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Cooperation with the Middle East after the Arab Spring – Circumstantial Changes and Implications[1]

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1. Introduction: The Arab Spring

The year 2011 witnessed unprecedented political change in the Middle East. Citizens took to the streets in mass protest against deepening poverty, high youth unemployment rates, corruption and long-time dictatorship. Tunisia, Egypt, Libya and Yemen underwent regime changes, while there is an ongoing full-fledged civil war in Syria. Even the oil-rich Saudi Arabia was swayed by small demonstrations instigated by sectarian strife, high youth and female unemployment rates as well as political repression.

It remains to be seen whether such political changes will bring about significant social and economic transformation. Despite political overturn, the social and economic structures that upheld the previous system are still in place. The Arab Spring

1 This article is a summary of the book "Cooperation with the Middle East after the Arab Spring - Circumstantial Changes and Implications" which was published in December 2012.

do, however, seem to have shaken the deep-rooted patriarchal and Islamic authoritarianism that has long been rampant in the region. The civilians of the Middle East could too question the legitimacy of the State and demand political change.

Therefore, it does not come as a surprise that governments are taking notice of issues causing social discontent and are determined to come up with quick fix solutions. For instance, Gulf oil producers like Saudi Arabia are working to stoke political tension by increasing various subsidies and public sector wages, as well as reinforcing industrial diversification and "Nationalization" policies. The governments are also stepping up investments for social infrastructure, in the areas of housing, road construction, education and health and medical care.

This paper summarizes the changes in the Middle East since the Arab Spring from an economic cooperation point of view and draws implications for Korea.

2. What Has Changed Since the Arab Spring?

Several prominent political and economic features are observed currently in the Middle East as of 2012: contention among preexisting and newly emerging political forces, increased public spending, strengthened protections for domestic labor force and firms, high unemployment and corruption, and rising regionalism.

First of all, conflicts among politicized civilians, interest groups, political parties and the State are yet to be resolved. The Sept.11, 2012 attack on the U.S. embassy in Benghazi and the eruption of demonstrations in response to the Nov. 22, 2012 decree issued by President Morsi of Egypt are examples of how formerly oppressed and silent political forces and unorganized, yet dissatisfied citizens are now occupying the streets without much reservation or fear.

Second, as political change does not necessarily lead to changes in the economic system, the pre-Arab Spring economic development strategies of the governments remain in place, still focusing on industrial diversification into manufacturing and high value-added services, private sector development, infrastructure construction and human resources development.

Public spending is on the rise, especially in housing, health and medical care, education and public transport. The sustainability of such policies, however, is of question without the support of a sound industrial base. It would do no good to increase public spending in non-oil nations like Egypt that are suffering severe fiscal deficits, or in oil-producing nations that have their economic stability depend on oil price fluctuations.

Governments are also strengthening protectionist policies regarding domestic labor force and products. In the gulf countries, employment quotas for nationals at firms are increasingly being enforced and minimum wages have been raised as part of an effort to enhance social welfare. The Egyptian government announced new public procurement regulations allocating a certain amount of government purchases to small and medium-sized enterprises and forcing new investment projects to use at least 40% of local goods and services as input.[2]

[2] Al Ahram weekly online(2012), http://weekly.ahram.org.eg/2012/1108/ec1.htm. (7. 25)

Despite such policies, the region still struggles with unemployment, corruption, and inflation in varied scope and scale. Youth unemployment rates in the Middle East are still the highest in the world, and policies aiming to create jobs by diversifying industries and boosting the private sector have yet to make a significant impact. Meanwhile, oil-producing monarchies like Saudi Arabia face a deep dilemma. Boosting the private sector is essential for job creation, but if household income starts depending on the private sector rather than the public sector or the government's oil revenues, the raison d'etre of the authoritarian regime will inevitably be threatened. So as long as the monarchy stays in rule, it will be hard to reduce the size of the public sector, and it is highly probable that the increase in private sector employment will be led by the government, through implementing quotas. Such direction of policies could stand in the way of foreign investment.

As seen in the democratization of other regions in the world, the political upheavals will provide a chance for aggressive anti-corruption campaigns. Deep-seated crony capitalism, deriving from tribalism, however, is expected to become even more elaborate in avoidance of public indignation. Egypt and Libya are good examples of how a political regime change may not necessarily lead to changes in the economic structure that have supported the government for more than 30 years. The political forces that have newly risen to power have little to no experience in economic policies, and cannot help but depend on the same old economic authorities.

