

"The Arab spring" – An assessment

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The Arab uprising in northern Africa and the Arab peninsula against their rulers, coined the 'Arab Spring', represents a historic milestone especially in the quest for liberty and democracy. It is not unique. The French revolution aimed for liberty and equality, likewise the popular tempest which demolished the Berlin Wall and led to the fall of the Soviet empire.

In the Arab world, oppression of the masses was for reasons of power or control of energy sources, and, in the Arab peninsula, for preserving the monarchy. Today, we are witnessing the reaction to those years of oppression: a popular uprising aimed at acquiring much-coveted freedom and sovereign representation. In this respect, it should be mentioned that the role of Islam is very limited. The Islamists and Al Qaeda were taken by surprise, as the struggle for freedom and democracy was against the usurpers of power.

A crucial question is how to deal with this development particularly for the West, which has strategic and economic interests in the region. The power vacuum, the safety of the energy sources, and

the Sunni-Shiite divide - both between and within countries - must all be taken into account. The power vacuum is being felt more acutely in those countries which lack organised political forces able to guarantee a smooth transition. This danger is being moderated by the role of the army, as in the case of Egypt, or aggravated, as in the case of Libya with its 140 tribes.

Energy sources are of vital importance to the world economy, since shortcomings in petrol supplies and the concomitant oil price increases could have disastrous consequences in the present economic crisis. Europe and the United States should weigh this factor very carefully. Any change to the present energy regime in the Arab world, and particularly in Saudi Arabia and the Emirates, could destabilise the region and impact on economies worldwide.

Bahrain is the best example of how the dispute between Sunnis and Shiites is affecting developments in the present crisis. There, the Shiites - 70 per cent of the population - revolted against the ruling Sunnis, just 30 per cent of the population. In general, the Sunnis are pro-western in contrast to the Shiites, as confirmed by the anti-Americanism of Iran. Concerning the events in Egypt, Iran has paid lip service to the popular uprising against President Mubarak, while suppressing their own opposition which was the first to protest nearly two years ago.

On the basis of the above, Europe and the United States, as directly interested, should formulate their policies. The United States has not only economic interests, but strategic as well because of its alliance with Israel and its military bases in the region. Europe, on the other hand, has to face, inter alia, increased waves of illegal migration of Arab populations from North Africa.

Politically, Cyprus has little to fear from the present situation. Historically, relations with the Arab world have been friendly. The Arabs supported its just cause in terms of the Cyprus problem since they themselves were victims of the Ottoman Empire, which exploited them politically, economically and culturally. Yet Cyprus does have to deal effectively with the Turkish dimension of recent developments, the so-called 'Turkish model' of democracy. Turkey has already attempted to exploit the Arab uprising for liberty and democracy, hypocritically supporting the oppressed Arabs, even as she violates the human rights of her own citizens and those of the Greek and Turkish Cypriots.

On the basis of the developments so far it becomes obvious that the democratic movement of the Arabs is not inimical to the West. Through appropriate handling Western leaders should encourage the genuine democratisation of the Arab world, so as to achieve stability in the region.

The economic impact of Japan's crisis

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In '95, Japan was hit by an earthquake of magnitude 7.2 Richter in the Kobe region which resulted in 6,400 deaths and 124 bln (USD) worth of damage (around 2% of GDP). Kobe was then the world's 6th largest container port and is a significant manufacturing center of Japan. Recovery, initially estimated at a decade, took 15 months upon which manufacturing and number of imports reached pre-crisis levels.

On the afternoon of March 11th the north eastern coast of Japan was hit by the strongest earthquake in Japan's history of a magnitude of 9 Richter, as the quake lifted the ocean floor it triggered a tsunami. Thus far 8,600 are dead, 13,000 are missing and a meltdown at the Fukushima Daiichi nuclear plant is yet to be contained.

Although the immediate concern is of course the enormous human suffering, many also question the outcome of such a disastrous occurrence on Japan, the world's 3rd largest economy, and consequently on the world economy.

The economic impact to Japan would have been much worse had the earthquake hit the industrial heartland. Most analysts estimate Japan's GDP to be lower by 2% for '11 from a forecasted 1.5%. With IMF estimates of Japan's contribution to the world economy for '10 at 9%, the disaster could only cut world GDP by about 0.2%. Second, similar historical disasters

prompted the rebuilding of proven processes with new and often more superior equipment than prior; reconstruction is thus not as lengthy and the end result more efficient. Third, fears of the nuclear plant disaster may boost alternate, lower risk sources of energy such as renewables; increased investment focus will benefit such industries and eventually add to total GDP. Fourth, the temporary stall in production could drop Japan's gasoline needs and cap the price push on oil; as soon as the crisis hit, such speculation did temporarily drop the oil price before it shot up again. Fifth, the inability to produce locally may trigger the need to increase capacity at Japanese global plants and thus benefit elsewhere. Sixth, the reconstruction of the north east coast is thought to produce positive GDP growth in '12 and may also benefit foreign companies should bids open internationally. Last, crises often unify people which could finally mean internal political unity with resulting economic benefits.

