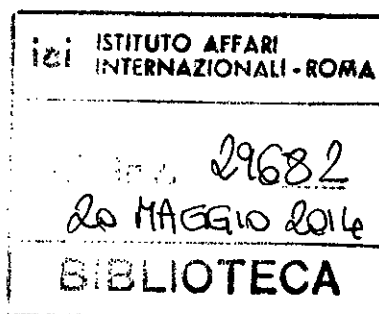


FLEXIBLE FRAMEWORKS, BEYOND BORDERS
Understanding Regional Dynamics to Enhance Cooperative Security
NATO Allied Command Transformation
Istituto affari internazionali (IAI)
Università di Bologna
Bertinoro, 15-17/V/2014

- a. Final agenda
- b. List of participants
- 1. Asia-Pacific in the global economy: an overview / Andrea Goldstein (13 p.)
- 2. The new center of power: political and strategic trends in the Asia-Pacific / Antonio Fiori (11 p.)
- 3. Economic prospects for the MENA region: impatient expectations, deferred promises and the missing axes of trust / Memduh Karakullukcu (19 p.)
- 4. Strategic trends in the Middle East and North Africa / Tewfik Aclimandos (7 p.)
- 5. Economic and social trends in sub-Saharan Africa / Giovanni Carbone (13 p.)
- 6. An overview of West Africa's security situation / Lydia Amedzrator and Kwesi Aning (10 p.)





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FLEXIBLE FRAMEWORKS, BEYOND BORDERS

Understanding Regional Dynamics to Enhance Cooperative Security

FINAL AGENDA

*International conference organized in the framework of
NATO Allied Command Transformation's Academic Outreach Effort*

May 15-17, 2014

Centro Residenziale Universitario di Bertinoro (Forlì, Italy)

Organized by

Allied Command Transformation, Norfolk

Istituto Affari Internazionali, Rome

University of Bologna

Sponsored by

Allied Command Transformation, Norfolk

Hosted by

University of Bologna

Thursday, May 15

Afternoon	Arrival of participants
19.00-20.00	Welcome on the terrace of the Rocca and local food tasting (Bertinoro Center)
20.30-21.00	Key Note Speech , General Mirco Zuliani, Deputy Commander, Supreme Allied Command Transformation, NATO HQ SACT, Norfolk
21.00-23.00	Welcome Dinner in the Rocca (Caligari Room)

Friday, May 16

09:00-09:30	WELCOME ADDRESS AND CONFERENCE INTRODUCTION (Old Church - Conference hall) Ettore Greco, Istituto Affari Internazionali, Rome Carla Salvaterra, University of Bologna, Bologna General Mirco Zuliani, Deputy Commander, Supreme Allied Command Transformation, NATO HQ SACT, Norfolk Paolo Zurla, University of Bologna, Bologna
09:30-11:00	PLENARY SESSION I^A TRENDS IN INTERNATIONAL POLITICS: THE WEST AND THE REST (Old Church - Conference hall) Chair: Sonia Lucarelli, University of Bologna Panelists: Eugenia Baroncelli, University of Bologna, Bologna Christopher Browning, Warwick University, Coventry Matthew Evangelista, Cornell University, Ithaca, NY Jean Pierre Maulny, Institute de Relations Internationales et Strategiques, Paris <i>Open discussion</i> 11:00-11:15 Coffee break 11:15-13:00 WORKING GROUPS: FIRST SESSION WG1: Asia-Pacific: Trends (Fresco - Conference hall) Chair: Gareth Price, Chatham House, London Paper-givers: Andrea Goldstein, Organization for Economic and Cooperation Development, Paris Antonio Fiori, Korea Foundation Endowment Chair, University of Bologna, Bologna Discussants: Axel Berkofsky, University of Pavia, Pavia Hussain Athar, London School of Economics and Political Science, London Rapporteur: Federico Casprini, Consultant, Bologna <i>Open discussion</i> WG 2: Greater Middle East and North Africa: Trends (Red - Conference hall) Chair: Steven Heydemann, United States Institute of Peace, Washington, DC

Paper-givers: Memhud Karakullukcu, Global Relations Forum, Istanbul
Tewfik Aclimandos, College de France, London

Discussants: Soli Özel, Kadir Has University, Istanbul
Ruth Hanau Santini, Università L'Orientale, Naples

Rapporteur: Alessandro Marrone, Istituto Affari Internazionali, Rome

Open discussion

WG3: Sub-Saharan Africa: Trends (Museum - Conference hall)

Chair: Arrigo Pallotti, University of Bologna, Bologna

Paper-giver: Giovanni Carbone, University of Milan, Milan
Kwesi Aning, Kofi Annan International Peacekeeping training Center, Accra

Discussants: Luis Simon, Vrije University, Brussels
Nicoletta Pirozzi, Istituto Affari Internazionali, Rome

Rapporteur: Bastian Giegerich, International Institute for Strategic Studies, London

Open discussion

13:00-14:30 Lunch Buffet

14:30-15:45 WORKING GROUPS: SECOND SESSION (same rooms as above)

WG1: Asia-Pacific: Security Challenges

Facilitator: Giovanni Grevi, Fundación para las Relaciones Internacionales y el Diálogo Exterior, Madrid

WG 2: Greater Middle East and North Africa: Security Challenges

Facilitator: Nathalie Tocci, Istituto Affari Internazionali, Rome

WG 3: Sub-Saharan Africa: Security Challenges

Facilitator: Christian Moelling, Stiftung Wissenschaft und Politik, Berlin

15:45-16:00 Coffee break

16:00-17:30 WORKING GROUPS, THIRD SESSION (same rooms as above)

WG1: Asia-Pacific: Implications for NATO

Facilitator: Giovanni Grevi, Fundación para las Relaciones Internacionales y el Diálogo Exterior, Madrid

NATO Discussant: Jeffrey Reynolds, Strategic Partnerships Advisor, Strategic Issues and Engagements Branch, NATO HQ SACT, Norfolk

WG 2: Greater Middle East and North Africa: Implications for NATO

Facilitator: Nathalie Tocci, Istituto Affari Internazionali, Rome
NATO Discussant: Mehmet Kinaci, Analyst, Strategic Analysis Branch, NATO HQ SACT, Norfolk

WG 3: Sub-Saharan Africa: Implications for NATO

Facilitator Christian Moelling, Stiftung Wissenschaft und Politik, Berlin

NATO Discussant LTC Federico Catapano, Concept Developer, Capability Development Directorate, NATO HQ SACT, Norfolk

20:30 **Dinner - Bertinoro Restaurant (Enoteca Bistrot Colonna)**

21.30 Keynote speech, Massimo Livi Bacci, University of Florence, Florence

Saturday, May 17

09:00-10:00 **REPORTS BY WORKING GROUPS (Iacopo da Bertinoro - Conference hall)**

Chair Dick Bedford, Branch Head, Strategic Issues and Engagements, NATO HQ SACT, Norfolk

Rapporteurs Federico Casprini, Consultant, Bologna
Bastian Giegerich, International Institute for Strategic Studies, London
Alessandro Marrone, Istituto Affari Internazionali, Rome

10:00-11:30 **ROUND TABLE: THE BLACK SEA REGION AND EURO-ATLANTIC SECURITY (Iacopo da Bertinoro - Conference hall)**

Chair Jean Pierre Darnis, Istituto Affari Internazionali, Rome

Speakers Stefano Bianchini, University of Bologna, Bologna
Albert Bininashvili, Columbia University, Washington DC
BGen. Matthew Brand, DCOS SPP, NATO HQ SACT, Norfolk
Arcady Moshes, Finnish Institute of International Affairs, Helsinki
Marcin Terlikowski, Polish Institute of International Affairs, Warsaw

Rapporteur: LTC Federico Catapano, Concept Developer, Capability Development Directorate, NATO HQ SACT, Norfolk

Open discussion

11.30-11.45 Coffee break

11.45-13.30 **PLENARY SESSION**
CONFRONTING FUTURE CHALLENGES: NATO'S COOPERATIVE SECURITY (Iacopo da Bertinoro - Conference hall)

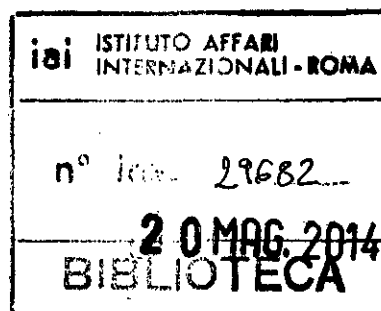
Chair Ettore Greco, Istituto Affari Internazionali, Rome

Speakers BGen. Matthew Brand, Deputy Chief of Staff Strategic Plans & Policy, NATO HQ SACT, Norfolk
Camille Grand, Fondation pour la Recherche Stratégique, Paris
Eva Gross, EU Institute for Security Studies, Brussels
Vittorio Emanuele Parsi, Università Cattolica, Milan

Open discussion

13:30-14:30 Buffet Lunch and departure

Working Groups and Round Table to be held under the Chatham House Rule¹.



¹ "When a meeting, or part thereof, is held under the Chatham House Rule, participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed".



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FLEXIBLE FRAMEWORKS, BEYOND BORDERS

Understanding regional dynamics to enhance cooperative security

LIST OF PARTICIPANTS

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LIST OF PARTICIPANTS

WORKING GROUP 1 ASIA-PACIFIC: TRENDS (Fresco Conference hall – 1st floor)

Dick Bedford	Branch Head, Strategic Issues and Engagements, NATO HQ SACT, Norfolk
Axel Berkofsky	Assistant Professor, University of Pavia and Senior Associate Research Fellow, Istituto per gli studi di Politica Internazionale (ISPI), Milan
Stefano Bianchini	Professor of Politics and History of Eastern Europe, University of Bologna, and International Coordinator of the International MA MIREES, University of Bologna, Forlì Campus
Federico Casprini	Consultant, Bologna
Michelangelo Conoscenti	Professor, English Linguistics and Intercultural Communication, University of Turin
Matteo Dian	Research Fellow, Ca' Foscari University, Venice
Antonio Fiori	Korea Foundation Endowment Chair, University of Bologna
Giampiero Giacomello	Assistant Professor of Strategic Studies, University of Bologna
Andrea Goldstein	Head, Global Relations, OECD Investment Division, Paris
Giovanni Grevi	Director, Foundation for International Relations and Foreign Dialogue, (Fride) Madrid
Athar Hussain	Director, Asia Research Centre, London School of Economics
Jaeho Hwang	Professor, Division of International Studies, Hankuk University of Foreign Studies (HUFS), Seoul
Veronica Lenzi	Research and Scientific Manager, Mediterranean Energy Regulators (MEDREG), Milan
Francesco Moro	Research Fellow, University of Milan, Bicocca, Milan
Arkady Moshes	Programme Director, EU's Eastern Neighbourhood and Russia research programme, Finnish Institute of International Affairs, Helsinki
Gareth Price	Senior Research Fellow, Asia Programme, Chatham House, London
Jeffrey Reynolds	Strategic Partnerships Advisor, Strategic Issues and Engagements Branch, NATO HQ SACT, Norfolk
Alessandro Ungaro	Junior Researcher, Security and Defence Programme, Istituto Affari Internazionali (IAI), Rome
Marco Valigi	Adjunct Professor of Strategic Studies, University of RomaTre, Rome
General Mirco Zuliani	Deputy Commander, Supreme Allied Command Transformation, NATO HQ SACT, Norfolk

WORKING GROUP 2
GREATER MIDDLE EAST AND NORTH AFRICA: TRENDS
(Red Conference hall – 1st floor)

Tewfick Aclimandos	Senior Researcher, Centre d'Études et de Documentation Économique et Juridiques (CEDEJ), Il Cairo
LTC Alfonso Alvarez	Academic Outreach, Strategic Issues and Engagements Branch, NATO HQ SACT, Norfolk
Eugenia Baroncelli	Assistant Professor in International Political Economy, University of Bologna
Albert Bininachvili	Adjunct Professor of Political Science, Columbia University and University of Bologna
BGen. Matthew L. Brand	Deputy Chief of Staff Strategic Plans & Policy, NATO HQ SACT, Norfolk
Michela Ceccorulli	Research Fellow, Scuola Superiore Sant'Anna, Pisa
Matthew Evangelista	President White Professor of History and Political Science, Cornell University, Ithaca, NY
Ettore Greco	Director, Istituto Affari Internazionali (IAI), Rome
Eva Gross	Senior Analyst, European Union Institute for Security Studies, Paris
Ruth Hanau Santini	Lecturer of Political Science, L'Orientale University, Naples
Steven Heydemann	Vice President, Applied Research on Conflict, United States Institute of Peace, Washington, DC
Piero Ignazi	Professor of Political Science, University of Bologna
Memduh Karakullukcu	Vice-Chairman and President, Global Relations Forum, Istanbul
Mehmet Kinaci	Analyst, Strategic Analysis Branch, NATO HQ SACT, Norfolk
Christine MacNulty	CEO, Applied Futures, Arlington, VA
Alessandro Marrone	Researcher, Security and Defence Programme, Istituto Affari Internazionali (IAI), Rome
Meltem Müftüler Bağ	Professor of International Relations and Jean Monnet Chair, Sabanci University, Istanbul
Soli Özel	Professor of International Relations Kadir Has University, Istanbul

Vittorio Emanuele Parsi	Professor of International Relations Cattolica University, and Director of ASERI (Graduate School of Economics and International Relations), Milan
Alessandro Politi	Director, NATO Defense College Foundation, Rome
Stefano Ruzza	Lecturer of Conflict, Security and State-Building, University of Turin
Marcin Terlikowski	Head, European Security and Defence Economics Programme, Polish Institute of International Affairs, Warsaw
Eka Tkeshelashvili	President, Georgian Institute for Strategic Studies, Tbilisi
Nathalie Tocci	Deputy Director, Istituto Affari Internazionali (IAI), Rome
Matteo Villa	Research Assistant, Istituto per gli Studi di Politica Internazionale, Milan
MGen. Antonello Vitale	Major General, Italian Presidency of the Council of Ministries, Rome

WORKING GROUP 3
SUB-SAHARAN AFRICA: TRENDS
(Museum Conference hall - groundfloor)

Emmanuel Kwesi Aning	Director, Faculty of Academic Affairs and Research, Kofi Annan International Peacekeeping Training Center, Accra
Christopher Browning	Reader of Politics and International Studies, University of Warwick
Giovanni Carbone	Associate Professor of Political Science, University of Milan and Istituto per gli studi di Politica Internazionale, Milan
LTC Federico Catapano	Concept Developer, Capability Development Directorate, NATO HQ SACT, Norfolk
Włodzimierz Ceglarski	NATO
Jean Pierre Darnis	Deputy Head, Security and Defence Department, Istituto Affari Internazionali (IAI), Rome
Enrico Fassi	Research Fellow, University of Bologna
Bastian Giegerich	Consulting Senior Fellow for European Security, International Institute for Strategic Studies, London
Camille Grand	Director, Fondation pour la recherche stratégique, Paris
Guillaume Lasconjarias	Nato Defence College
Massimo Livi Bacci	Professor of Demography, University of Florence

Sonia Lucarelli	Associate Professor of International Relations and Pan-European security, University of Bologna
Jean-Pierre Maulny	Deputy Director, Institute of International and Strategic Relations, IRIS, Paris
CDR Matteo Minelli	Academic Outreach, Strategic Issues and Engagements Branch, NATO HQ SACT, Norfolk
Christian Mölling	Program Director, German Institute for International and Security Affairs, Berlin
Arrigo Pallotti	Associate Professor of African History and Institutions, University of Bologna
Nicoletta Pirozzi	Senior Fellow, European Affairs Programme, Istituto Affari Internazionali (IAI), Rome
Timothy Scarnecchia	Director, NATO and EU Studies Center Associate Professor of History, Kent State University, Ohio
Luis Simon Navarro	Research Professor, Institute for European Studies, Vrije Universiteit, Brussels
Simon J. Smith	Research Officer, University of Bath, Senior Research Fellow at the Scotland Institute and an Honorary Research Fellow at Aston University
CDR Geoffrey Wallington	Analyst, Strategic Analysis Branch, NATO HQ SACT, Norfolk



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FLEXIBLE FRAMEWORKS, BEYOND BORDERS

Understanding Regional Dynamics to Enhance Cooperative Security

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DRAFT – NOT TO BE QUOTED

Background paper for Working Group 1. Asia- Pacific: Trends

ASIA-PACIFIC IN THE GLOBAL ECONOMY: AN OVERVIEW

By Andrea Goldstein

Organization for Economic Cooperation and Development

An introduction to the *Asian Century*

For some time now, it has been customary to say that the future belongs to Asia and the Pacific. Twenty-five years ago, China's leader Deng Xiaoping is credited with first using the term *Asian Century*, in a meeting with Indian Prime Minister Rajiv Gandhi – only to refute the thesis that the 21st century would be the century of Asia and the Pacific. Nonetheless, the region's robust economic performance over the following quarter of a century, compared to the previous periods no less than to the rest of the world, has reinforced the case for the Asian Century.