The outlook for commodity prices does not seem too bright. Nearly all Middle Eastern countries are covering grain demand with imports, while subsidizing domestic farmers. This places a heavy burden on governments, given the recent upward trend in global grain prices. Fiscally troubled nations like Egypt, Tunisia and Yemen are striving to solve the multiple challenges of enhancing public welfare in the short term, meeting mid -to long-term increases in demand caused by rising populations, and maintaining fiscal soundness.

The rise of regionalism is another feature seen in the region. Since the outbreak of the Arab Spring, the Gulf monarchies centered on Saudi Arabia are sparing no cost in providing military and economic support to stabilize political unrest in the region. Discussion of a Gulf Union which has begun in 2011 is likely to reignite the suspended dialogue on GCC-wide economic integration. It is possible that such developments are mere political rhetoric. It cannot be denied, however, that the Arab Spring has led to stronger solidarity within the GCC, and others also seem to be recognizing the GCC now as a necessary partner for cooperation, rather than a diplomatically convenient union. In January 2012, Premier Wen Jiabao suggested accelerating the FTA negotiations between the two parties at a Fourth Entrepreneurs' Conference of the China-Arab States Cooperation Forum. Japan and the GCC signed a Memorandum of Understanding in January, 2012, agreeing to hold annual senior-level meetings that would closely discuss a wide scope of agendas including politics, foreign affairs, trade, investment, and energy. Meanwhile in March, 2012, the U.S. launched a ministerial-level U.S.-GCC Strategic Cooperation Forum.

The same goes for North African republics. The overthrow of longtime authoritarian regimes have caused a readjustment of relations with former allies like Europe, China and the U.S., leading to stronger cooperative relationships with neighboring nations with similar culture and socio-economic environment. An example of this trend would be Libya's promise to give 200 million dollars worth of aid to Tunisia, the first of its kind.

3. Implications: Expanding Economic Cooperation

The recent political changes have generated fissures in the Middle Eastern Establishment in varying degrees. Given that the political environment is still very uncertain, this is a time when non-government exchanges should be encouraged, supporting the civil society in areas such as human rights and education. Corporate social responsibility activities led by the firms doing business in the area would also help build mutual trust and lay the groundwork for advancing economic cooperation.

As a way to achieve political stability, oil producers are extending aid to non-oil producing nations. Collaborating with the oil producers in Official Development Assistance would raise aid effectiveness as well as strengthen ties among the donors.

The governments should also reevaluate and revise existing trade, investment and visa regulations with respective Middle Eastern countries since many of them are going through significant institutional changes. The table below lists countries that are signed into major agreements with Korea as of 2012. There are 15 Middle Eastern countries that have signed investment promotion and protection agreements, 13 that have double taxation treaties, and 6 that have signed visa waiver agreements.

As for the Korea-GCC FTA, there has been no progress since the third round of negotiations. If the GCC becomes more economically integrated, the currently pending FTAs with the EU, Japan, China, Australia and Korea may be able to move forward. If and when the Korea-GCC FTA is concluded, Korea must prepare measures to increase local market share in its key export items, including automobiles, electronics and steel products. KIEP

Table 1. Major agreements between Korea and middle east countries

	In effect	Signed / Effectuation pending
Investment promotion and protection agreement	Tunisia ('75), Egypt ('97), Qatar ('99), Morocco ('01), Algeria ('01), Saudi Arabia ('03), Israel ('03), Oman ('04), UAE ('04), Jordan ('04), Iran ('06), Mauritania ('06), Lebanon ('06), Kuwait ('07), Libya ('07)	
Double taxation agreement	Tunisia ('89), Egypt ('94), Israel ('97), Kuwait ('00), Morocco ('00), UAE ('05), Jordan ('05), Oman ('06), Algeria ('06), Iran ('09), Saudi Arabia ('08), Qatar ('09), Kuwait ('10)	Sudan ('04) – Ratified in National Assembly in 2005
Visa waiver agreement	Diplomatic / Government Visa: Iran (90 days), Egypt (90 days), Algeria (90 days) Diplomatic / Government / Standard Visa: Tunisia (30 days), Morocco (90 days), Israel (90 days)	

Source: Ministry of Foreign Affairs and Trade (2012)