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INTERNATIONAL PEACE INSTITUTE
IPI Middle East Update
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Egypt: Egypt's stock market is serving as an accurate barometer of the level of political tension during the nation's historic political transition. On June 30, Muslim Brotherhood-backed candidate Mohamed Morsi was sworn in as Egypt's first freely-elected President. The stock market, when it reopened the following Monday, July 2, hit a nine-year high. Subsequently, when President Morsi ordered the Parliament --which was dissolved by the military based on a Constitutional Court ruling -- to reconvene on July 8, the market tumbled 4.2 percent to a three-week low. The International Monetary Fund (IMF) welcomed Morsi's election and once a government is formed is ready to finalize a \$3.2 billion loan. To access this and other multilateral financing and close the estimated \$12 billion funding gap, the Muslim Brotherhood will have no choice but to accept that these loans come with interest and will have to reconcile this fact with its position that interest on loans contradicts Islamic law. Egyptian foreign currency reserves stood at approximately \$15.5 billion at the end of June compared to roughly \$36 billion (before the January 2011 uprising). The Central Bank is expecting only 2 percent growth in 2012, down from 2.5 percent in 2011.

Syria: Intense diplomatic maneuvering over the past few weeks has had little impact on the continuing violence in Syria. UN-Arab League Special Envoy Kofi Annan met with Syrian President Bashar al-Assad in Damascus on July 9. The focus is now on promoting dialogue between the regime and opposition groups. Russia's ongoing support of the Assad regime has been a major stumbling block to international action, although some reporting indicates that Russia is more at ease with the prospect of a transitional government. The death toll -- according to the Syrian Observatory for Human Rights -- has reached an estimated 17,000 since the uprising began in March 2011. The July 5 alleged defection of Syrian Brigadier-General Manaf Tlass, a confidant of Assad, was notable, since his inner circle has otherwise been steadfast in its support.

Tunisia: The political struggle between Salafists, moderate Islamists, and others continues in Tunisia. Examples include the recent turmoil over prayer space and the wearing of the niqab (veil) by women which occurred on the campus of Manouba University outside Tunis and riots in the capital that forced the government to impose a curfew on a few major cities for several days in mid-June. In addition, reflecting concerns of regional spillover, the spokesperson for the Tunisian government urged clerics to stop inciting young people to join the revolutionary fighting in Syria. On the economic front, the economy is rebounding. Tourism revenue increased by 36.2 percent in the first five months of 2012. According to the IMF, growth is estimated to reach 2.2 percent in 2012 with a forecast of 3.5 percent growth in 2013. Foreign investment has increased by 19 percent, although unemployment, the main economic factor behind the revolts last year, remains high (18 percent). Prime Minister Hamadi Jebali announced that the government will add 75,000 jobs in 2012. Gradual economic recovery appears likely, although the European financial crisis could dampen foreign investment.

Libya: Libya held elections for its National Assembly on July 7 with nearly two-thirds of Libyans voting in the first free election in half a century. In contrast to the trends in its Arab neighbors, early results show a liberal coalition in the lead.

The security situation in the country is still extremely unstable as militias continue to carry out attacks and arms are still being trafficked from Libya to neighboring countries.

Trends: In **Algeria**, more than a month after legislative elections were held, President Abdulazziz Bouteflika has yet to name a new Prime Minister. It is unclear whether there will be a new cabinet or if the current one will be reinstated. The political make-up of the cabinet is a pivotal factor that could help insulate Algeria from an Arab uprising. Negotiations between **Iran** and the five permanent members of the Security Council plus Germany concerning Iran's nuclear program will continue in Istanbul on July 24, although at the technical level. On June 20, **Kuwait's** constitutional court declared the February parliamentary elections -- which gave the Islamists a majority -- null and restored the previous government-friendly assembly. The cabinet submitted its resignation. Thousands of civilians denounced the court's action calling it a coup and took to the streets in protest. In **Yemen**, the army regained control over three towns previously held by al-Qaeda. President Abdu Rabbu Mansour Hadi continues to wrestle for control of the military from former President Saleh's family and friends. On June 18, the U.N. Secretary-General announced his intention to open a small office of the Special Adviser on Yemen for one year to support the implementation of the Transition Agreement.

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