This impressive Asian performance is the result of a combination of factors, some largely (though far from exclusively) nature-made such as demographics, others the result of human agency such as policy experimentation and institutional strengthening. Asia is not just the most populous region in the world, but will also be the biggest economic zone, the home to the majority of the world's middle class, and the biggest consumption zone.

The scale and pace of Asia's rise in the coming decades is expected to be staggering and by 2025 most forecasts see four of the 10 largest economies in the world to be in the region—China (first), India (third), Japan (fourth) and Indonesia (tenth). By then, income per person in the United States will be “only” four times that in Asia's developing countries (in 1980, the gap was 13-to-1).¹ This may significantly alter the distribution of power — economic, political, military, technological, and soft — on the planet.

Will this transformation prove sustainable over time? The exhaustion of the “easy” catching up trajectory, moderate economic growth in advanced economies, greater competition for natural resources, further environmental constraints, increasing income and wealth inequality – all these factors will require a fundamental adaptation of the Asian development models. Despite substantial declines in poverty levels, rising income disparities will challenge social stability and interact with other elements in defining the course of political reforms. And Asia's continued growth will not occur in a strategic vacuum. Increasingly unstable relations among major Asia-Pacific powers — China, India, Japan and the United States — as well as other elements (tensions in the Korean Peninsula, instability in Pakistan and some Southeast Asian countries, uncertainty concerning the role of Russia) will require sustained effort to maintain the momentum of prosperity and security in the region.

But there are good reasons to be optimistic. Just like Asia's past cannot be explained by a single model, so its future will not be a single destiny. This short note reviews some of the major trends.

Economic Growth – Accomplishments and Prospects

If so many pundits talk about the coming Asian Century, it is because economic growth has been remarkable and sustained, allowing hundreds of millions of people to emerge from poverty, parts of the region to halve their infant mortality rates and life expectancy to rise by decades.

Looking behind

Since the leaders Chinese Communist Party (CCP) started farm privatization in 1978 and then extended economic reforms to most cities and introduced ‘special economic zones’ in the early 1990s, the Chinese economy has enjoyed three decades of GDP growth rates between 8 and 10%. The dual-track approach to reform encouraged private sector

¹ Australian Government, *Australia in the Asian Century*, October 2012 (White Paper), <http://pandora.nla.gov.au/pan/133850/20130914-0122/asiancentury.dpmc.gov.au/white-paper/executive-summary.html>

development, including FDI, while supporting state-owned enterprises in strategic industries. Nominal GDP overtook that of Japan in 2010, when it also claimed from the U.S. the title of the world's largest manufacturing nation. Three years later GDP passed the US\$4tn mark for the first time and China became the largest trading nation in the world, in what Beijing described as "a landmark milestone" for the country.

The Indian economy began a similar albeit slower ascent at the end of 1980s and early 1990s, and growth has averaged around 4% during this early reform period, then accelerating in the early 2000s, and hitting 9.2% in 2006. It slowed down to 6% in 2009, bounced back to 8.9% in 2010, and then decelerated markedly. Southeast Asia's standing with international investors also recorded significant improvement, especially since the 1997 Asian economic crisis, and in combination with infrastructure investments and economic reforms spearheaded a period of accelerated growth (equal to 5.1% for Indonesia over the 2000-07 period).

As per the two OECD countries in Asia, their fortune diverged. The Japanese economy flamed out in the early 1990s, although this seeming underperformance stems partly from demographics: between 1991 and 2012, Japan's labor force increased by a mere 0.6%, whereas the U.S. labor force increased by 23%. Thus, adjusted to a per-worker basis, Japan's output rose respectably.² Still, if nominal GDP per capita is the focus, Japan suffered a lost decade and then some; only in 2010 did its economy regain a level of income last attained in 1995. In fact Japan's economy has significantly underperformed reasonable expectations over the past two decades, and that this is partially, and perhaps mostly, attributable to macroeconomic policy failures.

South Korea was one of the countries worst hit by the 1997 economic crisis, and its IMF-led emergency bail-out programme cost around US\$60bn. It has also been one of the most diligent countries in implementing post-crisis economic and financial reforms, and it is now reaping the rewards of these efforts. The country's financial sector is one of the region's strongest, combining greater openness with better regulation and prudential standards. In addition, South Korea's economy is now more transparent and flexible, interest rates are lower, and foreign reserves—which at the height of the crisis in December 1997 were down to US\$8.9bn—have risen massively, to US\$352bn as of end-February 2014. Indeed, South Korea is typical of post-crisis Asian economies in that it recurrently faces difficulty in preventing further accumulation of foreign reserves and keeping its currency from appreciating. This is a concern for exporters, particularly when the yen is weak, as South Korean industrial exporters compete with Japan in numerous sectors.

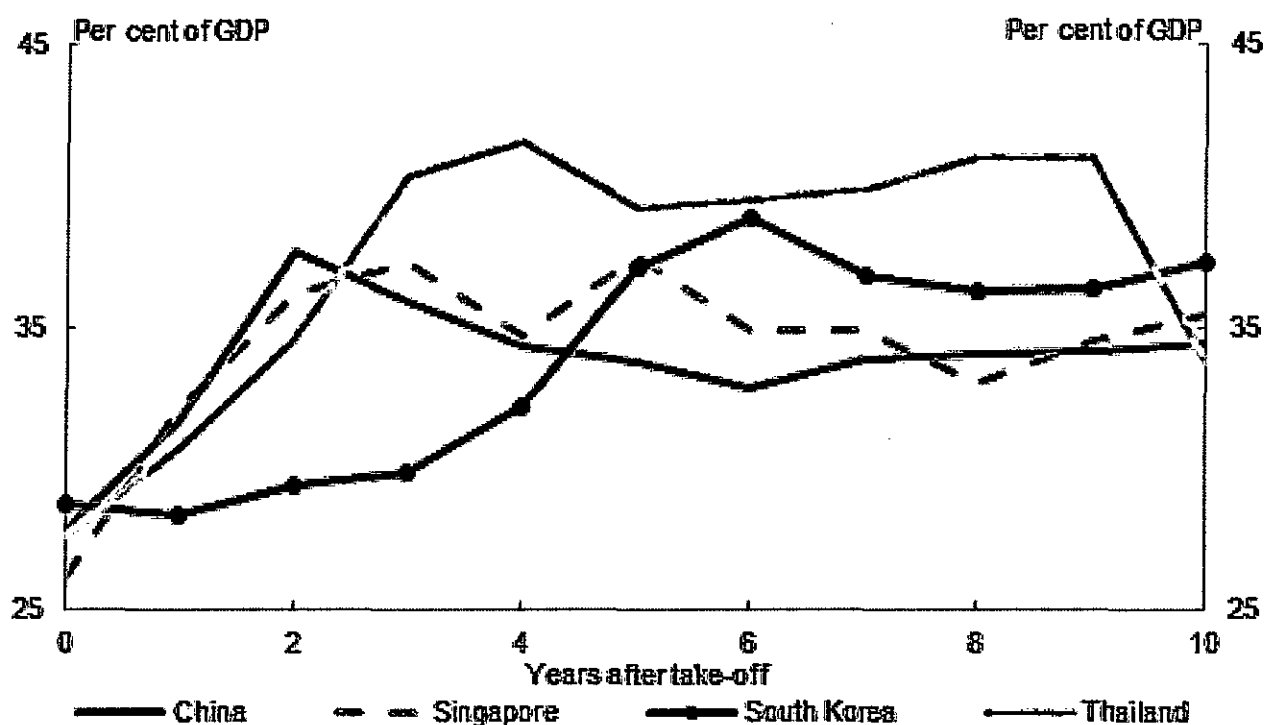
The role of physical infrastructure

Extremely high levels of private and public investment have enabled Asian countries to exploit their favourable demographics (Figure 1). With access to better machinery and infrastructure, workers became more productive. Asian economies benefited from initial levels of schooling that were high relative to the capital stock and the 'latent' return to capital was therefore high. Import and adaptation of technology and management systems further boosted productivity.

² William R. Cline, "Japanese Optical Illusion: the 'Lost Decades' Theory is a Myth", in *The International Economy*, (Spring 2013), p. 57-58

Figure 1: Investment in physical capital

Gross fixed capital formation



Note: The take-off years are 1969 for Singapore, 1984 for South Korea, 1986 for Thailand and 1990 for China.

Sources: World Bank (2012) and Conference Board (2012).

As countries emerged, governments built a favourable investment climate through a succession of – typically gradual and rudimentary – institution-building and market-enabling reforms. For reasons having to do with market failures – among which coordination failures figure prominently – private investment needed a push before the latent returns would be realized. Different approaches ranged from putting in place export processing zones to various approaches to exchange rate management, and from industry-incentive arrangements to industry arm twisting. These developments involved a degree of managed liberalisation of the economy – the magnitude of this liberalisation and globalisation is still subject to debate. They were part of conscious decisions by key political leaders, especially in India and the PRC.

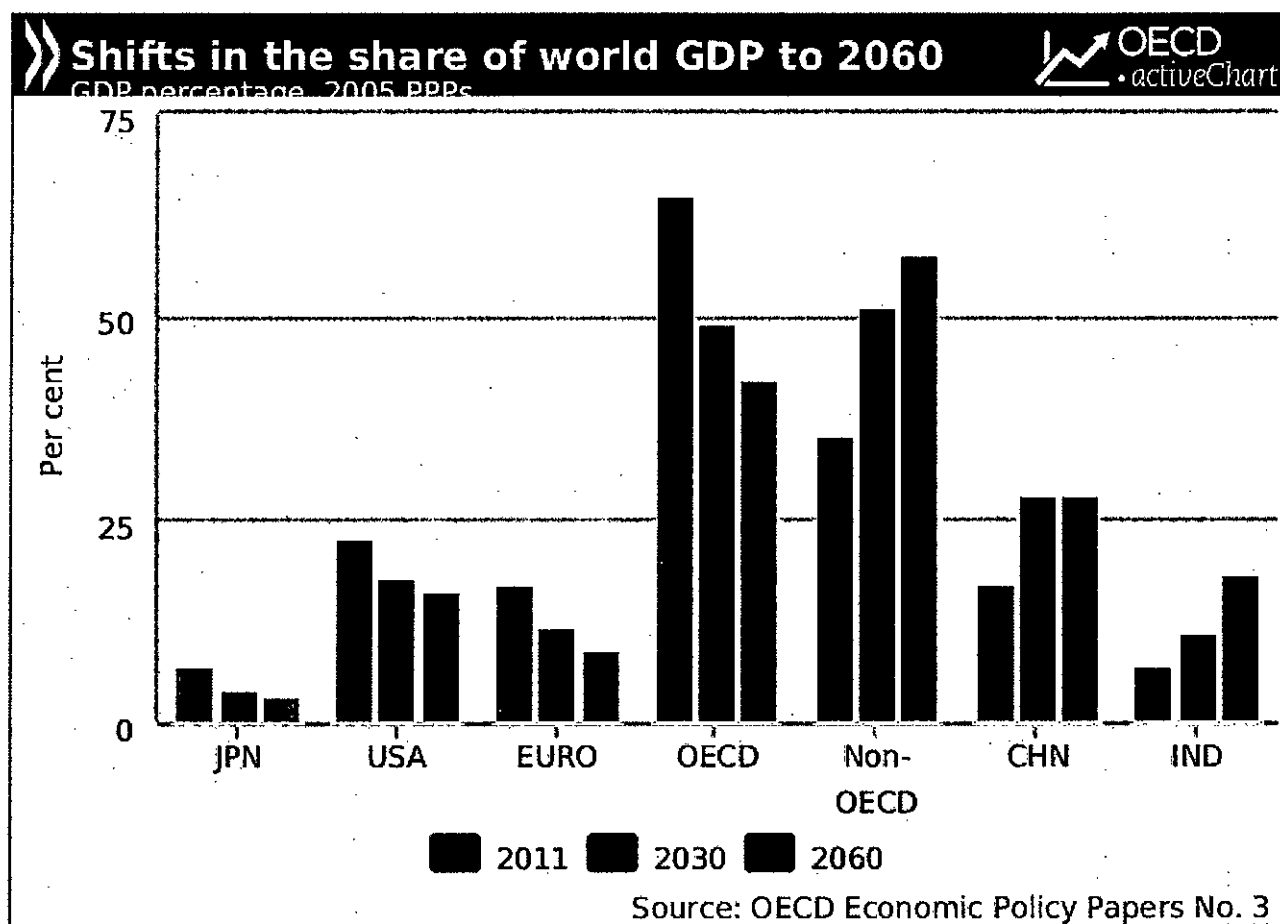
Looking ahead

The Asian Century scenario assumes that Asian economies can maintain this impressive momentum for another 40 years.³ Asia would see its share of global GDP rise to 52% by 2050 and per capita income could rise six-fold in

³ Asian Development Bank, *Asia 2050: Realizing the Asian Century*, Singapore, 2011, <http://www.adb.org/sites/default/files/asia2050-executive-summary.pdf>

purchasing power parity (PPP) terms to reach Europe's levels. According to the same study, the region would have no poor countries, compared with eight in 2011.

The OECD reaches the same broad conclusions (Figure 2).⁴ The combined GDP of China and India will soon surpass that of the G7 economies and will exceed that of the entire current OECD membership by 2060.



