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The Ukraine War and the Middle East: The Rich Get Richer and the Poor Get Poorer

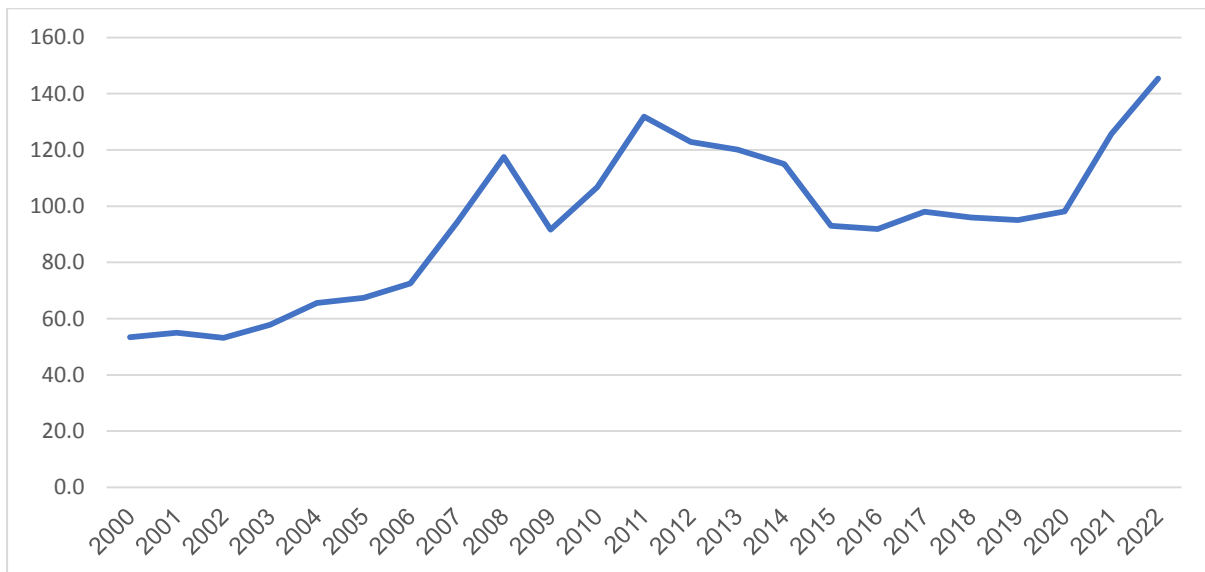
Paul Rivlin

In his essay *The Eighteenth Brumaire of Louis Bonaparte*, Karl Marx wrote “Hegel remarks somewhere that all great world-historic facts and personages appear, so to speak, twice. He forgot to add: the first time as tragedy, the second time as farce.” This often-quoted remark is an appropriate comment on the effects of the war in Ukraine on the Middle East.

Ten years ago, international prices of oil and foodstuffs were rising sharply making the oil rich states of the Middle East richer and the poorer, non-oil producing countries, even poorer. This was one of the factors leading to the Arab Spring.¹

Table 1 shows the development of international food prices since 2020. The Arab Spring developed against the background of years of rising food prices (among other things). This time the rise has been going on for a shorter period – since 2020 – but it has been much sharper.

Table 1: Food Prices



Source: <https://www.fao.org/worldfoodsituation/foodpricesindex/en/>

Over the last 25 years, the Black Sea region has been transformed from net food importer to a major supplier of grains and oilseeds. In recent years, Russia and Ukraine exported 34 percent of globally traded wheat, 17 percent of maize and 73 percent of sunflower oil. They account for about 27 and 17 percent of the global barley and maize trade, respectively. These exports represent substantial share of global consumption, accounting for about 12 percent of the total calories traded internationally. Russia is also major exporter of nitrogen and potash fertilizers, accounting for about 15 percent of global trade in nitrogenous fertilizers while Russia and Belarus account for 33 percent of global potash fertilizer exports. Russia is also a major producer and exporter of oil and gas, which are major inputs for the transportation, production and processing of food and fertilizers. The impact of the Russia-Ukraine war on global food markets, both directly and indirectly through fertilizer and energy, has been unparalleled over the last half of century.²

Russia is aware that influence over international grain markets has become its hidden weapon. The former Russian President Dmitry Medvedev has said that “...the food security of many countries depends on our supplies. It turns out that our food is our silent weapon.”³ Shortages of food and rising prices along with increasing rising

energy costs can be seen as part of the conflict between Russia and the West, the latest phase of which began in February with the invasion of Ukraine.

