After the Arab Spring: A Role for Northeast Asia?

By Troy Stangarone & Greg Scarlatoiu

While the United States and Europe have been the most vocal supporters of the reform movements sweeping the Middle East and North Africa, their past behavior in supporting many of the authoritarian governments in the region may make them suspect partners in the transition process.

Given the unique development paths taken by China, Japan and South Korea, however, these three countries may be best positioned to provide the necessary guidance and help, argue the Korea Economic Institute’s Troy Stangarone and Greg Scarlatoiu.

WHAT BEGAN LARGELY as an act of frustration and defiance by one man in Tunisia has unleashed decades of pent-up frustrations that have begun to reshape a key region of the world. After beginning in Tunisia, the call for political reforms and elections has rapidly spread through the Middle East and North Africa. Similar to the democratic awakening that occurred at the end of the Cold War in Eastern Europe, the outcomes in the Middle East following the Jasmine Revolution in Tunisia may turn out to be just as volatile and unpredictable, as new governments, militaries and citizens try to restore stability and build a new political future.

However, despite the Arab Spring’s peaceful origins, force has been widely used to repress calls for political reform. It is unclear what course the revolutions currently under way will take in the long run, but growing instability either from civil war or struggling transitional governments has an impact on the strategic interests of much of the world, including Northeast Asia.

With the United States’ and Europe’s resources stretched thin and perhaps unwise in an evolving region that may view the West as complicit in its oppressive past, it is prudent to look ahead and ask what the broader global community can do to assist. In this, Northeast Asia’s own experiences may make it uniquely qualified to play an important role in the region’s transition.

WHY THE MIDDLE EAST MATTERS

One consequence of the changes occurring in the Arab world is greater instability in the near term. While it is still unclear how far and profoundly the changes will spread, instability in a region with the world’s largest oil reserves presents risks to the broader global economy.

The region accounts for slightly more than a third of the world’s oil production, and even modest price increases can have an impact on economic growth. Recent data from a Korea Development Institute study indicates that a 10 percent increase in the price of oil could lead to a decrease in gross domestic product (GDP) of between 0.2-0.6 percent for the economies of China, Japan and South Korea. Northeast Asia’s economic growth has likely already been affected by the initial waves of change sweeping the region, which saw the price of light crude spike from $90 a barrel to over $110 a barrel and economic growth slow or come to a halt in some key emerging markets in the Middle East.

The real risk, however, is not a nominal price increase and a loss of marginal growth, but rather the lack of spare capacity in global oil markets and Northeast Asia’s dependence on the Middle East and North Africa for oil. Of the nearly 4 million barrels per day of spare capacity in the Organization of Petroleum Exporting Countries (OPEC), the majority is in Saudi Arabia. While protests to date have been fairly mild in Saudi Arabia, the country is surrounded by a ring of revolution that has the potential to impact the Saudi kingdom as well. More specifically, while Saudi Arabia is a majority Sunni country, the country’s oil-producing region is predominately Shia.

Northeast Asia is especially susceptible to disruptions in oil supply. Three of the world’s top nine net consumers of oil and three of the top six net importers are based in Northeast Asia. Around half of China’s net imports of oil come from the

Around half of China’s net imports of oil come from the Middle East, while South Korea, which has no domestic oil, is dependent on the Middle East for nearly three-quarters of its oil. Japan’s profile is similar.
Middle East, while South Korea, which has no domestic oil, is dependent on the Middle East for nearly three-quarters of its oil. Japan’s profile is similar to South Korea’s, and oil accounts for nearly half of the two countries’ total energy consumption, but only around 20 percent of China’s.

The Middle East and North Africa are also growing markets for products from Northeast Asia. In 2010, China exported $90 billion worth of goods to the region, up an astounding 875 percent from 10 years ago, and nearly twice the rate of growth for China’s exports to the world at large. For South Korea, exports to the Middle East and North Africa have increased by more than 300 percent — a figure that is now roughly two-thirds of South Korean exports to the US, historically one of its most important trading partners. Japanese exports to the Middle East and North Africa are up over 150 percent in the last decade, rising from just $12 billion in 2001 to over $30 billion in 2010.