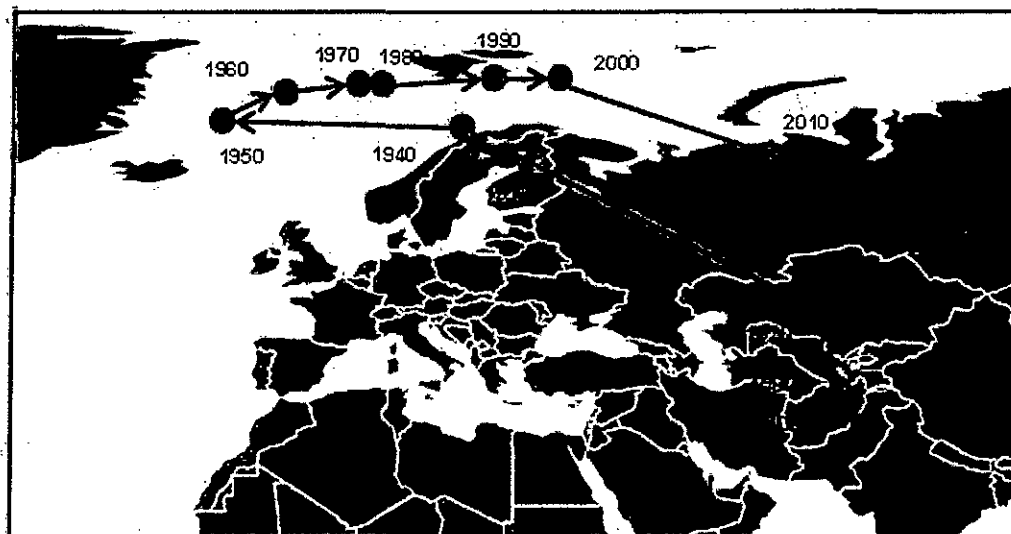
Another Goldman Sachs report based on nominal exchange rates predicts that China will overtake the United States to become the world's largest economy by 2038, if current growth rates continue.⁵ China's GDP would overtake that of Japan by 2017 or 2018. If purchasing power parity is used instead, China will overtake the U.S. much sooner. The Indian economy will surpass the US economy by 2043, but India will remain a low-income country for several decades, with per capita incomes well below its other BRIC peers.

Projected growth in the ASEAN5 countries (Malaysia, Indonesia, the Philippines, Singapore, and Thailand) also compares favourably to growth for other developing countries at a comparable stage of development, owing in part to the comparatively high national savings rates. The CLMV countries (Cambodia, Lao PDR, Myanmar and Viet Nam) have a huge catching-up potential which, combined with fast integration into regional and global supply chains, makes it feasible to reach quite rapid growth over the medium term, ranging from over 6% for Cambodia and Myanmar and more

⁴ OECD, *Looking to 2060: a Global Vision of Long-Term Growth*, Paris, November 2012 (OECD Economics Department Policy Note n° 15), <http://www.oecd.org/eco/outlook/2060policynote.pdf>

⁵ Jim O'Neill and Anna Stupnytska, *The Long-term Outlook for the BRICs and N-11 Post Crises*, Goldman Sachs, December 4 2009 (Global Economics Paper n° 192), <http://www.goldmansachs.com/our-thinking/archive/brics-at-8/brics-the-long-term-outlook.pdf>

than 7% in Lao PDR. Asia is thus set to become the centre of global economic activity, reclaiming a title it held 1000 years ago and then moved westward, before making a U-turn in the middle of the 20th century (Figure 3).



Note: At each point in time, the centre of world economic gravity was calculated by weighting the GDP for each civilisation or country and measuring its relative importance against the known world economic capacity at that point.

Source: McKinsey & Company (2012).

Short-term Caveats and National Specificities

All these exercises are based on the hypothesis that the high-performing economies in Asia will succeed in their structural transformation. They have indeed all set out to support prosperity by reforming their policy and institutional settings. While most specialists agree that they are likely to succeed in the medium run, major challenges lie ahead.

China has combined a governance structure that gave local and provincial governments incentives to experiment with different approaches to growing local economies, and was thus able to adapt institutions and settings to fit each stage of its development.⁶ The November 2013 Third Plenary Session of the 18th Central Committee of the CCP proposed an ambitious package of structural reforms. This will likely have a positive impact on private consumption and private investment, starting as early as in 2014. However, the upside potential for growth is limited by the reining in of credit growth in line with recent central bank statements about deleveraging and somewhat decelerating public investment intended to curtail local government borrowing.

⁶ World Bank and the Development Research Center of the State Council P.R. China, *China 2030. Building a Modern, Harmonious, and Creative Society*, (76299), Washington, DC http://www-wds.worldbank.org/external/default/WDSPContentServer/WDSP/IB/2013/03/27/000350881_20130327163105/Rendered/PDF/762990PUB0china0Box374372B00PUBLIC0.pdf

Meanwhile in Japan, in order to revitalise the country's economy relative to China's, in 2012 prime minister Abe Shinzo launched a three-pronged strategy. Abenomics's first "arrow" is a monetary policy aimed at eliminating deflation. The second is a flexible fiscal policy, aimed at supporting the Japanese economy in the short run and at fiscal stability in the long run. The third is structural reform, aimed at raising investment and trend growth.

In South Korea, president Park Geun-hye aims for an overhaul of the economy with her '474 Vision'. On 26 February, at a speech marking the first anniversary of her inauguration, she unveiled a three-year plan to reform the structure of the economy from public-led to private-led, from manufacturing- focused to service-focused and from export-centered to domestic market-centered (Table 1). The numerals "474" refer to the three goals: 4% annual GDP growth, a 70% overall employment rate and US\$40,000 in per capita income.

Table 1. The Korean reform agenda

	now	in 2017
National debt-to-GDP ratio (%)	36.2	35.6
Start-ups recovering from failure (#)	244	500
Global GDP covered by FTAs (%)	55	70
Foreign tourists (#)	12,000,000	19,000,000
Female employment rate (%)	53.9	61.9
Private tuition spending (KRW trn)	19	15
R&D-to-GDP ratio (%)	4.4	5.0%

Three key strategies of the plan are to make Korea's economic fundamentals robust; to make the economy dynamic and innovative; and to balance exports and domestic sales. Park cited three necessary tasks for each strategy, proposing a total of nine initiatives for the next three years. Things to overhaul include public institutions, the manufacturing-oriented economic structure, the export-centered economy, the imbalanced labor market due to discrimination between salaried and irregular workers, the depressed real estate market and growing household debt.

High inflation, due partly to the weak macroeconomic management framework, is a major downside risk for some countries, such as India, Viet Nam and Indonesia. Political turmoil dampens growth prospects in Thailand and other countries. In Myanmar, on the other hand, growth outlook has improved substantially as a result of the political reforms beginning in 2010, which are expected to lead to a large influx of foreign investment.

Demographics

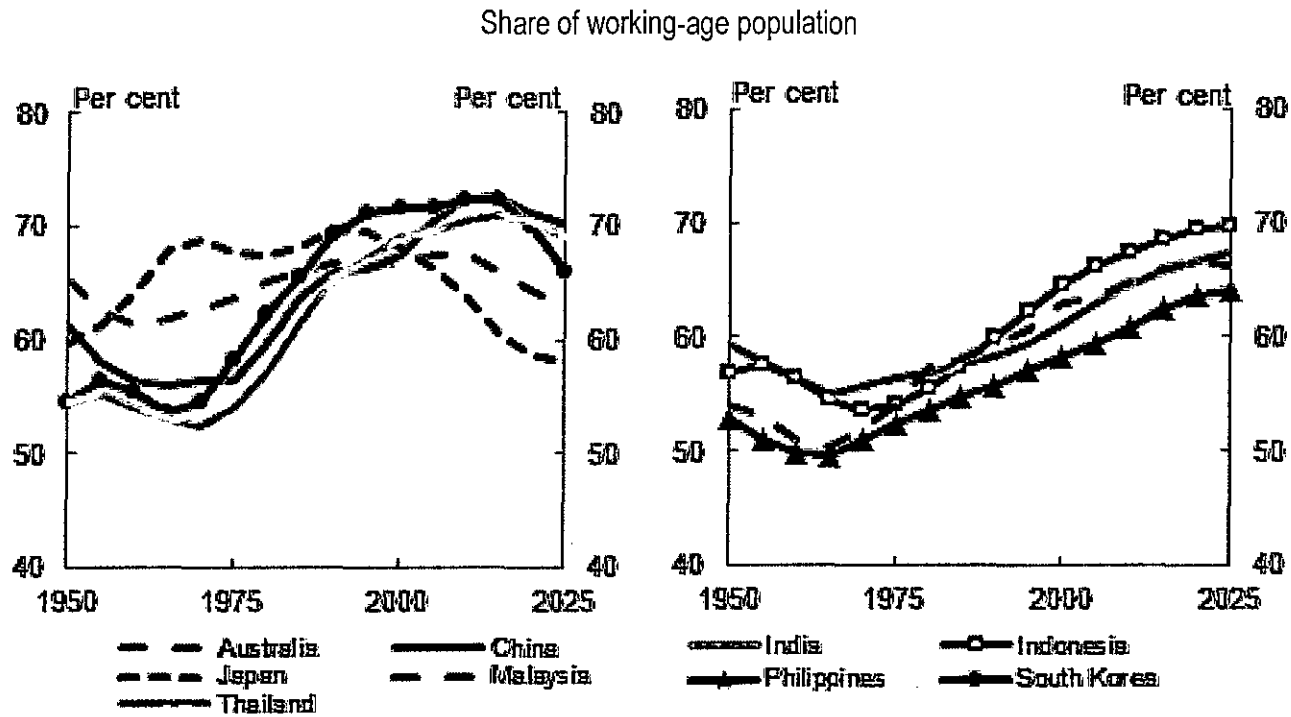
Asia's take-off owes a lot to a favourable set of demographic circumstances: transition from high to low rates of mortality and fertility, large numbers of young people approaching working age and boosting productive capacity.⁷ An East Asian

⁷ East Asia's 'demographic dividend' is estimated to have accounted for between one-quarter and two-fifths of its growth in GDP per person. See David E. Bloom and Jeffrey G. Williamson, *Demographic Transitions and Economic Miracles in Emerging Asia*, The National Bureau of Economic Research, November 1997, (NBER Working Paper No. 6268), <http://www.nber.org/papers/w6268>

baby boom, which started in Japan in the late 1940s and extended to Korea and elsewhere in the 1950s, sparked a series of demographic and social changes that helped shape the region's economic growth trajectory.

East Asian countries invested in education, on-the-job training and technological progress and thus managed to realize the growth potential created by the favourable window provided by a youthful workforce. Population change increased income growth, and income growth pushed down population growth. The consequent declines in fertility reduced youth dependency rates and further boosted women's participation in the workforce.

Figure 4: Asia's demographic dividend



Source: UN.

Population growth in Asia has slowed significantly since the late 20th century, though it is expected to continue through at least the first half of the 21st century. At four billion people in the beginning of the 21st century, the Asian population is predicted to grow to more than five billion by 2050. If current trends continue, India's long-term population could approach double that of China. Future demographic change will necessarily tend to depress the underlying growth rates in East Asia, while it will promote more rapid economic growth in Southeast and South Asia.

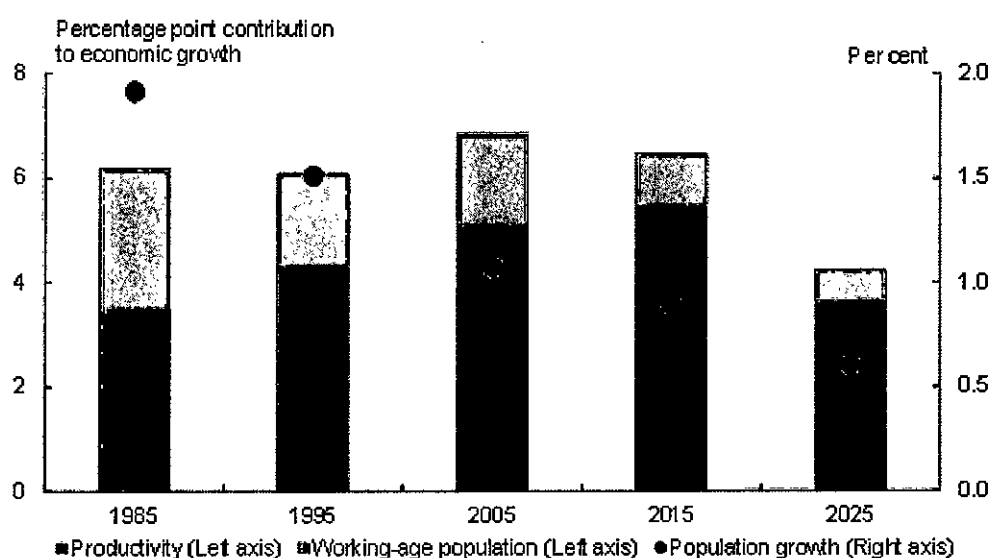
Across the region as a whole, the working age share of the population is plateauing and will begin to decline from around 2025. Asia's working age population is expected to grow at 0.8% a year in the next two decades, around half the rate of the past two decades; the proportion of elderly people is expected to increase.⁸ South Korea is ageing faster than any other country in the OECD.⁹ Last year almost 12% of the population were aged 65 or over. By 2030

⁸ In China, retirees account for a high and growing share of the total population. The proportion of people above 65 in China will surpass that of Japan in 2030, which will make China the world's most aged society. China will enter the phase of intense aging in 2050, when senior citizens above 60 will consist of more than 30% of the total population. Chinese Academy of Social Science, *China's Financial policy Report from 2010 to 2011*, 2010.

⁹ Randall S. Jones and Satoshi Urasawa, *Sustaining Korea's Convergence to the Highest Income Countries*, Paris, OECD, June 2012 (OECD Economic Department Working Papers n°965), http://www.oecd-ilibrary.org/economics/sustaining-korea-s-convergence-to-the-highest-income-countries_5k97gkd8jgzs-en

that proportion will double. The number of South Koreans of working age will peak in just three years' time. By 2040 their number will drop by about a fifth.

Figure 5: Asia's population and productivity



Source: Australian Treasury.

Human Capital Development

Emerging Asian economies have made strong progress in improving educational capital in the past 40 years.¹⁰ High educational attainment, especially at the secondary level, has significantly improved educational achievement, with externalities for the quality of institutions and the transition into modern democracies.