The UN Food and Agriculture Organization of the United Nations (FAO) and the UN World Food Programme (WFP) have warned that acute food insecurity is likely to deteriorate further in 20 countries during the period from June to September 2022. In the Middle East and North Africa these countries include Afghanistan, Lebanon, South Sudan, Sudan, Syria, Yemen, and Somalia. Ethiopia is also on the list. All these countries suffer from international conflict and/or the breakdown of central government.⁴

In March 2022, according to the WFP, 17.4 million people in Yemen suffered food insecurity, 3.5 million were acutely malnourished, and 31,000 were in “famine-like conditions.” The WFP has stated that the level of hunger in Yemen is unprecedented since the conflict began in 2015. Yemen imports over 50 percent of its wheat supply from the Black Sea region, including flour re-exports from other MENA states. In Syria and Iraq, the invasion of Ukraine exacerbated dire economic and humanitarian conditions. The disruption of wheat and other food staples supplies led to increased food prices and higher costs for humanitarian organizations in Syria, and street protests in Iraq. At the beginning of 2022, nearly 60 percent of Syria’s population suffered food insecurity, an increase of 4.5 million people in the last year alone, and the highest number ever recorded. Syria imports two-thirds of its food and oil supply, most of its wheat comes from Russia.

In May 2022 cuts to subsidies for flour and other staples in Iran further increased prices in an economy already struggling with inflation and sanctions related financial pressure. Protests that have erupted in some Iranian cities since then appear tied to those price increases as well as other grievances against the government. Food price rises have accelerated and in May they were almost 50 percent higher than a year earlier.⁵

The Middle East and North Africa region is particularly vulnerable to trade shocks because of its high food import dependence. Egypt, Sudan, and Yemen, three of the

poorest countries in the region rely heavily on cereal imports from Russia and Ukraine. Wheat is a key food item and major source of calories in these countries, representing significant shares of caloric intake per person in these countries. Wheat imports account for about 60 percent of total wheat supply in Egypt, and it is the world's largest importer of wheat. About 85 percent of Egypt's wheat imports comes from Russia and Ukraine. Cereal import dependence is even higher in the Sudan and Yemen where the large majority of wheat and wheat products are imported. Russia's and Ukraine's share in these imports is large. Ukraine and Russia are also important suppliers of other basic agricultural products in the Middle East. Ukraine supplies about 30 percent of Egypt's corn imports. Russia and Ukraine supply 85 percent of sunflower oil in Egypt. As a result, countries in the Middle East and North Africa are experiencing massive rises in food prices.

In Egypt, the rate of food price inflation more than doubled in the first four months of 2022. In January, food prices were 12.4 percent above their level a year earlier. In April, they were almost 26 percent higher. The index for fresh fruit and vegetables accelerated even more dramatically: the January the index was 14 percent above its level a year earlier, by April it was almost 49 percent higher. Between the second quarter of the Egyptian fiscal year (July-June) 2020/21 and that of 2021/22, the cost of Egypt's wheat imports rose by 46 percent and in the two-year period it rose by 61 percent. The cost of oil and oil product imports rose by 93 percent between the second quarter of 2020/21 and that of 2021/22.⁶

The increase in demand for food during April as a result of changing consumption patterns during Ramadan probably contributed to recent increases in food prices in these countries. Food prices in the three countries reached record levels immediately after the outbreak of the Russian-Ukraine conflict.

Egypt has become increasingly dependent on imports to meet food needs for its population of 105 million growing at a rate of 1.9 percent a year, and cereal import dependence has been steadily increasing over the last three decades at a rate higher than that of domestic production. The government has been spending about \$3 billion

annually for wheat imports, most of which is devoted to bread subsidies; the Tamween ration card system which covers 73 percent households. This program provides beneficiaries with up to 150 loaves of subsidized bread per month, with about 90 percent of the production cost borne by the government at an annual cost of \$3.24 billion. The program requires about 9 million tons of wheat annually, which is—about half of the total wheat consumption in Egypt. The recent increase in wheat price makes running the program significantly more expensive.⁷

The Tunisian government plans to increase domestic fuel prices at the pump significantly each month in 2022, placing new strains on households already hit by high inflation and a sharp fall in national income in 2020. Economic grievances initially generated support for President Kaïs Saïed’s decision in July 2021 to suspend parliament and take sweeping executive powers. Inflation and other worsening hardships may bring increased instability. Tunisia is particularly vulnerable to ripple effects on food prices and supply. The U.S. Department of Agriculture reported that Tunisian farmers planted fewer acres of grain crops in early 2022 due to general economic uncertainty; it also forecasted that Tunisia would need to import about two-thirds of the wheat needed for domestic consumption in 2022-23. In the last five years, Ukraine has been Tunisia’s largest source of wheat imports (48 percent), with Russia providing 8 percent. In addition, the state-owned Cereal Board is reportedly in debt to Ukrainian exporters, disrupting planned deliveries. Saïed—who has asserted sweeping executive powers and seeks to reshape Tunisia’s political system—has blamed speculators and political opponents for price hikes and empty shelves in markets. Socioeconomic hardships may have explained some popular support for Saïed’s actions; his inability to curtail current price inflation and other economic pressures is fueling increased discontent, which could lead to more repression and instability.