However, risk variables prevail and need to be accounted for such as the lack of resolution of the nuclear crisis which adds great uncertainty. Also, with Japan's deflationary economy and zero interest rate policy, its Central bank is strapped for ramification tools other than money printing; the fiscal deficit and public debt will escalate through emergency spending and also, lost revenues. Third, its populace is that of an ageing population and of a high savings rate; coupled with deflation these are detrimental factors to the speed of the

recovery. Fourth, versatile substitute goods of Japanese products may gain a permanent market share while manufacturing processes are resumed. More importantly, the world economy remains fragile while still recovering from the subprime financial crisis; disastrous occurrences such as this as well as the current Middle East turmoil form considerable threats to its revival; volatility picked up significantly in global financial markets which saw a sizeable sell off since early March. Also, nuclear crisis jitters may shift energy needs to fossil fuels further pressuring commodity prices and worsening global inflationary strains. Last, Japan is a major exporter of spare parts used in manufacturing and the current production freeze will lead to global disruptions in supply chains; dependent producers already pursued alternate sources but immediate shortages could temporarily spike inflation.

The admirable perseverance and endurance of the Japanese may surprise the world with a sooner than anticipated revitalized economy, vital to robust global dynamics. The predominant focus is, however, the well being of all people affected by this truly horrible tragedy and our thoughts are with them daily.

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Firms unprepared for emerging currency and regulatory risks, says EIU

New research suggests that many firms are not sufficiently prepared to deal with the risks they most fear. A worldwide survey of business executives, commissioned by the Royal Bank of Scotland and conducted by the Economist Intelligence Unit, finds that firms are currently most concerned about currency fluctuation. But while 51% of survey respondents cite currency risk as a key concern, only 43% say their firm has a strategy in place to counter it. Similarly, although 22% of firms across the world are concerned about the risk of new regulation, only 13% have a plan in place to deal with it.

The survey results, conducted from 275 senior executives from firms with \$500 mln or more in annual global revenue, also suggest that firms may be guilty of overconfidence about their capacity to deal with risks when they arise. More than 30% of respondents who were hit by a 'severe risk' that materialised over the past 12 months experienced a decline in revenue at their firm of between 11% and 25%. Despite this, the vast majority of respondents are either 'highly confident' or 'somewhat confident' that their firm can navigate risk over the next 12 months.

"Events in Africa, the Middle East and Japan underline why it's so important for businesses to have strategies in place to help them deal with emerging risks," says Chris Webber, the report's editor. "Our research suggests that some businesses may have a preparedness gap when it comes to currency risk. If there are major currency fluctuations over the next 12 months, many companies could end up suffering more than they need to."

Other key findings include the following:

- Perceptions of risk vary significantly from region to region. For example, 38% of respondents from the Asia-Pacific region think fraud and corruption is a key risk over the next 12 months, but this falls to 18% in Western Europe and just 10% in North America.
- A significant minority of firms are increasing their appetite for risk. Pressure from investors means that managers are cautiously increasing their appetite for risk. In the area of business and strategic risk, 34% of firms plan to increase their risk exposure in the next 12 months, and this figure rises to 45% in the banking sector.
- Longer-term shifts in risk management are underway despite resource constraints. 75% of executives polled say that risk considerations are playing an increasingly important role in strategic thinking at their organisations, but few firms are increasing the resources available for risk management.

The Risk Radar: How firms are navigating risk is available for download at: <http://www.businessresearch.eiu.com/risk-radar-2011.html>

Healthcare costs rising faster than countries ability to pay

Across Europe, healthcare is barely managing to pay its way. Not only are the methods for raising funds to cover its costs inadequate, but the costs themselves are set to soar. According to a World Bank official, public expenditure on healthcare in the EU could jump from 8% of GDP in 2000 to 14% in 2030 — and continue growing beyond that date. The overriding concern of Europe's healthcare sector is to find ways to balance budgets and restrain spending.

A new Economist Intelligence Unit report, The future of healthcare in Europe, sponsored by Janssen Pharmaceutical Companies of Johnson & Johnson, explores the challenges involved in putting European healthcare on a sound financial footing.

The main drivers of rising healthcare costs are: ageing populations and the related rise in chronic disease; costly technological advances; patient demand driven by increased knowledge of options and by poorer health habits; and legacy priorities and financing structures of the healthcare system which are ill-suited to today's requirements

- Seven trends will shape healthcare over the next two decades:
- Health spending will continue to rise, not only due to inflation but also because improved health is linked with greater national wealth.
 - Keeping the universal healthcare model will require rationing of services and consolidation of healthcare facilities, as public resources fall short of demand.

- General physicians will become more important as gatekeepers to the system and as coordinators of treatment for patients with multiple health issues.
- More effective public health measures and fundamental shifts in attitude will be needed to promote healthy behaviours and discourage unhealthy ones.
- Governments will need to find a way to improve collection and transparency of health data in order to prioritise investment decisions.
- Patients will need to take more responsibility for their own health, treatment and care.
- Governments will have to tackle bureaucracy and liberalise rules restricting the roles of healthcare professionals, to help control costs.

Five possible scenarios for European healthcare in 2030 depict extreme outcomes of the decisions facing healthcare planners today. While fictitious and intended to fuel debate, the future is likely to feature some elements of these scenarios:

- Technology triumphs and cures chronic disease, while e-health takes a prominent role in the management of healthcare.
- Nations join forces to create a single pan-European healthcare system.
- Preventive medicine takes precedence over treating the sick.
- European healthcare systems focus on vulnerable members of society.
- Nations privatise all of healthcare, including funding.