Primary education was compulsory in many East Asian economies and by 1960 was prevalent in China, Hong Kong, Japan, Singapore, South Korea and Taiwan.¹¹ It is well known that these are now the world's highest-performing education systems. According to PISA 2012, Shanghai-China has the highest scores in mathematics, with a mean score of 613 points – 119 points, or the equivalent of nearly three years of schooling, above the OECD average. Singapore, Hong Kong-China, Chinese Taipei, Korea, Macao-China, and Japan, in descending order of their scores, round out the top seven performers in mathematics.¹²

¹⁰ Jong-Wha Lee and Ruth Francisco, "Human Capital Accumulation in Emerging Asia, 1970-2030", in *Japan and the World Economy*, Vol. 24, N° 2 (2012), p. 76-86

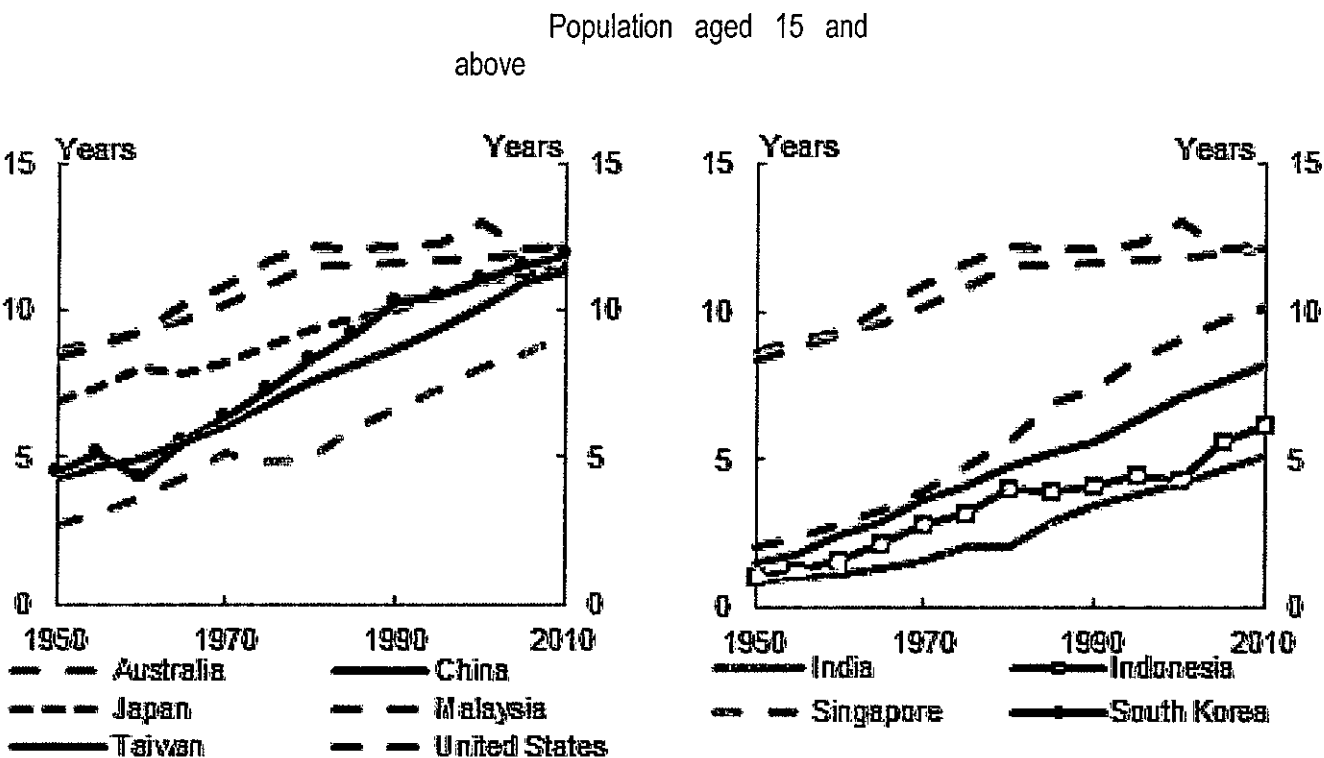
¹¹ Other countries which did not start from as strong a base also improved access to primary education sharply—primary school net enrolment rates are currently nearly 90 per cent in the Philippines and are close to universal in Cambodia and Indonesia.

¹² OECD, *PISA 2012: Results in Focus*, Paris, OECD, 2013, <http://www.oecd.org/pisa/keyfindings/pisa-2012-results-overview.pdf>

Secondary school enrolment rates in some of the region's largest developing countries have more than doubled in the past three decades. Higher education enrolment rates in the region have also increased considerably since the 1970s – South Korea is a standout performer, with almost universal post-secondary education.

For sustained human development, especially to the extent that demography risks becoming a 'drag' on growth and the international cost advantage based on cheaper labor costs is progressively eroded, Asian economies must invest in improving educational quality and raising enrollment rates at the secondary and tertiary levels. Average years of schooling are forecast to increase to 7.6 years by 2030, from 7, significantly slower than the increase of 4.1 years from 1970 to 2010 (Lee and Francisco 2010). That would put emerging Asia's educational capital in 2030 at only the 1970 level of the advanced countries, or still 3.5 years behind the level of advanced countries in 2010.

Figure 6: Asia's demographic dividend



Source: Barro & Lee (2010).

In the more populous developing countries, such as India and Indonesia, the onus remains on increasing access to education. Efforts to improve the quality are complicated by the diversity and size of the education system. India has made large strides in improving school enrolment rates and reducing socioeconomic, caste and gender gaps in enrolments at the primary level, but significant challenges remain. They include a lack of qualified teachers, poor student- centered teaching, absenteeism and poor school infrastructure.¹³

¹³ Deepa Sankar and Toby Linden, *How Much and What Kind of Teaching is there in Elementary Education in India? Evidence from Three States*, Washington DC, The World Bank, February 2014, (World Bank Group, South Asia: Human Development

Korea shows that intense human capital formation can be a sort of mixed blessing. The nation's total annual spending on private tuition such as cram schools has reached KRW19tn. By normalizing the public education sector, the government aims to cut this to KRW15tn by 2017.

Institution-Building and Market Creation

One reason that Asia has something to offer to all persuasions is the region's diversity.¹⁴ Japan and Korea are homogeneous societies, while the populations of India, Indonesia and Malaysia are ethnically diverse. The attitude toward economic policy ranges from the almost laissez-faire (Hong Kong) to the highly interventionist (China, South Korea until recently). Singapore is well-known for strict enforcement of the rule of law, the Philippines for widespread opposition.

It was not just economic institutions that have undergone change since the Asian crisis. The benefits of investing in the formal institutions that support exchange increased as the Asian economies became richer, deeper and more complex. In particular, the experience of Korea in building democratic institutions, albeit relatively recent, has helped it adjust to the crisis in a number of ways. The current administration is putting first emphasis on an overhaul of the public sector, shaken by corruption scandals in the state-run nuclear energy industry, costly projects like the four-rivers restoration project, high debt ratios and lax management at public corporations. To improve management, every piece of information about public institutions will be disclosed to the public except for core business secrets. The accounting system for government-led projects and public entities' projects will be strictly separated.

Southeast Asia has also consolidated its political institutions, although domestic institutions of conflict management are weak and disenchanted groups still pose a challenge to consolidation of cooperative institutions. Democracy imposes mechanisms of participation, consultation, and bargaining, thus providing for institutionalized mechanisms of "voice". The recent Thai turmoil, however, shows the risk of some groups resorting to riots, protests, and other kinds of disruptive actions to air their grievances.

The "next frontier" for democratic transitions in Asia is obviously China which in many ways has epitomized the gradual and pragmatic approach to reform. Over the past three decades, 'crossing the river by feeling stones' has translated into unprecedented institutional improvement, but obviously relatively few of the elements of Western democracy are firmly in place. The new leadership's has talked of "serving the people" by avoiding "formalism" and "empty talk" – a commitment that remains vague and largely untested.

Macro-Economic Policies – Prudential Regulation and Fiscal Space

Several decades of unprecedented economic growth in many East and Southeast Asian economies came to an abrupt end in mid-1997 with the onset of the Asian financial crisis. Their growth models, particularly the focus on

Sector, Discussion Paper, N°. 67), <http://documents.worldbank.org/curated/en/2014/02/19231774/much-kind-teaching-elementary-education-india-evidence-three-states>

¹⁴ Dani Rodrik, *East-Asian Mysteries: Past and Present*, The National Bureau of Economic Research, Spring 1999 (NBER Reporter), <http://www.nber.org/reporter/spring99/rodrik.html>

large-scale mobilisation of investments, contributed to asset price bubbles that later burst, leading to capital flight, sharp currency movements and the abandonment of pegged exchange rates.¹⁵

Many factors lay behind the crisis and accounted for its severity: an inconsistent mix of macroeconomic and exchange rate policy settings, poor prudential supervision against a background of liberalisation of capital markets and underdeveloped domestic financial markets, lack of quick and coherent government action, and an overconfident international financial sector that had underestimated risks in the good years and panicked when economic conditions deteriorated.

The response to that episode has taken many forms. One practice that has proven particularly effective and influential beyond the region is “macroprudential” policy: regulatory and supervisory action by the central bank used in place of monetary policy to guard against financial instability. Partly as result, the “Great Moderation” has taken root in developing Asia where growth has been both steadier and faster than in the G7.¹⁶ Just an example: from 2002 to 2011 Laos, Indonesia and Bangladesh have recorded three of the four steadiest growth rates (as measured by its standard deviation).

The concern nowadays is about the implications of sharply rising credit. One traditional view is that growing leverage equals healthy “financial deepening” and will therefore lead to higher growth and greater stability. Another view is that stability eventually becomes destabilising – when drops in volatility allow firms and households to borrow more of the money they invest. Countries most vulnerable to the risk of destabilizing capital outflows are those that allowed capital inflows during the recent period of US quantitative easing, seeing real exchange rate appreciation and undermining their current account balances.

On the other hand, the case for greater use of fiscal policy has strengthened as income gaps have widened.¹⁷ While the region has benefited from fiscal prudence in the past, as far as education, health care, and direct transfers are concerned Asia underspends not only the advanced economies but also its peers in Latin America. Boosting public spending on appear increasingly necessary to foster equality of opportunity, provided it is accompanied by strategic planning and innovative policies.

Regional and International Integration

Open global trading systems and infrastructure to reduce transport costs have driven regional and global integration. China's 2001 accession to the WTO, in particular, was a major step in its integration with the global system.¹⁸ More broadly, an open global trading regime enabled Asia's rising economies to secure energy and resources vital to their growth.

Regional efforts such as the Asia-Pacific Economic Cooperation (APEC) forum also supported greater levels of openness. In the immediate aftermath of the 1997 crisis, concerns also rose that the IMF was dictating policy settings

¹⁵ Indermit Gill and Homi Kharas, *An East Asian Renaissance. Ideas for Economic Growth*, Washington Dc, The International Bank for Reconstruction and Development/The World Bank, 2007, http://siteresources.worldbank.org/INTEASTASIAPACIFIC/Resources/226262-1158536715202/EA_Renaissance_full.pdf

¹⁶ The Economist, “Asia's Great Moderation”, in The Economist, November 10th, 2012, <http://www.economist.com/news/finance-and-economics/21565978-some-worlds-stablest-economies-are-asian-time-worry-asias-great>

¹⁷ Asian Development Bank, *Asian Development Outlook 2014: Fiscal Policy for Inclusive Growth*, the Philippines, Asian Development Bank, 2014

¹⁸ China has consented to more and greater concessions on the way to accession than any other member joining the WTO. For example, in the decade before its accession to the WTO, China's effective tariff rate halved to 15% in 2000, and has since continued to fall

to the crisis-affected countries in a intrusive and inappropriate manner. Japan offered to underwrite an Asian monetary fund, triggering opposition from the United States and the IMF. Financial cooperation between ASEAN and East Asian economies became a regional priority, leading to the launch of the Chiang Mai Initiative Multilateralisation, which started as a complex network of bilateral swap agreements and has become a single, uniform facility to manage regional financial crises.

In the aftermath of the 2008 crisis, governments in the Asia and Pacific region have increasingly discriminated against foreign commercial interests.¹⁹ Asian OECD economies frequently chose to soften the budget constraints of firms, offering a range of financial incentives that went beyond high-profile bank sector bailouts. In many developing countries, traditional forms of protectionism have been implemented. The result is a more fragmented set of markets in the Asia and Pacific region than before the crisis. Eventually, an Asian regional bloc may be developed around ASEAN and other bodies on the basis of free trade agreements.

The political gravitas of China and Japan, and to a lesser extent India and South Korea, has risen in international bodies and amongst the world powers. China is a permanent member of the UN Security Council, while India and Japan aspire to acquire the same status.²⁰ They are all members of the G20, as is Indonesia. It is unclear, however, whether increasing economic power has empowered Asia to assume global leadership in the production of global public goods, from climate change to the fight against transmittable diseases.

With regards to security and economics and finance (the open global trading system), Asia has also greatly benefited from United States leadership after World War II. This was particularly important for economies such as Japan and South Korea, which lacked large resource endowments. Nonetheless, growing economic integration has hardly brought Asian countries closer politically, as testified in recent years by concerns about Beijing's hegemonic ambitions and the tensions in the South China waters and the Sea of Japan/East Sea. The East Asian Summit is a Leaders-led forum for strategic dialogue and cooperation on political, security and economic issues of common regional concern with the aim to promote peace, stability and economic prosperity in East Asia.

Conclusions

The Asian miracle(s) has been the fruit of an original combination of various elements: free-market economics governed by a strong and pragmatic state, meritocracy and limited corruption, investment in human capital, science and technology, an aspiration to peace that has surmounted long-standing and ever-resurfacing rivalries. The transition from rural to urban, from agriculture to industry, from feudalism to capitalism, from (more or less enlightened) authoritarianism to democracy is far from complete but even in a phase of global economic turmoil Asia seems destined to grow faster than the rest of the world. All G20 countries in Asia are affected by major political changes in 2013-14 and this will determine the short-term success of the necessary reforms.

¹⁹ Simon Evenett, *Mapping Crisis-Era Protectionism in the Asia and Pacific Region*, Tokyo, Asian Development Bank Institute, November 2013 (ADBI Working Paper Series No. 445), <http://www.adbi.org/files/2013.11.14.wp445.mapping.crisis.era.protectionism.asia.pacific.pdf>

²⁰ The attempts of both are opposed by other Asian countries (i.e. India's bid is opposed by Pakistan; China and the two Koreas, for once on the same page, oppose Japan's bid)

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Background paper for Working Group 1. Asia- Pacific: Trends

THE NEW CENTER OF POWER: POLITICAL AND STRATEGIC TRENDS IN THE ASIA-PACIFIC

By Antonio Fiori
University of Bologna

EXECUTIVE SUMMARY

The Asia-Pacific region is currently affected by a string of political and strategic challenges. China has emerged as a powerful and more and more assertive actor, questioning the ability of the United States to remain the region's hegemonic power, despite Washington's renewed interest in the region. Significant uncertainty, however, also originates from maritime boundary claims, growing military spending, and the permanence of the North Korean *incognita*, preventing the region from enjoying substantial stability and tranquility. In addition, the region is witnessing a breeding ground of nationalistic sentiments that are further divisive and disruptive. Preventing the escalation of the emerging tensions between the actors in the region is the most important political challenge in the Asia-Pacific.

Introduction

The Asia-Pacific region is currently affected by a string of political and strategic challenges. While in the last couple of years the leadership of many of the countries in the region has changed, many of the problems upsetting the region have remained stable or have worsened. The People's Republic of China (PRC), in the last few years, has demonstrated a renewed self-confident attitude, showing less tolerance towards those perceived pressures, both external and domestic, that could threaten its "core interests." Even though China's rise still characterizes as intrinsically "pacific," military expenditures are constantly growing, alarming regional neighbors with which territorial disputes remain dramatically open. Regional tensions have been worsened by mounting nationalistic sentiments, particularly evident after the last electoral round in Japan: these sentiments, strongly rooted in unresolved historical disputes, have dramatically affected regional integration, as it is clearly demonstrated by the fact that to this day no formal meetings have been held among the Japanese Premier and Chinese and South Korean heads of state. This fragmentation obviously affects the interests of the US in the region: Washington—through the implementation of its "rebalancing" strategy—has reaffirmed that the Asia-Pacific is a priority, and would prefer to have a solid front on which to leverage while "containing" Beijing's assertiveness. In addition, North Korea—despite the domestic changes occurred since the recent transition—still represents an unresolved enigma, which undermines stability in the region. These challenges, and many others such as energy insecurity and cyber-security for example, are destined to shape the architecture of the region for the next few years. The main objective of this paper is to look at the main trends occurring in the Asia-Pacific region, from a political and strategic point of view.