THE SCOPE OF THE CHALLENGES AHEAD

While comparisons are drawn to the fall of the Berlin Wall in 1989, the challenges faced by the nations of the Middle East and North Africa will be much greater than those faced by Eastern Europe. There, many reforming governments possessed an important advantage — the twin goals of joining the North Atlantic Treaty Organization (NATO) and the European Union (EU). Because NATO and the EU were established entities with strong institutions, the plans for membership in each provided guidelines and assistance in taking the steps needed to move Eastern Europe from communist, command economies to free-market democracies. There is no analogous path for the nations of the Middle East to follow.

Complicating efforts at political reform are economic disruptions from the protests. In Egypt and Tunisia, transitional governments will be pressed to halt an economic slowdown that the International Monetary Fund (IMF) forecasts could cut growth by 2-4 percent of GDP this year as they try to restructure their political system. This may present unique challenges in Egypt, where the military has a significant stake in the economy.

Beyond the immediate effects, there are broader structural issues. As was well documented throughout the Arab Spring, the region faces a demographic bulge: with some 60 percent of the population under the age of 25, that demographic represents more than 50 percent of the unemployed. The Arab Human Development Report indicates that the Arab world will need to create 51 million new jobs by 2050, yet the region’s economies have begun to deindustrialize and are dominated by resource and low-end service industries.

In the years to come, economic problems could be further exacerbated by climate change. As temperatures rise, water will grow scarcer and desertification will increase. As arable land decreases, agricultural production will suffer.

A move towards democracy will not resolve the fundamental economic challenges facing the Middle East. In the short term, increased democracy could lead to dashed expectations and pressures on governments to pursue policies that will harm the long-term potential to meet the growing demands for gainful employment by the region’s bulging youth. This could make the Chinese model of state-led capitalism appealing for countries in the region.

Ensuring that economic reforms are carried out properly during the transition could prove crucial to the region’s economic health. While the large number of young unemployed workers creates a challenge, proper economic reforms could create a demographic dividend that helps to spur economic growth during their most productive years, such as occurred in Northeast Asia.

However, there is a cautionary note to consider:

There is no reason why South Korea, China and Japan cannot make useful contributions to the transition in the Middle East through international organizations.

This is where South Korea may have a unique role to play. er in the experiences of the former Soviet Union and Russia. To those who joined NATO and the EU, a market economy and a free and open society appeared to be the obvious and only alternative to the defunct communist ideology and a centrally planned economy. Nevertheless, without the goals of joining NATO and the EU in the aftermath of the Cold War, the future of the Middle East could look more like the former Soviet Union. The results there are not encouraging, especially in Russia. After the euphoria of the move to democracy, disenchantment set in after a “big bang” approach to economic reform failed to produce immediate results, and Russia has since slipped back into a form of authoritarianism. Furthermore, post-Soviet developments in Central Asian countries with significant oil and natural gas reserves, such as Azerbaijan, Kazakhstan and Turkmenistan, seem to indicate that oil-rich states may be more prone to hydrocarbon authoritarianism, rather than a free, transparent, and open society.

DOES NORTHEAST ASIA HAVE A ROLE?
The world has changed significantly since Eastern Europe opened to the West. The United States is no longer the world’s unchallenged superpower. While it is still a superpower, the 2008 financial and economic crisis has affected its and Europe’s ability to play a dominant role. In addition, only 20 percent of Egyptians viewed the United States favorably in a recent Pew Research poll. President Barack Obama’s speech on the US vision for the Middle East and North Africa was largely received with indifference or skepticism in the region. Europe has its own questionable history in the region; so neither may be a completely welcome source of help as countries work to build their own future.

With nothing equivalent to the EU available to help guide the transitions in the Middle East, as-
South Korea’s experience in the aftermath of the Korean War will help it better understand many of the challenges that Egypt and its neighbors will face as they seek to spur economic growth to create jobs.

Working through the G-20 would allow South Korea to leverage its own experience of economic development and draw on global resources to help the transitioning economies tap into international financing sources needed for economic reform and development.

As part of the G-20 process, technical reforms should be encouraged in order to make the markets of the Middle East more attractive to foreign direct investment (FDI) and trade. While Northeast Asia could in the short term increase government FDI flows into the Middle East, creating an environment conducive to attracting private sector FDI will be more important for economic development.

