region's major powers in mediating Lebanon's political crisis, we expect a new wave of unrest in Lebanon to be highly destabilizing for the region.

POTENTIAL RISKS

- The UN Tribunal investigating the assassination of Rafik Hariri is expected to issue indictments soon. This will further strain the ties between the two rival factions in the country.

- Iran-backed Shia Hezbollah's rise to power is worrying for Western countries, which have long supported former prime minister Hariri's Sunni coalition. The United States might reduce its military aid to Lebanon under current circumstances. Israel is also worried about the recent events, as the country fought a war against Shia militia in 2006 and continuously suffers from Hezbollah's rocket attacks into its territory.

- The country maintains fragile relations with Israel and Syria. Hezbollah and Israel would probably not risk a full-scale confrontation following the costly war in 2006. Syrian troops occupied Lebanon until 2005, and diplomatic relations were established with Syria in 2009. The increasing influence of Syria might prove to be another contention point.

- Major companies active in the country: Proctor & Gamble, Booz Allen Hamilton, Ernst & Young, L'Oreal, IBM, Adidas AG, Bank of America Corp, CommerzbankAG, Citigroup, Royal Bank of Canada, UBS, PriceWaterhouseCoopers

Saudi Arabia

Political risk: Very low
Potential global effect: Very high

Population: 27.1 million
Unemployment rate: 10.8%
Median age: 24.9
GDP (official exchange rate): $434 billion
GDP per capita: PPP $24,200
GDP real growth rate: 3.8%
Inflation: 5.7%

Government

Saudi Arabia was established as a monarchy under King Abdul Aziz Al Saud in 1932. The current King, Abdullah bin Abdulaziz, officially took the throne in 2005, but he served as regent after King Fahd suffered a stroke in 1996. King Abdullah is somewhat limited by the high profiles of Crown Prince Sultan bin Abdulaziz, the Minister of Defense, and Prince Nayef, the Minister of Interior and Second Deputy Prime Minister. The 150-member Consultative Council, a body appointed by the King, serves an advisory role. Far more influential is the religious Ulema under Abdul-Aziz ibn Abdulla ash-Sheikh, the Grand Mufti of Saudi Arabia. In recent years, the Ulema has consulted on political and economic, as well as religious, legislative decisions.

Opposition

Political parties and trade unions are banned in Saudi Arabia. The Green Party and Hizb ut-Tahrir exist, but are not openly present in politics. The most commonly identified sources of opposition are Sunni Islamist activists, liberal critics of the authoritarian regime, minority Shi'ite Muslims, and regional or tribal adversaries like the Hijaz.

Potential for Organized Demonstration

Saudi Arabia has one of the highest per capita incomes among fast-growing nations; roughly 45% of the national GDP is derived from oil revenues, and much of the state's stability is maintained through the rentier state model. Privatization efforts to some industries, including electricity supply and telecom, began in 1999. The Saudi regency discourages any type of political dissent, and capital punishment as well as amputation of hands and feet and flogging are all punishments readily handed down by the court system. Additionally, the government strictly censors internet access, and in late 2007 Fouad al-Farhan was imprisoned for five months after criticizing religious and business figures on his blog. Organized demonstrations are unlikely because of the combination of harsh penalties for political dissent, censorship, and the many government services provided free of charge which are paid for by oil export and sale.

Saudi Arabia

Political risk: Very low
Potential global effect: Very high

WHAT IS AT STAKE?

- Saudi Arabia is estimated to contain one fifth of the world's proven conventional oil reserves. It has the world's largest crude oil production capacity, estimated at over 12 billion barrels per day at the end of 2010. The country produced 10.2 billion barrels per day in 2010.

- As OPEC's leading member, Saudi Arabia has used its spare capacity several times in order to maintain the balance of the global oil markets.

- A critical US ally in the region, and major oil exporter to the US (accounting for approximately 10 percent of US petroleum exports)

POTENTIAL RISKS

- The uncertainty over political succession remains as King Abdullah's health deteriorates.

- Due to King Abdullah's health problems, the crown prince, Sultan bin Abdel-Aziz al-Saud, is currently in power. Prince Abdel-Aziz, a low-profile figure, might struggle to deal with the UN tribunal investigating the assassination of former Lebanese prime minister Rafik Hariri. This might cripple Saudi Arabia's influence in the case that has created significant tension in the region.