Yemen and Syria, among the poorest and most conflict-affected countries, already are feeling the effects of higher prices. In May 2022, UN’s The World Food Program warned that “the war will incur potentially significant consequences on certain food crises in the Middle East” and that higher prices, burgeoning global humanitarian needs, and supply strains will constrain its ability to deliver emergency assistance. In

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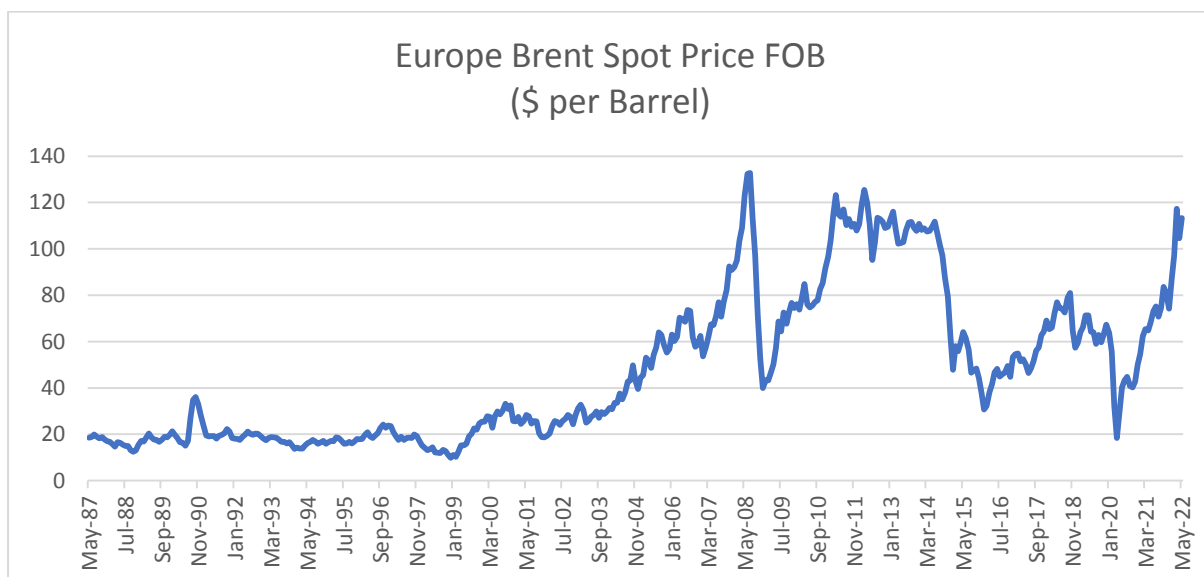
Between February and April 2022, the national average price of the WFP’s standard reference food basket in Syria increased by 37 percent (eight percent over March 2022, and 84 percent compared with April 2021).⁹ Early in 2022, the government removed 600,000 people from the national subsidy program for essential commodities. In March 2022, it announced two packages of decisions in anticipation of fiscal and supply chain disruptions from the crisis in Ukraine, which included restrictions on imports, a two-month export ban for fresh produce and animal products, as well as the release of domestic stocks of commodities like flour, fuel, sugar, oil, rice, and potatoes onto local markets. The Ukrainian crisis and mitigation measures adopted in its response are likely to affect Syrians’ purchasing power. In April, the minimum wage of 92,970 Syrian pounds could only cover 29 percent of one WFP reference food basket.¹⁰

Lebanon has seen per-capita income and quality of life plummet since 2019 amid a severe economic crisis. In March 2022, the World Bank reported that Lebanon imports more than 90 percent of its grain from Ukraine and Russia and had only about a month of grain reserves at that time. Lebanon has struggled to replace Ukrainian imports due to factors stemming from the country’s ongoing economic crisis; Iran has stated that it is prepared to ship wheat to Lebanon. In May 2022, the World Bank approved a \$150 million emergency loan to import wheat into Lebanon.