China's Core Interests

China's phenomenal economic growth of the last three decades—largely confirmed by the overtaking of Japan in 2010 as the world's second-largest economy, in a period in which many Western countries are in distress—is driving its emergence as a great power. The economic successes of this rising power have been coupled by a tangible change of direction in foreign policy, that has brought China to become more assertive, increasingly referring, in official statements and diplomatic documents, to the non-negotiable concept of "core interests,"¹ with regard to issues involving the international community, and the US in particular. Originally, the term was coined from China's concern over the Taiwan issue, but has later been employed to two other sovereignty-related issues, Tibet and Xinjiang, and its general coverage has been expanded to include three other general sets of state interests: the Chinese political system, national security, and socioeconomic development. The increasing use of the term signals an attempt by a stronger, more assertive Chinese leadership to elicit greater respect and deference from other nations for China's position on those issues; it is also a sort of warning to other nations of China's intransigency. Avoiding any conflict with the US remains Beijing's foreign policy priority, as part of its strategy to create a peaceful international environment conducive to China's economic development. Nonetheless, China is prepared to oppose perceived slights on issues that affect the rule of the Chinese Communist Party (CCP): this postural shifting is evident over "global" issues like US arms sale to Taiwan, Western support to the Dalai Lama or to activists in Xinjiang's secession from China, or regional issues, with special

¹ Michael D. Swaine, "China's Assertive Behavior. Part I: On 'Core Interests'", in *China Leadership Monitor*, No. 34 (2011), <http://media.hoover.org/sites/default/files/documents/CLM34MS.pdf>

reference to Beijing's sovereignty over disputed maritime territories. In sum, China no longer avoids appearing confrontational to deal with the West and with its neighbors. This renewed confidence is frequently associated with PRC's frustration in observing other nations trying to prevent Beijing's rise. This sense of frustration sustained a popular nationalist sentiment, exploited by the Chinese government to compensate for the declining appeal of communism. The grievances of the population—blaming Western powers' suspicion and calling for the redemption of all lost territories, brought away with force—pressured the government to take a confrontational position and to adopt tougher measures to claim its maritime territories in the disputes with other countries.

Concern over China's rise relates to two main issues: the pace of and lack of transparency in its military modernization and the perception that its pursuit of "core interests" could cause one of Asia's many territorial flashpoints to escalate. China was the second biggest military expenditure spender in 2013, with a total of \$188b, and Beijing's military expenditure has grown 170 per cent since 2004.² China is concentrating on nuclear powered stealth submarines, littoral class surface ships and land based anti ship cruise missiles along with 4th Generation warplanes, but it is also upgrading its strategic arsenal, both in qualitative and quantitative terms. In 2011 it inducted its first aircraft carrier—the *Liaoning*, a refurbished vessel, purchased from Ukraine in 1998—into the PLA Navy, thus improving Beijing's ability to provide air cover for its naval forces operating in the region. More aircraft carriers are expected to join in in the next few years. The PRC is widely criticized for a lack of transparency in the allocation of its defense budget, and this is a common source of disquiet in the region.

From the Chinese point of view, Beijing has not modified its foreign policy goals, expanded its territorial claims, or adopted a more assertive attitude toward maritime disputes. Rather, other countries, emboldened by passive or active US support, have stepped up their efforts to challenge China's long-established territorial claims, trampling on Chinese sovereignty and forcing the country to take appropriate measures in response. In their view, China has not taken any actions that violate legitimate freedom of navigation and its policies of seeking to resolve territorial disputes through peaceful dialogue and its willingness to set aside sovereignty and pursue joint exploitation of resources in disputed areas remain unchanged. Chinese officials insist that sovereignty disputes must be resolved on a bilateral basis and have urged Washington not to interfere or take sides.

Top Chinese leaders have repeatedly advocated in their meetings with US officials for a "new type of relationship between major powers." This concept, frequently used by President Xi Jinping, urges a US-China partnership based on equality, mutual respect, and mutual benefit. It also reflects China's aspirations to be regarded as a great power, emphasizing conflict avoidance to maintain its traditional "peaceful rise." The US neither agrees with nor fully endorses China's "new type of relationship between major powers" to address the extreme importance of Sino-US cooperation.

America's "Rebalancing" to Asia

"The US is a Pacific power, and we are here to stay."³ With these words, pronounced in a speech to the Australian parliament in 2011, President Obama, highlighted that the American presence in the Asia-Pacific was a top priority of his administration, and, at the same time, he sent an unmistakable message to Beijing. If, in the wake of 9/11 attacks, it appeared that America prioritized the Middle East—so allowing China room to maneuver in its run-up to a position of regional predominance—the 2011 "rebalancing" (often characterized as the "Pivot to Asia") restored Asia-Pacific at the core of Washington's interests. It must be noticed, though, that the US military presence in the region never really declined:⁴ in fact, America's hub and spokes alliance system is regarded as an intrinsic geopolitical specificity and the American presence as a guarantee of stability despite the several threats. Therefore, it can be maintained that the

² Stockholm International Peace Research Institute, *SIPRI Military Expenditure Database* (2014), http://www.sipri.org/research/armaments/milex/milex_database

³ President Barack Obama, "Remarks By President Obama to the Australian Parliament", 17 November 2011, <http://www.whitehouse.gov/the-press-office/2011/11/17/remarks-president-obama-australian-parliament>

⁴ T.J. Pempel, "How Bush Bungled Asia: Militarism, Economic Indifference and Unilateralism have Weakened the United States across Asia", in *The Pacific Review*, Vol. 21, No. 5 (2008), p. 547-581

"rebalancing" is a prolongation of activities already undertaken under the two previous administrations. Since the beginning of the "rebalancing" the US has constantly denied that this strategy was designed to "contain" or target China; but rather "to advance US interests, exploit opportunities, and reassure allies and friends of US staying power and commitments."⁵ Nonetheless, China's rise—and the growing mistrust it is creating in East and Southeast Asia—is one of the most significant reasons motivating the White House to retool its new strategic posture in the Asia-Pacific.⁶

China's dissatisfaction with America's military and diplomatic presence in the region has become evident and has been confirmed by a series of maritime incidents, that the Pentagon considers as a "strategy" adopted by the Chinese, to deny US forces access to regional seas through the accomplishment of the "anti-access, area denial" (A2/AD), which would not only deter US military deployment into the Western Pacific (South Korea, Japan, Guam), but also promises to disrupt combat forces operating in and around locations such as Taiwan or the South China Sea. This alarming eventuality—that would make more difficult and more expensive for American forces to assist their allies in the region—and the awareness that Chinese are scarcely prone to accept the basic principles of international maritime law, has pushed the then Secretary of State Hillary Clinton, at the July 2010 ASEAN Regional Forum (ARF), to strongly reaffirm the US interest in peaceful resolutions to territorial disputes and commitment to freedom of navigation (and the unimpeded access to the "global commons" for economic growth). In that venue, 12 states joined the US Secretary of State in expressing concerns about freedom of navigation in the South China Sea, despite the efforts of Chinese diplomats to discourage them from raising the issue.

One of the US' main concerns is represented by the trend in China's military development, particularly the accretion of naval and air power. However, as noted in 2012 by the then Secretary of Defense, Leon Panetta, 60 percent of the US Navy would be stationed in the Pacific by 2020 to project power and operate to advance peace and security in the region.⁷ The goal is a stronger US military presence in Asia that is "geographically distributed, operationally resilient, and politically sustainable."⁸ This massive deployment is also driven by the perception that several states in the area have of China's assertiveness in regional affairs: countries like Vietnam or the Philippines, once China's "bandwagoners," have started to employ a different attitude towards Beijing, "balancing" its superiority by tightening their links with the US. Virtually, every country in Northeast and Southeast Asia has been publicly or privately supportive of the US "rebalancing" to Asia and, in the hope that the US will sustain its role as balancer and counterweight to growing Chinese power.⁹ Increased desires for US military, economic, and diplomatic involvement in the region are combined with periodical uncertainty about the credibility and constancy of US commitment. Regional states are worried that US involvement in another crisis could leave them heavily exposed to Chinese pressure and coercion; this became evident when Obama was forced to cancel his scheduled visit to Bali (for the APEC meeting), Brunei (for the EAS) the Philippines and Malaysia in October 2013, because of the budget standoff in Washington, leaving the Southeast Asia in a state of anxiety, and the media to declare US President absence was a big victory for China.¹⁰ The majority of the countries in the Southeast, however, do not want to align firmly with Washington or Beijing, but prefer to nurture good relations with both and fear the consequences of a US-China rivalry in their backyard. This is the case of Myanmar, which has chosen to adopt an "hedging posture:" it does not confront the PRC openly, but at the same time it re-launches multidirectional ties with several other poles of the system (USA, Japan, India, Russia), in order to maximize

⁵ Bonnie Glaser and Brittany Billingsley, "U.S.-China Relations: U.S. Pivot to Asia Leaves China off Balance", in *Comparative Connections*, Vol. 13, No. 3 (January 2012), http://csis.org/files/publication/1103qus_china.pdf

⁶ Mark E. Manyin et al., "Pivot to the Pacific? The Obama Administration's "Rebalancing" Toward Asia", Congressional Research Service R42448, 28 March 2012, <https://www.fas.org/sgp/crs/natsec/R42448.pdf>

⁷ Leon Panetta, *Address to the 11th Shangri-La Security Dialogue*, <http://www.iiss.org/conferences/the-shangri-la-dialogue/shangri-la-dialogue-2012/speeches/first-plenary-session/leon-panetta/>

⁸ Phillip C. Saunders, "The Rebalance to Asia: U.S.-China Relations and Regional Security", <http://inss.dodlive.mil/files/2013/10/SF-281.pdf>

⁹ Robert G. Sutter, Michael E. Brown, and Timothy J.A. Adamson, "Balancing Acts: The U.S. Rebalance and Asia-Pacific Stability", Elliot School of International Affairs, The George Washington University, August 2013, http://www2.gwu.edu/~sigur/assets/docs/BalancingActs_Compiled1.pdf

¹⁰ Ralph A. Cossa and Brad Glosserman, "Regional Overview: Self-Inflicted Wounds", in *Comparative Connections*, Vol. 15, No. 3 (January 2014), <http://csis.org/files/publication/1303qoverview.pdf>

its bargaining power *vis-à-vis* Beijing.¹¹

Even though among widespread domestic resistance for its costs, the American "rebalancing" is likely to be maintained in the long run in the effort to strengthen Washington's ties with the Asia-Pacific region and make China feel the pressure. This does not mean, however, that the US has abandoned efforts to build more stable forms of cooperation with China: on the contrary, the US strategy of seeking a wider integration of China in the present global order, while discouraging any effort to dismantle that order by the use of force or intimidation, remains valid.

Japan and the Revival of Nationalism

The volume of trade among the three big powers of Northeast Asia– the PRC, Japan, and South Korea–was valued at over US\$ 690 billion in 2011, up from US\$ 130 billion in 1999: this clearly shows how these countries are economically interconnected. This seemingly robust and durable economic partnership among these three actors, however, has started to show deep cracks, being undermined by nationalistic sentiments that have sometimes exploded in open antagonism, resentment, and mistrust. This peculiar and dangerous situation is gaining in importance for domestic and foreign policy in these countries. The development of modern nationalism in East Asia is closely connected with the processes of modernization that have been taking place in the region since the 19th century, and it is rooted in the resistance to Western colonial powers and, particularly in China and Korea, in Japan's imperialistic expansion into the region.

In particular, since Abe Shinzo has regained the responsibility to govern Japan, nationalistic sentiments have strongly reemerged across Northeast Asia. During the electoral campaign, Abe's message was articulated around two main lines: the reactivation of the long-stagnated economy and the restoration of the national pride and strength. If, on one side, "Abenomics"–characterized by fiscal stimulus, monetary easing and an outline for a "growth strategy"–has brought signs of growth and earned praise, on the other, "Abegeopolitics"¹² is creating some apprehensions among Japan's neighbors.

One of the things that Japan's neighbors are most afraid of is Abe's intention to modify the Constitution by amending Article 9: the famous and controversial "peace clause" defines Japan's restrictive security arrangements and limits "self-defense forces" (which in the decades has become one of the most modern armies in the world) operations literally to defensive purposes, thus renouncing the nation's right to resort to war. Abe, in fact, said that he would like to look into making the self-defense forces a full-fledged military, and the constitutional revision would allow Tokyo to contribute to international safety, and to use its armed forces to defend an ally under attack, even if Japan itself has not been directly hit. The eventual reform of the Constitution is perceived by South Korea and China as a return of Japan's "militarism," and further accelerate tensions in the region: definitely not what the US wanted.

Seoul and Beijing's indignation and resentment towards Tokyo has grown disproportionately after Abe's visit to the Yasukuni Shrine–where Japan's war dead including 14 Class-A criminals are memorialized–on the 26th December 2013. The visit also prompted a statement from the US Embassy in Tokyo, expressing disappointment with "an action that will exacerbate tensions with Japan's neighbors." The statement also wished Japan would find constructive ways to address sensitive history issues and improve relations with China and South Korea. Despite the palpable disappointment and apprehension originated from Abe's visit to Yasukuni and from his revisionist policy tone, having Japan as an ally is crucial for a smooth development of the US "rebalancing."

Abe's renewed nationalistic approach has worsened the relations with Seoul and Beijing. Korean President Park decided not to have any formal meeting with the Japanese Premier, demanding more appropriate attitudes towards the historical responsibility for war, particularly after Abe argued in a Diet session in April 2013 that the precise definition of

¹¹ Antonio Fiori and Andrea Passeri, "Hedging in Search of a New Age of Non-Alignment: Myanmar Between China and the U.S.", in *The Pacific Review* (forthcoming)

¹² Takashi Inoguchi, "Japan in 2013: Abenomics and Abegeopolitics", in *Asian Survey*, Vol. 54, No. 1 (January-February 2014), p. 101-112

"aggression" had yet to be established. In addition, Seoul found outrageous the statement of Abe's cabinet in February regarding a possible review of the evidence that led to the 1993 Kono Statement, acknowledging the role of the Japanese military in recruiting Korean and other Asian women to serve in brothels known as "comfort facilities (stations)." If the cabinet's review of the evidence leads to any backtracking from the Kono Statement, a rupture in relations between Seoul and Tokyo is highly likely.

Similarly, the Chinese leadership has deferred any possible meetings with Abe until both parties agree that the issue of territorial sovereignty of the Senkaku/Diaoyu Islands be suspended.

Despite his visit to Yasukuni and the following foreign criticism, Abe is actually enjoying a strong favor from the Japanese population, but in the rest of Asia a large majority (90 per cent of Chinese and 77 per cent of South Koreans) see Japan in a negative light.¹³ There is the risk, however, that Abe could confuse this popular support with a free hand on above mentioned crucial themes: this would be unacceptable to the neighbors and detrimental to the stability of the region, provoking an economic toll already visible in the decline of the trade between the countries. Accordingly, a more favorable environment is needed for the development and livability of the Northeast Asian region.

Noteworthy, on the other side, is Abe's aggressive Southeast Asia diplomacy, characterized as "Japan's pivot:"¹⁴ during his first year in office, the Premier visited every ASEAN member state and hosted a Japan-ASEAN Summit, commemorating 40 years of partnership between Japan and ASEAN. Abe's approach is probably driven by the will to show that Japan is a diplomatic force not lagging behind any other Asian state, and, above all, to find other interlocutors now that relations with Beijing and Seoul are stalemated. The risk is that Southeast Asia can become a new arena for diplomatic competition with China.

Troubled Waters, Busy Skies

Disputed maritime claims represent a crucial source of strategic instability. The majority of these territorial disputes are decades old, and often exacerbated by the negative images many states hold of their territorial rivals as a result of unsettled historical accusations. In addition, the political salience of nationalism has contributed to the crystallization and aggravation of such disputes, and often to the impossibility of accommodating any possible resolution. The entitlement to make claims to maritime space originates from their material importance, including fishery and natural resources (oil, gas, minerals).

Over recent years maritime incidents and diplomatic tensions have become more intense and frequent, and this not only poses a pressing challenge for the stability of the region, but also for the US "rebalancing" of foreign priorities towards the Asia-Pacific. The US, in fact, has never taken position on specific territorial disputes in these waters, but it has treaty obligation with Japan and the Philippines—both active players in the disputes—and has also economic and strategic interests that are affected by the growing tensions in these waters.

The two main maritime hotspots are the South China Sea (SCS) and the East China Sea (ECS).