- Occasional terrorist attacks, mainly coming from Yemen, still provide a security threat for the country. Some of the Saudi militants are reported to have ties with the al-Qaeda in the Arabian Peninsula (AQAP), this increases the importance of Yemen for the regional stability. – Major companies active in the country: Danone, Nestle Waters, Montedison SpA, Clorox Co, Great Lakes Chemical Corp, Proctor & Gamble, Carlyle Group, Electrolux, ITT Industries Corp, Halliburton, Shell, Total SA, Nalco

Libya

Potential risk: Low
Potential global effect: Moderate-High

Population: 6.4 million
Unemployment rate: 30%
Median age: 24.2
GDP (official exchange rate): $77.9 billion
GDP per capita: PPP $13,800
GDP real growth rate: 3.3%
Inflation: 3%

Government

Power is vested in Muhammar al-Qadhafi, who has ruled the country for over four decades. The country does not have a formal constitution, and the state structure is largely based on a combination of socialism and Islam as envisioned in Qadhafi's Green Book. The "Revolutionary" government sector includes Revolutionary Leader Muhammar al-Qadhafi, the 12-member Revolutionary Command Council, and the Revolutionary Committees. Qadhafi and his Command Council formed the current government in 1969; the revolutionary leadership was not elected and cannot be voted out of office. The second division of government is the Jamahiriya Sector, comprised of the Local People's Congresses, Sha'biyat People's Congresses, and the National General People's Congress. The judiciary branch is entirely under government control as well.

Opposition

Although Jamahiriya Sector executive representatives are elected every four years, candidates must be approved by the revolutionary leadership before taking office. Representatives are generally given some leeway to act within the desired framework of the revolutionary government, which nonetheless reserves total veto power. Political parties were banned in Libya in 1972, but NGO's may operate there provided they do so in a way that promotes the goals of the revolutionary regime. Press censorship of both state-run and "independent" news sources is common.

Potential for Organized Demonstration

The US Department of State has cited Libya's imprisonment of political opponents without charge, and freedom of the press, speech, religion, and association are severely restricted. Freedom House rated Libya a 7 (the lowest score possible) as recently as 2005. Qadhafi was an officer in the Libyan armed forces when he took power in 1969, and it is therefore unlikely that the military would be part of a national uprising. While there is clear reason for organized demonstration against the government, the arbitrary punishment and overwhelming control of the Libyan government mean any demonstration would have to be both mass-scale and, likely, violent.

Libya

Potential risk: Low
Potential global effect: Moderate-High

WHAT IS AT STAKE?

- Important oil producer, representing 2 percent of the world's crude oil production. (1.6 million barrels per day in 2010)

- Any disruption in Libya's oil supplies might have an effect, although somewhat limited, on oil prices.

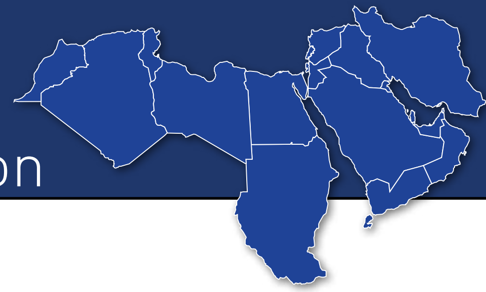
POTENTIAL RISKS

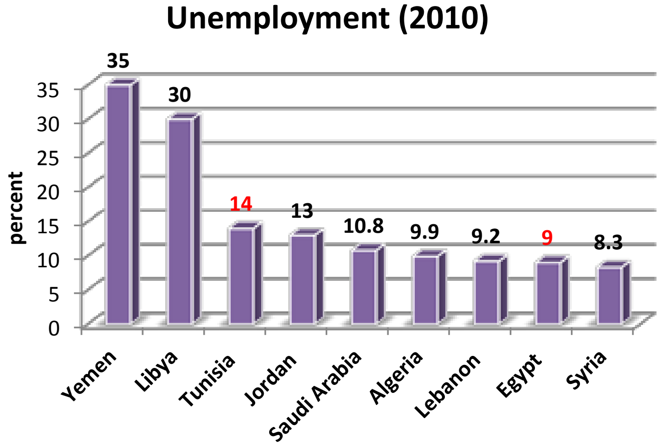
- Despite recent efforts to integrate Libya into the international community, the country remains largely excluded, largely as a result of its past actions.