Between 2020 and 2021, international demand for oil increased as COVID restrictions eased. This pushed up prices and, as a result, Middle East OPEC states experienced a massive increase in oil export revenues from \$244 billion to \$446 billion.¹¹ Table 2 shows that oil prices have risen sharply over the last 18 months. This has been the result of the recovery of demand following the reduction of COVID related

restrictions and then the disruption of international markets due to the Russian invasion of Ukraine. The result has been a large increase in the revenues of Middle East producers, especially those that have been able to increase their production. Saudi Arabia is the biggest of these. Its revenues from sales of crude oil have increased dramatically. In the first quarter of 2021 they came to \$39 billion, by the first quarter of 2022, they had risen 92 percent and reached \$75 billion. At this rate they will reach \$300 billion, compared with \$119 billion in 2020 and \$202 billion in 2021.¹² In the UAE, where oil production declined, revenues rose from about \$33 billion in 2020 to \$46 billion in 2021.¹³

Table 2: Oil Prices, 1987-2022



Source: EIA.gov

According to the World Bank, the Middle East and North Africa faces a growing divide between the oil exporting countries—which benefit from high oil prices and high COVID-19 vaccination rates—and the oil importers, which face higher food and energy prices, deteriorating external balances, and relatively low vaccination rates. Risks include drought, policy uncertainty, new outbreaks of COVID-19, and geopolitical tensions threatening to raise prices further, erode real incomes, and aggravate social tensions.¹⁴

The rise in fuel prices is aggravating the food crisis. The surge in food prices since mid-2020 has been driven by the recovery in demand following the Covid-19 crisis, adverse weather impacts on supply, a growing number of trade restrictions on food products, and rapidly soaring input costs, notably energy and fertilizers. The war in Ukraine has increased energy prices, which have had effects on food supply chains through rising energy and fertilizer prices.

Globally interconnected supply chains and markets for food and associated inputs mean that small supply disruptions in one region or sector led to dire consequences in another. Agriculture and food industries are major users of energy. Direct energy use includes electricity for automated water irrigation, fuel consumption for farm machinery and energy is used at various stages of food processing, packaging, transportation and distribution. The use of pesticides and mineral fertilizers results in large quantities of indirect energy consumption, with these inputs being highly energy intensive to manufacture. While the share varies considerably between regions – depending on weather conditions and crop types – direct and non-direct energy costs can account for 40 percent to 50 percent of total variable costs of cropping in advanced economies such as the United States. Higher energy and fertilizer prices therefore translate into higher production costs, and ultimately into higher food prices. Nitrogen is an essential nutrient for virtually all plant life. Ammonia is the starting point for all mineral nitrogen fertilizers, and half of ammonia is converted to urea, the most common nitrogen fertilizer product used globally. Worldwide, ammonia is made almost exclusively from natural gas, consuming around 170 billion cubic meters (4 percent of global gas consumption).¹⁵

The Middle East and North Africa is a major producer of fertilizer, but this has not prevented the increasing cost affecting food prices. Inflation in the region has been rising, surpassing average inflation in the decade prior to the pandemic in most economies, as the war in Ukraine has further increased food and energy prices. In oil importers, consumer price inflation averaged 7.7 percent in April 2022, but with wide variation. In Egypt, depreciation of the pound (18 percent between March and April 2022) and heavy dependence on food imports have driven inflation to double digit

annual rates. In Lebanon, consumer prices recently increased by over 200 percent from a year earlier, partly due to the collapse of the exchange rate and economic mismanagement.

Among oil exporters, consumer inflation has averaged 4.7 percent, more than double its longer-run average. In Iran, inflation remained high 39 percent in May 2022. With 70 percent of the region's agricultural production being rain-fed, below-average rainfall, along with unusually high temperatures, markedly weakened wheat yields in many parts of the region in early 2022. With dwindling domestic supplies due to drought, the war in Ukraine has also affected access to wheat imports. Oil importers are particularly vulnerable to rising food prices and shortages as imports of cereals (including wheat) from Russia and Ukraine accounted for 40 percent of their cereal imports during 2017-19. Egypt, Lebanon, and Tunisia are most exposed, given their heavy reliance on food imports from Russia and Ukraine, but countries facing fragility and conflict, notably Syria Yemen, are also vulnerable given their already high levels of food insecurity and poverty. One-third of the calories people consume in the region are from subsidized wheat products.¹⁶

Does the rise in food and other prices mean greater instability? It certainly increases pressure on governments, but the situation is different from 2010-2012. The regimes are ready to defend themselves against protesters and another Arab Spring is unlikely. Recent developments in Sudan and Tunisia, where democratic forces have been almost extinguished, reinforce this view. It seems that Marx, and Hegel, were right: history repeats itself but not always with the same consequences.

For previous issues of *Iqtisadi*, go to [our website](http://www.dayan.org), <http://dayan.org/journal/iqtisadi-middle-east-economy>.

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