South Korea is well equipped to work through the G-20 on economic development in the region. While all members of the G-20 have a stake in the region, it was at Seoul’s initiative that development was put on the G-20 agenda. In a practical sense, South Korea’s own developmental experience in the aftermath of the Korean War will help it better understand many of the challenges that Egypt and its neighbors will face as they seek to spur economic growth to create jobs. Additionally, Seoul is already offering technical assistance to other developing countries, including countries in the Middle East and North Africa, and has recently agreed to help Indonesia develop a medium-to-long term economic development plan.

South Korea has also been involved for decades in sizeable infrastructure projects in the Middle East and North Africa, resulting in priceless project management expertise. In 2009, South Korea had a total of $49.1 billion in overseas construction orders. With the exception of India, with $1.3 billion in orders, all other major destinations of South Korean overseas construction projects are in the Middle East and North Africa: the UAE ($15.9 billion); Saudi Arabia ($7.2 billion); Algeria ($3.7 billion); Libya ($3.1 billion); Iran ($2.5 billion); and Kuwait ($1.6 billion). Projects completed by South Korean companies in the Middle East have included the Fujairah Desalination Plant in the UAE (the world’s largest plant), and the Burj Khalifa in Dubai, UAE, a $310 million project.

These projects have all been high-risk, high-return undertakings. Political instability and the possibility of sudden regime change have always posed a threat. In addition, the absence of adequate institutions has often led to high levels of corruption and a lack of transparency, resulting in “informal tariffs” for those operating in the region. In countries where the Jasmine Revolution eventually succeeds in bringing about democratic change, it is likely that more open and democratic societies will also constitute the basis for a more stable and predictable business environment. Northeast Asian companies, in particular those involved in infrastructure projects, could benefit from such developments. Also, economic development projects spearheaded by South Korea could benefit from the vast project management experience that Korean companies have accumulated.
At the same time, South Korea, China and Japan could establish or enhance preferential trade programs to allow duty-free import of goods from the Middle East and North Africa for a set period of time, with the aim of negotiating free trade agreements (FTAs) to replace the preferential trade programs. The use of short-term duty-free status would provide an immediate economic boost, while the eventual adoption of FTAs would help lock in broader economic reforms.

With Seoul’s G-20 effort to become the “bridge” between the developed and developing world, this may be an opportunity for South Korea to be an example not only of economic development, but also political reform and progress. South Korea is already gaining experience in institution-building and governance (such as the establishment of the Afghanistan Civil Service Institute) that can possibly be applied to a Middle Eastern context, and it can also draw on its own experience of political change. However, any efforts to aid the transition on an economic level should be separate from guidance on the move from authoritarianism to democracy, at least from the perspective of the G-20.

Nevertheless, efforts to spur economic development could also benefit from South Korea’s experience in institution-building. The Eastern European experience indicates that, even when ample funding is available (in this case, from the EU), one of the biggest challenges in post-authoritarian scenarios is the recipient countries’ limited capacity to absorb funds and effectively manage development projects. In most cases, the absorption capacity is hampered by corruption and a lack of transparency. Good governance and capacity-building programs could ensure that funding disbursed to the Middle East, including investment in economic development projects, will be absorbed more effectively, and projects will be completed on time and within budget.

AFTER THE ARAB SPRING

The pro-democracy protests in the Middle East have captured the world’s attention and given the region a new sense of hope. However, as the protests end and the violence subsides, the real work of building market-based, democratic states begins. It will be during this period, when much of the world’s attention will turn away, that the process of transformation will be most fragile and the long-term success of the region will be determined.

In the best of times such transitions are a daunting task, but the Middle East will face the challenge of doing so at a time when the world is seeing major shifts in economic and political power and the advanced economies face significant financial and economic uncertainty. At the same time, the emerging economies do not yet have the capacity to offer the same type of assistance that the EU offered Eastern Europe.

However, the Middle East is too critical to the economic prospects of Northeast Asia to ignore. Northeast Asia may not have the capacity to do what the EU did in Eastern Europe, but South Korea, China and Japan can draw from their own experiences and their standing in international institutions to help guide the states of the Middle East through this transition. At the same time, they are also well placed to provide economic aid to help build the capacity needed to create the economic growth that will lead to broader regional stability.

Troy Stangarone is the Director of Congressional Affairs for the Korea Economic Institute. Greg Scarlatoiu is the Director of Public Affairs and Business Issues for the institute.