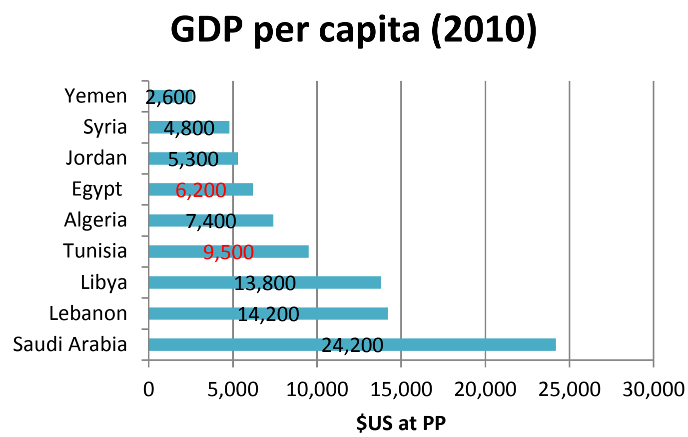
- Militant Islamist groups are active in the region, and have previously attempted to assassinate Qadhafi on many occasions. Additionally, region-wide terrorism concerns caused by al-Qaeda affiliates affect the country.

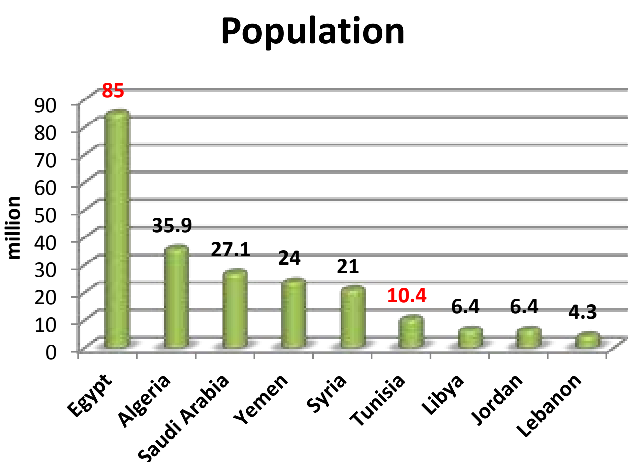
- Any potential demonstrations against the ruling elite remain highly unlikely unless oil prices collapse and the country's economy significantly deteriorates.

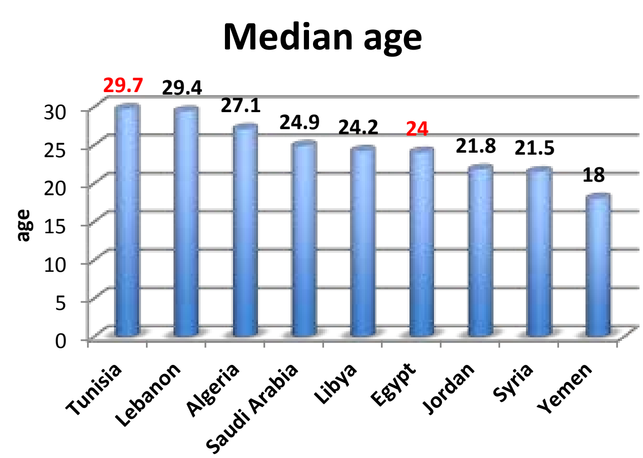
- Major companies active in the country: ChevronTexaco Corp, Amerada Hess Corp, OMV AG, Petrobras, Bollore, Occidental Petroleum, Total SA, Shell




Unemployment (2010)
percent
35
30
14
13
10.8
9.9
9.2
9
8.3
0
5
10
15
20
25
30
35
Yemen
Libya
Tunisia
Jordan
Saudi Arabia
Algeria
Lebanon
Egypt
Syria


GDP per capita (2010)
Yemen
Syria
Jordan
Egypt
Algeria
Tunisia
Libya
Lebanon
Saudi Arabia
2,600
4,800
5,300
6,200
7,400
9,500
13,800
14,200
24,200
0
5,000
10,000
15,000
20,000
25,000
30,000
$US at PP


Population
million
85
35.9
27.1
24
21
10.4
6.4
6.4
4.3
0
10
20
30
40
50
60
70
80
90
Egypt
Algeria
Saudi Arabia
Yemen
Syria
Tunisia
Libya
Jordan
Lebanon


Median age
age
29.7
29.4
27.1
24.9
24.2
24
21.8
21.5
18
0
5
10
15
20
25
30
Tunisia
Lebanon
Algeria
Saudi Arabia
Libya
Egypt
Jordan
Syria
Yemen