The situation in the SCS—a crucial connection between the Indian and Pacific Oceans—is highly problematic for the presence of six separate claimants (Brunei, China, Indonesia, Malaysia, Taiwan, and Vietnam), who dispute upon hundreds of inhabitable but potentially rich in energy resources small islands or shoals and reefs.¹⁵ China has repeatedly claimed "indisputable sovereignty" over the SCS; however, while Beijing has been able to take advantage of

¹³ PEW Research Center, "Japanese Public's Mood Rebounding, Abe Highly Popular. China and South Korea Very Negative Toward Japan", 11 July 2013, <http://www.pewglobal.org/2013/07/11/japanese-publics-mood-rebounding-abe-strongly-popular/>

¹⁴ Corey J. Wallace, "Japan's Strategic Pivot South: Diversifying the Dual Hedge", in *International Relations of the Asia-Pacific*, Vol. 13, No. 3 (2013), p. 479-517

¹⁵ The US EIA estimates that the SCS contains 11 billion barrels (bbl) of oil reserves and 190 trillion cubic feet (Tcf) of natural gas. A number of competing estimates have also been published. For example, in 2012 China National Offshore Oil Company estimated that the SCS has an undiscovered 125 bbl of oil and 500 Tcf of natural gas (EIA (US Energy Information Administration), *South China Sea*, full report, 7 February 2013, http://www.eia.gov/countries/analysisbriefs/South_China_Sea/south_china_sea.pdf)

the resources in its coastal waters in the SCS, it has not been equally successful in the rest of the SCS due to competing claims to the territory. The Chinese claim is known as the "nine-dash line" and encompasses the entirety of SCS, including the area claimed by the other disputant states.¹⁶ The line is based on its historical presence rather than on the dictates of international law. Seeking to maintain maximum leverage over individual claimants, China has always poorly tolerated the statements by US officials that articulate American interests in the SCS, including the freedom of navigation and respect for international law.¹⁷ Beijing, in fact, has the precise suspect that the US' renewed commitment to Asia is destabilizing the regional security, since Washington actively pressures and encourages countries to challenge China, in particular by "sensationalizing" and "internationalizing" highly divisive issues like the SCS.¹⁸

The ECS is at the centre of the triangular dispute among China, Taiwan and Japan over the Diaoyu/Diaoyutai/Senkaku islands. The nature of the claims is merely historical: China and Taiwan assert that the islands were part of their maritime territory since the Ming Dynasty (1368-1644); Japan, on the other side, maintains that the Senkaku were annexed by Imperial Ordinance in January 1895, and at that time those territories were "terra nullius." Much like the islands in the SCS, the ECS, according to some estimates, are beneficial in terms of energy needs and military power projection.¹⁹ Since Japan and China are the two largest energy consumers in Asia, both regard the ECS as strategically significant. Due to recent clashes between China and Japan and the resulting nationalistic sentiments in both countries, conflict seems increasingly likely. The US does not, however, regard the ECS as strategically significant as the SCS. Nonetheless, due to the US-Japan alliance, a China-Japan conflict over the islands could imply the American intervention. The US has acknowledged that the Senkaku Islands are under Japan's administration; yet, it still remains unclear as to whether the US would assist Japan if China were to attack the Islands.

China's approach to the SCS and ECS is similar, pursuing a gradual expansion through the use of limited force, including navy combat drills, the deployment of law enforcement ships and military aircrafts over the disputed territories. Through a steady progression of incremental steps, Beijing seeks to gradually change the status quo in its favor. China's episodic encroachments are designed to compel other claimants to stop trampling on Chinese sovereignty and to advance China's territorial and maritime claims.²⁰

The other disputed maritime area is the Liancourt Rocks (Dokdo for Koreans; Takeshima for Japanese), claimed both by Tokyo and Seoul, but administered by South Korea. Dormant tensions over the islets, in the East Sea (the Sea of Japan), were reignited by the August 2012 Lee Myung-bak's (the former South Korean President) visit there, a symbolic move to reconfirm South Korea's possession of the territory. Lee's visit intensified the tensions between the two opponents, with Tokyo willing to take the issue to the International Court of Justice (ICJ) and Seoul rejecting this possibility, maintaining that there is no territorial dispute. Once again, the dispute over the islets is significantly influenced by domestic politics by both sides, and defense of territorial claims is seen as a matter of national pride. In

¹⁶ The "nine-dash line" asserts sovereignty and sovereign rights over the 1.94 million square km of the South China Sea, including its waters, seabed and all of the maritime features. The United Nations Convention on the Law of the Sea (UNCLOS), however, provides no legal foundations to support this claim. Instead, China's assertion is based on a historical claim by China that was once used by Taiwan. On this basis, China has built numerous artificial structures over rock formations, which under Article 121 of the UNCLOS fall short to be considered as islands that may create their own Exclusive Economic Zones (EEZs), i.e. areas that extend 200 nm (320 Kms) from a country's shores within which a country has the right to natural resources. China's territorial disputes in the ECS and SCS, for example, are relevant to Beijing's EEZ, as they have the potential to greatly increase China's EEZ to cover almost the entire SCS: thus, China would be able not only to obtain all resources, but above all monitor the trade and the presence of other navies in the area. Unless China can prove that these rock formations, which are submerged during low tide, can sustain human habitation or economic life, it cannot have its own EEZ in the South China Sea so as to support its assertion

¹⁷ Ely Ratner, "Rebalancing to Asia With An Insecure China", in *The Washington Quarterly*, Vol. 36, No. 2 (2013), p. 21-38

¹⁸ Felix K. Chang, "China's Naval Rise and the South China Sea: An Operational Assessment", in *Orbis*, Vol. 56, No. 1 (2012), p. 19-38

¹⁹ The US EIA estimates that 60-100 million barrels of oil in proven and probable reserves. Some Chinese estimates, which do not limit estimates to proven and probably reserves, claim there are 70-160 billion barrels in the ECS. The EIA estimates that the ECS also contains 1-2 Tcf of natural gas while Chinese estimates state 250 trillion cubic feet (EIA (US Energy Information Administration), *East China Sea, full report*, 25 September 2012, (http://www.eia.gov/countries/analysisbriefs/east_china_sea/east_china_sea.pdf)

²⁰ Bonnie S. Glaser, "Statement before the U.S. House Armed Services Subcommittee on Seapower and Projection Forces and the House Foreign Affairs Subcommittee on the Asia Pacific", 14 January 2014, http://csis.org/files/attachments/ts140114_glaser.pdf

Korea, particularly, Dokdo is seen as a symbol of independence, since the sovereignty upon the islets started in the early 1950s, one of the first unilateral actions after the end of the decennial Japanese colonization of the Korean peninsula. The Japanese, on the other side, have not traditionally posed any particular attention to the islets, but nationalistic sentiments have reignited the antagonism.

Territory, finally, was at the heart of the related dispute surrounding competing "air defense identification zones" (ADIZs) in Northeast Asia.²¹ On 23 November 2013, Beijing unilaterally announced the creation of its East China Sea ADIZ, requiring all aircraft (military and commercial) entering the zone to file flight reports with Chinese officials, thereby tacitly acknowledging (at least from Beijing's point of view) the validity of the PRC's sovereign claims.²² China's new ADIZ has sparked vibrant protests from both Tokyo and Seoul, because it not only overlaps with Japan's, so including the Senkaku/Diaoyu Islands, but also with Korea's ADIZ, so extending upon leodo/Suyan Rocks. The announcement of the ADIZ was presumably intended to further increase pressure on Japan and compel Tokyo to officially acknowledge the existence of a territorial dispute with Beijing. However, Japan immediately communicated to its national airlines to disregard Beijing's decision, while the US followed Chinese instructions by asking its commercial airlines to observe Chinese filing guidelines, probably in order not to expose civilian to any possible risk. On the other side, the US sent two B-52 bombers from Guam to "violate" the Chinese ADIZ, flying over the Senkaku/Diaoyu without providing any information to Chinese authorities: the PLA Air Force did not respond.²³ The implementation of the Chinese ADIZ has also had a sort of "domino" effect, since Koreans have immediately widen their air defense identification zone (the KADIZ), while the Taiwanese leadership has declared that actions of that kind contribute to the deterioration of the relationships between the two sides of the Strait. The most unexpected consequence of China's ADIZ has probably been the pushing for a stronger cooperation between Seoul and Tokyo for a military training in the area subject to Beijing's control. This launches a clear message to Beijing: even though on other important issues Seoul and Tokyo are far from reaching an agreement, they can still find a way to join forces to resist China's assertiveness.

In the future, however, this issue could become crucial for the regional stability: given Beijing's determination in making its ADIZ be respected; its growing readiness to recur to military actions to secure contested areas; and its likely attempt to use it as a "dress rehearsal" to impose an ADIZ over the SCS, causing a catastrophe in the area, where Vietnam and the Philippines would certainly respond.

Pyongyang: the Thorn in Northeast Asia's Side

More than two years have passed since the sudden death of North Korea's *Great Leader*, Kim Jong-il, and the beginning of the leadership transition process to his third son, Kim Jong-un. At present, it appears that the new young leader has consolidated his power at the apex of the North Korean regime, launching a two-track policy of economic development and nuclear weapons development (*byungjin*). In the last two years some "surface" changes have appeared in the *hermit kingdom*: Kim has not only allowed the penetration of Western influences in the country, but has also decided to present himself in a more informal way to the public, often flanked by his wife, Ri Sol-ju, something unimaginable during his father's era. Imported luxury goods are now available in the country and the consumer culture is rapidly spreading. In addition, the access to mobile phones is improving, even though these devices cannot be used to make international calls.²⁴ In the domestic political sphere Kim Jong-un has also tried to distance himself from his father's approach: the appointments made by the new leader and the emphasis on the Central Military Commission, the organism through which the Party controls the military, and the Politburo would confirm that the regime is slowly moving away from the concentrated power in the National Defense Commission established by Kim Jong-il and instead returning to a Party-centric order, as it was the case under Kim Il-sung. Together with the rising power of the party, a

²¹ David Kang and Jiun Bang, "Japan-Korea Relations: More Naughty Than Nice", in *Comparative Connections*, Vol. 15, No. 3 (January 2014), http://csis.org/files/publication/1303qjapan_korea.pdf

²² William T. Tow, "The United States and Asia in 2013: From Primacy to Marginalization?", in *Asian Survey*, Vol. 54, No. 1 (January-February 2014), p. 12-21

²³ Antonio Fiori, "Ora le Potenze si Misurano nei Mari d'Asia", *ISPI Commentary*, 20 December 2013, http://www.ispionline.it/sites/default/files/publicazioni/commentary_fiori_20.12.2013_0.pdf

²⁴ Antonio Fiori and Sunhyuk Kim, "Jasmine Does Not Bloom in Pyongyang: The Persistent Non-transition in North Korea", in *Pacific Focus*, Vol. 29, No. 1 (2014), p. 44-67

group of technocrats and economic experts—the *Hamkyungdo Brigade*—appears to be increasingly influential: the leader of this group is Park Pong-ju, who was reappointed as premier in 2013, and who is said to have a reformist approach to economy. At the same time, the purge of a large number of powerful actors, belonging to Kim Jong-il's inner circle—among whom Jang Song-taek, recently put to death by Kim Jong-un, his nephew—should be probably seen as a way to consolidate his rule by concentrating power in his hands while getting rid of any factionalism may appear in the ruling circle, which could be detrimental to the stability of the regime itself. Therefore, contradicting many commentators' auspices, Kim Jong-un has given us more indications to be inclined to keep the dictatorship intact instead of implementing a wide array of significant reforms.

Despite the transition, North Korea keeps representing a threat to the stability of the Northeast Asian region. In the last few years, since President Lee Myung-bak took office in South Korea in 2008, putting an end to the “engagist” policy implemented by the former progressive administrations and indicating a preemptive denuclearization of the North as a condition to reignite constructive relations on the peninsula, tensions have risen considerably. In December 2012, North Korea initiated a string of provocations, silencing any hopes that the new young leader, educated in the West, would lead the country in a new direction. Prospects for further negotiations became unlikely in the light of a new rocket launch that successfully put a satellite into orbit in December 2012, and, above all, a third nuclear test in February 2013, which was immediately followed by the usual verbal attacks on South Korea and the United States. North Korean authorities proclaimed that the test used a “miniaturized and lighter nuclear device with a greater explosive force than previously,”²⁵ and even though experts could not determine whether uranium or plutonium was used, it seems that North Koreans are closer to their objective. This, of course, reinforces the possibility that in the not so far future North Koreans could develop small nuclear warheads to be mounted on their medium- and long-range ballistic missiles.

As it happened both in 2006 and in 2009, when the other two nuclear tests were performed, the United Nations Security Council (UNSC) passed a resolution (2094) that condemned the test and imposed a new round of sanctions on North Korea. It is noteworthy that Beijing has assented to the imposition of new sanctions, and the following statements by the new Chinese leadership have signaled a growing disappointment towards North Korean military threats, although this would not significantly alter the nature of the relationship between Beijing and Pyongyang. Despite the fact that North Korea's posture pose a direct challenge to China's core objectives of denuclearization, stability, and multilateral dialogue, Beijing's pragmatic cooperation with the North has never been in doubt. Trade statistics, in fact, indicate improved ties between China and North Korea in 2013, despite tensions since the February nuclear test.²⁶

Pyongyang promptly responded to new sanctions, severing all communications with Seoul and declaring the 1953 Armistice, signed to put an end to the Korean War, null and void. In addition, it threatened to launch a preemptive nuclear attack indicating, in a propaganda video, potential targets in America. At the same time, Kim Jong-un inspected military units and ordered to transfer missile units to the eastern coast, aiming at Guam. The tension became palpable when the United States and South Korea decided to carry out previously scheduled joint military exercises, further angering Pyongyang, that tends to look at them as a general prove of invasion. The United States sent a B-2 stealth bomber on a practice sortie over South Korea, as well as B-52 bombers and F-22 fighters, with a double meaning: reconfirming its commitment to protect South Korea and demonstrate to Pyongyang that they would be ready to retaliate to any attack from the North.

This state of things, however, has brought immediate negative consequences; in particular, the expected restarting of its plutonium production reactor at the Yongbyon complex, and the closure of Kaesong Industrial Complex (KIC), where 120 South Korean industries employ more than 50.000 North Korean workers, in a rare example of cooperation between the two parts. The shutting of KIC has signaled not only the collapse in the relations between the South and the North, but also the definitive abandonment of the *Sunshine Policy*, the strategy of engagement promoted by progressive South Korean administrations between 1998 and 2008. In the following weeks, however, the tension gradually softened—as a possible result of China's pressure on Pyongyang—and in summer many started to call for a negotiated solution. After a long and tortuous series of meetings between the two countries, Pyongyang accepted an

²⁵ Korean Central News Agency (KCNA), 12 February, 2013

²⁶ Dong Wook Won, “Will the Jang Execution Affect Beijing's Economic Ties With Pyongyang?”, in *Global Asia*, Vol. 9, No. 1 (Spring 2014), p. 30-37

agreement under which the two Koreas guaranteed that the normal operations of the KIC would not be affected by political conditions under any circumstance. The KIC was later reopened in September.

North Korea's assertiveness has seriously delayed any possible development of *Trustpolitik*, an approach advocated by Park Geun-hye, the new South Korean President, according to which Seoul would "assume a tough line against North Korea sometimes and a flexible policy open to negotiations other times."²⁷ This strategy is based on three main pillars: a trust-building process on the Korean peninsula, combining both instruments of dialogue and pressure; the proclamation of the "Northeast Asian Peace and Co-operation Initiative," a roadmap for implementing *Trustpolitik* at the regional level, based on the development of a habit of cooperation among regional players on soft issues; and the necessity for South Korea to play a greater role in responding to global issues as a responsible middle power. *Trustpolitik*, however, does not seem to have brought about a substantial modification of the situation if compared to the previous government's attitude, and it does not even seem immune from criticism: it appears, in fact, that North Korea is still seen more as a target than as a partner with which "negotiating" a possible change.

Conclusion

There is a general agreement that Asia is achieving its position as the centre of power in the 21st Century, and if the current trends continue, the next few years will reinforce this vision. The main actor within this framework is, without any doubts, China, and it is China's rapid rise in terms of economic growth and its ensuing military modernization that has the greatest long-term significance for the continent and the world itself. The challenge posed by China's rise lies in its implications for the future security environment. How will China seek to use its growing power in the Asia-Pacific region, and more broadly, at a global level? Will China's role on the world stage be characterized by what Beijing refers to as 'peaceful development towards a harmonious world' or, will it be China seeking to end US strategic primacy in the Western Pacific, and assert a "China Century" that in reality, eclipses not only the "American Century" but also overshadows the "Asian Century"? Will there be intense strategic competition between the major powers in a complex and unpredictable multipolar international order, or will competition be eschewed in favor of greater international cooperation?

It is clear that China is a realist actor that seeks international stability as the best path towards peaceful development. Indeed, China's formal foreign and security policy, including most recently its 2010 Defence White Paper, emphasizes the importance of ensuring a "peaceful development towards a harmonious world order." It is simply not in China's interest to needlessly promote conflict or instability with its neighbors. Yet China's assertiveness in regional disputes is clear and is ringing alarm bells in the capitals across Asia.

In the South China Sea China ignores international maritime law and the interests of neighboring states, and claims the entire South China Sea, and all the land territories, as well as resource-rich economic exclusion zones within it, risking military conflict notably with the Philippines and Vietnam in particular. In the East China Sea, China and Japan seem locked in a continuing dispute over the Senkaku/Daioyu Islands that is driven increasingly by nationalist sentiment on both sides, not to mention the potential prize of substantial resource wealth. In both disputes, China is willing to use military power in a coercive manner that is leading to other states in the region re-assessing their own military requirements and investing in new military capabilities to deter China, whilst seeking closer relations with the United States to counter-balance perceived assertiveness on the part of Beijing. Finally, although progress in trade and cultural relations between Mainland China and Taiwan are welcome, more significant issues such as Taiwan's political system and autonomy in the event of reunification, and China continuing military build-up across the strait remain unresolved. The current Taiwanese government's stance of 'no reunification, no independence, and no use of force' remains steadfast, and at the same time, China's determination to reunify with Taiwan remains unwavering. How to move the process forward without it becoming a 'zero-sum' resolution, in which one side loses as the other gains, is the major challenge confronting China-Taiwan relations in coming years. The potential for China to use force can also be examined in scenarios other than these three most commonly suggested contingencies: North Korea, energy resources, cyber-war.

²⁷ Park Geun-hye, "A New Kind of Korea: Building Trust Between Seoul and Pyongyang," *Foreign Affairs*, Vol. 90, No. 5 (September/October 2011), <http://www.foreignaffairs.com/articles/68136/park-geun-hye/a-new-kind-of-korea?page=show>

China's rise does not occur in a strategic vacuum, and states in East Asia and within the broader Asia-Pacific region will respond to China's strategic choices through political, economic and military policy choices. The US' 'pivot' to Asia is being watched with alarm by strategic thinkers in Beijing. The pivot does not represent US containment of China—such a policy choice is impossible given China's integration with the global economy, and its interdependence with the US economic system in particular. The pivot represents a US recognizing the potential risks posed by a rising China, and hedging against those risks, whilst seeking to continue to engage China diplomatically to manage its rise. As this dual-track 'hedge and engage' approach gathers pace, other states including key allies of the US—Japan, South Korea, Australia, Singapore and the Philippines—will adjust their own defense and foreign postures to match the impact of China's rise. Such a period represents a degree of shifting of strategic factors to reach a new equilibrium with a rising China.

Major Powers are becoming great powers and China looks set to become at the very least, a regional superpower that potentially could choose to challenge US strategic primacy in East Asia. Such a process of change towards a new equilibrium could be peaceful if carefully managed, or conflict-prone if driven by competitive national interests and military posturing.

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Background paper for Working Group 2. Greater Middle East and North Africa: Trends

ECONOMIC PROSPECTS FOR THE MENA REGION: IMPATIENT EXPECTATIONS, DEFERRED PROMISES AND THE MISSING AXES OF TRUST

By Memduh Karakullukcu

Global Relations Forum

When life standards and norms of fairness diverge from the majority's expectations in a society for prolonged periods of time, social dynamics will sooner or later explore and force alternative governance modalities to narrow that gap. The MENA region countries appear to be going through such a phase. A viable path to peaceably control and reverse the accumulated expectations gap is unfortunately still elusive.

The world faces alternative unfavorable trajectories in addressing the expectations gap of these societies, ranging from a reversion to the authoritarian suppression of the gap to politically motivated identity fractures or nationalist movements to distract from the public's basic demands. The starting premise of this paper is that these alternative trajectories do not offer a smooth transition to a new equilibrium and entail risks of conflicts and discontinuities. Therefore, the analysis focuses on the search for a peaceful, democratic, smooth trajectory in managing and eventually narrowing the present expectation gaps in the region.

That path of convergence will almost inescapably demand both active policies to improve the realities on the ground as well as a credible long term vision to anchor and extend the time horizon of the public's expectations. Offering credible long term narratives and asking for public's patience whilst taking tough immediate measures to improve the current state can be a viable option only if there is trust among various stakeholders to justify such patience¹. Those stakeholders involve different segments of the society as well as external partners who can provide capital, export markets or destinations for economic immigration.

The key difficulty in the MENA region is that most of those axes of trust have been fractured, if not broken, over different episodes in the recent decades which makes it all the more difficult to craft a credible long-term vision that can extend the time horizon of expectations.

The paper first outlines the social dynamics, especially the youth unemployment problem, that have led to the disenchantment of large segments in these societies. In the second section, the pressing macroeconomic imbalances and risks that constrain the current policy space is discussed for both oil-importing and oil-exporting nations. The discussion also addresses the possibility of intraregional financial support. The paper then turns to the long-term strategies that can gradually narrow the expectations gap and identifies the critical trust deficits that encumber efforts to pursue these strategies. This final section briefly explores any surviving axes of trust and possible new mechanisms of mutually credible promises that might sufficiently extend time horizons to allow peaceful reconciliation of demands and realities in MENA societies.

Identifying the Structural Core of the Social Expectations Gap

Although it is difficult to disentangle the various social dynamics that triggered the Arab revolts with precision, public disillusion with economic governance is considered to be a key component of those dynamics.²

Somewhat paradoxically, the revolts that started in Tunisia came after a reasonably sound growth period in the region (Table 1) which confounds the simple causation linking social discontent with low economic growth.

¹ Jean-Pierre Chauffour makes a similar diagnosis as the starting point of the report's analysis, see Jean-Pierre Chauffour, *From Political to Economic Awakening in the Arab World, The Path of Economic Integration*, Washington D.C, World Bank, 2013 (MENA Development Report), p. 16

² Alan Richards, John Waterbury, Melani Cammett and Ishac Diwan, *A Political Economy of the Middle East*, Westview Press, 2014, Chapter 16 and Magdi Amin, Ragui Assaad.[et al.], *After the Spring, Economic Transitions In the Arab World*, Oxford University Press, 2012, Chapter 1

However, as close observers of these societies note ³ the discontent of large social segments is more subtle and can be traced to the unfair allocation of opportunities and unfair distribution of state largess in these societies. The inequity of economic opportunity in these societies is best reflected in the highly distorted and dysfunctional jobs markets.

The MENA societies have very low labor participation rates and high unemployment rates (Table 2). The employment-to-population rate which indicates the percent of active adults in employment is around 43% in MENA compared to the world average of nearly 60%.

More strikingly, these societies are differentiated from the rest of the world by their distressingly dire youth employment statistics. As shown in Table 3, youth labor participation rates in MENA are significantly lower than other parts of the world. Moreover, despite the low participation rates, the unemployment rate is notably higher than the rest of the world. As a result, the percent of youth (the 15-24 age group) that is actively employed in the MENA region is around 23-24%, compared to the global average of 41% in 2013. The 23-24% active employment rate is an alarmingly low level.

Although there are variations across MENA countries, high youth unemployment is a general regional trend including oil-rich as well oil-importing countries. The gender based analysis of the youth employment statistics indicates that the low employment problem in MENA is common to both genders but the differential with the rest of the world is especially striking among females. Employment-to-population ratio among females was 47.1% in the world, 15.0% in the Middle East and 19.0 % in North Africa in 2012.⁴

The unemployment statistics in every respect set the MENA region apart from the rest of the world. It is quite clear that there is pervasive denial of economic opportunity to broad segments of the population, waste of human talent and thus justified cause for social resentment in these societies.

The general unemployment problem and especially the youth crisis lie at the intersection of two critical failures in the governance of MENA economies. The first is the distorted education system that has been shaped by its heavy orientation towards public sector jobs. And the other is the failure of MENA economies to attract and develop industries that would offer high-quality private sector jobs to the new graduates. As a result of these systemic failures in shaping and utilizing human skills, these economies have accumulated unemployment, waste of educated human resources and public discontent.

i) *Distortions in the education system due to the dominance of public sector employment*

The first flaw is that the education system is geared towards public sector employment which provides job security and high income. Despite all the market-oriented reforms starting in the 90's, the states have continued to maintain high numbers of public sector jobs and the appeal of these jobs remains a structural, distortionary element of MENA economies. There are estimates that 29% of total employment in the Arab world was in state employment in early 2000 which is 11% higher than the global average excluding China. Public sector wage share is estimated at 38%⁵, indicating the relatively high wage levels, and thus the appeal, of these jobs.

These widely coveted job opportunities are predominantly open to university graduates. Therefore there is broad demand for tertiary education among the aspiring youth to meet the criteria for state employment and higher education has grown to meet this demand, thereby graduating a large cohort of students applying for a limited supply of those positions.

This seemingly benign structure which in theory could be viewed as a way to increase schooling across the society has led to critical distortions. In the absence of well-paying private sector jobs that could absorb the remainder of the graduates, the education system is not shaped by the demand for market-oriented skills that would be relevant for the

³ Magdi Amin, Ragui Assaad..[et al.], *After the Spring, Economic Transitions In the Arab World*, ibidem

⁴ ILO Global Employment Trends 2014, *Risk of a Jobless Recovery*, Geneva, 2014

⁵ International Labor Office, *Growth, Employment and Decent Work in the Arab Region*, Geneva, ILO, 2009

global economy. Hence, MENA education systems are perceived to provide "credentialist" training that fulfills state sector admission criteria but not market relevant skills.⁶ That bias has shaped the existing graduate pool over the years.

The overemphasis on state jobs as the secure, prestigious career path distorts the education systems and society's education expenditures beyond the university graduates. The division of public financial resources across primary-secondary versus tertiary education appears to favor the latter.⁷ Given that social returns to primary education are likely to be higher⁸ and that primary education is critical in fighting poverty, this bias is a large scale structural distortion with adverse effects. Furthermore, tertiary education's allure overshadows vocational training which would match the immediate skill needs in these societies.

The social implications of the state-centric educational and economic structure are very broad. It shapes or impacts the social and economic aspirations and resentments of most segments of the society. Those graduates who are not admitted to these coveted jobs are placed on a waiting list and defer their lives for many years, including marriage and independent households. Those who eventually give up their wait are faced with a dual-jobs market. The quality private sector jobs are in inadequate supply. Most non-state opportunities are within the informal economy that offers low income, less security and less prestige. Therefore, those who are waiting for a job and those who have given up waiting are resentful and disappointed.

Among the disillusioned groups, there is also the often overlooked group of secondary school graduates who were rejected admission to higher education and could not even join the group of hopefuls for prestigious state jobs. This is especially important because of perceptions of inequity in applying for higher education. Although public education is free, extra tutoring is pervasive and costly. As a result, there is an accumulated segment of secondary-school graduates who are working in low-income informal jobs and who were left out of lucrative state employment that are reserved for a seemingly more privileged minority.⁹

In summary, the public sector driven jobs and flawed education dynamics in MENA societies are at the core of the unemployment problem which drives the broad sense of resentment and inequity in these societies. This structure distorts incentives, generates human skills that are not fit for globally integrated, enterprising societies and creates pervasive resentment.

In seeking solutions for closing the gap between expectations and reality, the state's role in distorting the fundamental institutional mechanisms of individual's economic participation- education and job generation- is a key flaw that needs to be corrected.

ii) Distortions due to the absence of formal private sector jobs

The second underlying cause of the MENA employment crisis is the dearth of secure, high-income private sector jobs. MENA economies have failed to develop manufacturing and quality service sectors in tandem with their economic growth. The value added share of manufacturing is well below comparable middle-income countries¹⁰. These countries have instead developed capital-intensive industries like construction and mining. Those sectors do not generate enduring quality jobs in significant numbers.

In the resource-rich economies, the Dutch disease and the profit appeal of the oil sector provide a convincing, albeit unfortunate, rationale for the absence of economic diversification. The context for oil-importing nations is different. It can be argued that these economies are also indirectly affected by the economic distortions of broader regional mineral wealth (through migration and regional capital flows), but this indirect explanation is likely to be partial at best. In this

⁶ Magdi Amin, Ragui Assaad et al., *After the Spring, Economic Transitions In the Arab World*, cit., p. 62-70

⁷ Magdi Amin, Ragui Assaad et al., *After the Spring, Economic Transitions In the Arab World*, ibidem

⁸ Alan Richards, John Waterbury, Melani Cammett and Ishac Diwan, *A Political Economy of the Middle East*, cit., p. 118

⁹ Alan Richards, John Waterbury, Melani Cammett and Ishac Diwan, *A Political Economy of the Middle East*, Chapter 5

¹⁰ Magdi Amin, Ragui Assaad et al., *After the Spring, Economic Transitions In the Arab World*, cit., p. 118

latter group, there appears to be a deeper failure where nations have failed to export globally, join the global value chains and integrate with the world markets.

In the absence of the ability to access regional or global export markets, the global manufacturing industries and the associated quality service sectors have not established themselves in oil-importing MENA countries. Tunisia and Jordan have achieved some headway in this direction but they have failed to deepen their export markets.¹¹

The reasons for this failure are complex and include concerns about crony capitalism, corruption, unfriendly and bureaucratic business environment and insufficient skill supply. To the extent that the MENA economies cannot attract these quality private sector jobs, the economic and social disequilibrium in the jobs market that has accumulated over time in these economies is very difficult to reverse.

Reshaping the education system to deliver market relevant skills while bringing in industries that will demand those skills presents a difficult sequencing problem as the two elements appear to require the other as a precondition. Hence, active policies will be required to move the two processes incrementally and synchronously until the minimum threshold for mutually reinforcing and self-propagating dynamics is reached. This will require time and patience.

Unfortunately, the long accumulation of the core problems has strained the patience and tolerance of these societies. There may not be adequate social patience for deferred results.

To buffer this temporal mismatch between impatient demands and deferred outcomes, policy design would normally involve state resources to support those disadvantaged in the planned transition phase. However, current state resources in non-GCC MENA countries do not have the flexibility to absorb the costs of this transition as demonstrated in the next section. Before turning to the immediate macroeconomic constraints on the governments, describing the broader constraints of these societies that further limit the states' room for maneuver in tackling the corrosive employment disequilibria will be useful in providing a fuller picture.

MENA countries provide very generous food and energy subsidies to their populations. These subsidies can reach very high levels averaging around 8-9% in Egypt and Yemen. In Egypt, the subsidies are higher than the public wage bill and more than public investment spending.¹² Although these subsidies are retrogressive and provide larger benefits to higher-income segments of the population, their elimination would undoubtedly elicit strong adverse reaction from all segments of an impatient population. Subsidies constitute a socially ingrained and costly legacy of the MENA economic governance paradigm which burdens the states' budgets. These resources could arguably be better spent to correct the employment disequilibrium described above but the current period is unlikely to be the ideal timing for their elimination from a social perspective.

An equally important reality and constraint of these societies is rapid urbanization and the resulting failures in urban services that range from inadequate quality housing to sewage and garbage-collection services. Failure of urban services is argued to be among the reasons for unrest in these societies and their improvement will require financial resources to avoid further exacerbation of social resentment. This presents another immediate demand on resources that constrains the ability to address the underlying jobs/opportunities disequilibrium.

A final contextual constraint is the shortage of water in this geography and the resulting food insecurity concerns in these societies. Food independence is difficult to attain under this limitation but given the political sensitivities, public resources continue to be channeled to support food production. The water constraints make this policy preference a losing proposition in the long run with an accruing fiscal burden in the interim¹³. Global warming is likely to worsen this problem whereas economically feasible desalination technologies may provide a more realistic solution over the longer term. To the extent that the governments maintain their sensitivity regarding food-independence, support for

¹¹ Magdi Amin, Ragui Assaad et al., *After the Spring, Economic Transitions In the Arab World*, *ibidem*

¹² Magdi Amin, Ragui Assaad et al., *After the Spring, Economic Transitions In the Arab World*, *ibidem*, p. 87

¹³ Alan Richards, John Waterbury, Melani Cammett and Ishac Diwan, *A Political Economy of the Middle East*, Chapter 6

unsustainable agriculture is yet another structural burden which limits the state's fiscal ability to manage a smooth solution to the core jobs/opportunities disequilibrium problem.

This section has identified and described the socially corrosive employment disequilibrium in MENA societies as a core driver of the continuing social discontent. The solution to the disequilibrium and its broad ramifications is an orderly shift from state jobs to quality private sector jobs. The accompanying shift from the dominance of credentialist higher education to a more balanced investment across primary-secondary-tertiary segments focusing on market relevant skills is equally important. This transformation will demand integration with the world economy over a carefully designed policy horizon.

The gap between impatient expectations of the society and the deferred promise of this trajectory appears to be a deal-breaker and will require short-medium term financial resources if this tenuous transition is to commence. Next section turns to the question of the availability of these financial resources for buffering the transition.

Would Current Macroeconomic Constraints Allow the Commencement of the Long-term Transition in the Region?

Prior to December 2010, growth performance and fiscal/external balance indicators in MENA were at reasonable levels (Tables 4&5) but structural issues like unemployment and governance failures were pressing problems. More than three years have passed after the initial events in Tunisia. As one would expect, the structural challenges that would require years to solve are still unresolved. The disconcerting change is that the macroeconomic indicators have worsened in this period. Especially the fiscal and external balance indicators of many countries point to significantly more restricted policy capacity in addressing the structural challenges (Tables 4,5).

Given the social demands for change, the pressure on the governments for change is stronger but the states' ability to undertake necessary reforms is curtailed by deteriorating fiscal and external balances. Most importantly, the states have limited capacity to absorb the social costs of reforms. In turn, the fiscal and external balances are further eroded and burdened by the unsettled social context and its economic ramifications.

As a result, the region faces a short term vicious cycle that needs to be broken if there is to be hope for a smooth transition to a structurally sustainable, inclusive and socially owned economic equilibrium. If the erosion in public finances and external balances continue, some countries in the region may face a tipping point¹⁴ where turmoil in the currency markets or concerns around sovereign risk could further aggravate the difficulty of tackling the structural challenges.

Fiscal and external balance concerns are qualitatively different between oil-importing nations of MENA and the fossil-fuel rich countries of the region. Among the fossil-fuel rich countries, the GCC nations should be treated separately from the fossil-fuel rich North African countries, Algeria and Libya, given the distinct societal dynamics and trajectories.

i) Fiscal/external constraints of oil-importing countries

The oil-importing countries of MENA are facing rapidly deteriorating fiscal and external balances as shown in (Tables 4, 5&6). Total government gross debt levels have reached 85% in this group of countries and the corresponding level for Egypt is already around 90%. Room for further fiscal action is limited.

Economic activity has slowed down, tourism income has dropped, FDI and portfolio flows have decreased. The IMF reports that the external gross financing needs for the Arab Countries in Transition (Egypt, Jordan, Morocco, Tunisia

¹⁴ Magdi Amin, Ragui Assaad et al., *After the Spring, Economic Transitions In the Arab World*, cit., p.13

and Yemen) was \$48.3bn in 2012 and is projected to climb to \$56.4bn and \$67.1bn for 2014 and 2015, respectively. The multi-year external official disbursements since the beginning of the Arab Spring totals around \$50bn which is roughly equal to one year's shortfall and clearly not enough to fill the external or fiscal gap in these countries.¹⁵ The IMF has approved a total of only \$10bn in financial support to the region, specifically to Jordan, Morocco, and Tunisia.¹⁶

As the fiscal and external balance erosion continues in the oil-importing MENA nations, the need for sustained external funds will persist. The governments are likely to bow to social pressures and increase or at least maintain public subsidies. The recent Egyptian stimulus packages worth nearly 3.0% of GDP are a case in point in the largest economy of the region.

Therefore, the oil-importing nations are facing the looming vicious cycle. Their finances do not allow for continued state expenditures in supporting the current public demands, let alone the transition costs of much-needed reforms. On the other hand, these societies' structural grievances including unemployment, weak governance, inequity and corruption persist and demand immediate attention.

This bad equilibrium is further complicated by adverse developments in the region and the world. The spillover effects of the Syrian crisis are threatening the Jordanian, Lebanese and Iraqi economies. The conflict in Ukraine, which is a key wheat exporter, threatens a rise in food commodity prices that would be a serious blow to the food-importing economies of the region.

Therefore, the macroeconomic state of the oil-importing nations is not promising with serious downward risks. However, looking at the region as a whole, arguably the oil-importing countries can provide the necessary financial support to the oil-importing nations during this difficult period.

• ii) Fiscal/external constraints of oil-exporting countries

The main non-GCC oil exporting countries in the region, Algeria, Iraq and Libya have all faced security challenges, strikes or infrastructure problems in the last few years. The non-GCC oil production (including Iran) has decreased from 9.5mb/d at the end of 2010 to 7.3mb/d at the end of 2013¹⁷. So their ability to provide a regional financial buffer at this stage is restricted.

On the other hand, the GCC countries continue to export oil and have actually increased their exports over the last few years to make up for the loss in oil production¹⁸. GCC has provided financial support to the region but the sustainability of this mechanism needs to be assessed carefully. The critical question is whether the GCC economies can or are willing to provide a window of opportunity for oil-importing nations to undertake their reforms. The long-term structural feasibility and implications of such intra-regional financial flows are broader and will be addressed in the next section.

The resource-based economic model of the GCC countries is essentially based on liquidation of depleting national assets¹⁹ which clearly has fundamental intergenerational equity implications. Their accumulated assets were worth nearly \$1.8tn, which was equal to nearly 115% of their annual GDP in 2012.²⁰ The mere presence of this fund reflects the concern for future generations. These countries have the current financial wherewithal to support the oil-importing nations of the region but they have to balance their own intergenerational distribution considerations with their concern

¹⁵ IMF, *Arab Countries in Transition: An Update on Economic and Key Challenges*, April 2014, p. 7

¹⁶ IMF, *Arab Countries in Transition: An Update on Economic and Key Challenges*, p.8

¹⁷ World Bank Global Economic Perspectives, *Coping with Policy Normalization in High-Income Countries*, January 2014, Chapter 2, p. 68, http://www.worldbank.org/content/dam/Worldbank/GEP/GEP2014a/GEP2014a_MENA.pdf

¹⁸ World Bank Global Economic Perspectives, *Coping with Policy Normalization in High-Income Countries*, *Ibidem*

¹⁹ Alan Richards, John Waterbury, Melani Cammett and Ishac Diwan, *A Political Economy of the Middle East*, *cit.*, p. 9

²⁰ IMF Gulf Cooperation Council Annual Meeting of Ministers of Finance and Central Bank Governors, *Economic Prospects and Policy Challenges for the GCC Countries*, October 2013, p. 17

about ensuring stability in the broader region. The GCC countries also take into consideration the governance structures and governing ideology in the oil-importing nations as they decide on their aid packages. The outcome of this complex calculation by GCC governments in the coming years is difficult to judge. Even though, the GCC members can in theory soften the financial constraints and break the vicious cycle faced by the oil-importing MENA nations, that positive decisive should not be taken for granted.

Furthermore, the GCC economies also face structural difficulties and vulnerabilities themselves. Their non-oil economic activity is weak and their external surplus fluctuates. The social instability in the region has also affected the GCC region and the authorities have increased transfers to the society which has adversely impacted their public budgets. Although the social tensions appear to have subsided, the high youth unemployment issue, the dominance of public sector jobs and the governance problems remain.

Apart from the structural problems that burden the GCC countries, their high dependence on oil inevitably makes them vulnerable to oil prices. IMF assessments indicate that \$25 decrease in oil prices will turn the fiscal balances to negative in all these countries except Kuwait.²¹ Given their accumulated assets, they can weather such a contingency but their long-term vulnerability to oil prices is a stark reality. The new global fossil fuel supplies, including the US non-conventional oil supplies are unlikely to have a major impact on the global oil prices in the short run given the demand in emerging Asia. However a global economic downturn can easily have a strong downward pressure on oil prices. In the longer run, the fundamental risk to oil prices is the use of abundant natural gas supplies in transportation which would provide a substitute to the hitherto unchallenged monopoly of oil in this sector.

In summary, the GCC countries share the structural problems and the expectation-reality gap discussed in the first section. Thanks to their abundant natural resources, they have the financial ability to manage a smooth reform trajectory for closing that gap in their own societies. However, paradoxically, their resources may lead to complacency, deferral of the necessary reforms and further widening of the expectation-reality gap that would eventually render the smooth transition alternative much less viable.

This section started by posing the question about the availability of the short-term financial resources in the region that could buffer the gap between social expectations and reality that will allow the long-term policies to start delivering results. Unfortunately, the oil-importing nations do not appear to have that macroeconomic buffer. The GCC countries have the oil-income that will allow them to undertake long-term reforms if they decide to do so. However, their willingness to aid the broader region is contingent upon their intergenerational equity concerns, ideological preferences and vulnerability to oil prices. Their support so far is encouraging but it is tenuous over the coming years.

With that somewhat uncomfortable conclusion about the availability of the financial buffer to maintain near term stability in these societies, the next section turns to the long-term trajectory that can actually deliver the narrowing of the expectations-reality gap.

Narrowing the Expectations Gap: Long-term Visions and the Missing Axes of Trust

The emerging picture of MENA painted so far is one shaped by deeply-rooted economic distortions that have generated social impatience around unmet expectations and a pervasive social reaction to the perceived inequity of opportunities. The states' ability to address these challenges is severely curtailed by fiscal and external balance constraints in the oil-importing countries, which juxtaposes social impatience with the practical impossibility of urgent remedies. The only glimmer of hope is the flow of external financial help, mainly through the GCC, that can serve as a short-term buffer to around this tense juxtaposition. However, that buffer, even if it remains available, is clearly not a structural panacea and certainly not a long-term solution to the core distortions. The buffer can only be useful if the oil-importing societies can

²¹ IMF Gulf Cooperation Council Annual Meeting of Ministers of Finance and Central Bank Governors, *Economic Prospects and Policy Challenges for the GCC Countries*, p. 17

generate credible visions to narrow the expectations gap and start acting on it during the narrow window of time afforded by such external support.

This section sketches a simple framework to explore the key elements of strategies for structurally and sustainably narrowing the expectations gap in the long run and also assesses the viability of such strategies.

As argued in the first section, these societies have accumulated high levels of unemployment especially among the youth, an inefficiently high level of state employment and high number of discontented workers in the informal economy. Ideally, this picture has to be transformed into an economy that has a high number of satisfactory jobs in the formal private sector, a productive and smaller public sector and lower level of unemployment. This transformation will require a combination of two parallel processes. On the one hand, these economies will have to generate new local firms and industries to absorb the workforce. At the same time, economic immigration will have to serve as a second process to relieve the pent up demographic pressure during this critical transformation. In other words, either the world will find mechanisms to bring sustainable jobs to these societies or it will find ways to bring some of the workers to the available jobs in other parts of the world. Both of these strategies have been tried in the past in different forms and have not generated sustainably positive results to pull the region out of its predicament. One could argue that these prior attempts were flawed and can be improved upon. Unfortunately, failed attempts leave a legacy of disappointment and mistrust that render new trials flowing from similar visions less credible and more difficult to implement. Therefore, many new policy initiatives will have to work with a higher level of skepticism and resistance among various stakeholders.

i) Bringing job opportunities to the people

First, thinking about generating new private sector jobs in these countries, the two critical and interrelated elements are the "export markets" for the products of this new domestic activity and the "capital sources" to initiate or grow these enterprises. Capital will flow into these economies to generate new jobs only if it perceives credible market opportunities for the goods and services to be produced.

- Export Markets

Countries that have achieved growth at an annual 7% rate for 25 years since 1950 have pursued the strategy of integrating with the world.²² In other words, selling to the domestic markets will not generate sufficient demand prospects to mobilize investment and job opportunities. Although improvements can be undertaken in some domestically-targeted sectors, an economic model that is driven solely by sales to domestic markets is not a viable option.

Sustainable growth and job creation will require national capacity to export. Unfortunately MENA economies' export levels are much lower than the levels that would be expected at their income levels.²³ Bolstering regional trade is a possible alternative strategy but the trade links among these economies has been traditionally weak. As the main reason for weak regional trade is weak complementarities among MENA countries, it is hard to envision thriving regional trade as the early locomotive of economic activity. Gradually expanding regional trade may eventually attract FDI but it is unlikely to provide the near term boost.

Instead, the export markets have to be geographically broad and varied. For simpler products where the MENA economies may have a competitive edge, the challenge is to break into new markets or to deepen markets where initial entry has been achieved. Clearly, easy market access in the target countries is a critical dimension of these efforts.

Europe is a sizeable market and its geographical proximity makes it a natural export destination for MENA economies. However, the European markets have high levels of protection for agricultural products as well as high non-tariff barriers for goods and services. The discussions around the Deauville process that address these barriers end up, rather

²² Jean-Pierre Chauffour, *From Political to Economic Awakening in the Arab World, The Path of Economic Integration*, cit., p.1

²³ Jean-Pierre Chauffour, *From Political to Economic Awakening in the Arab World, The Path of Economic Integration*, ibidem, p.51

surprisingly, focusing as much on European access to MENA markets as facilitation in the other direction.²⁴ European facilitation in opening up its markets for MENA products is highly desirable but slow at best.

The other broad export mechanism that can be targeted is to enter the Global Value Chains (GVC) which is the dominant paradigm in Asian economies. However, that model requires a strong chain of trust and reliability among the partners in the value chain as the quality and timeliness of the final product is as good as its weakest link. Without a strong track record of firm-level competence, human capital readiness and national logistical/regulatory reliability, joining the GVC's does not appear to be an easy option. Given these difficulties in broadening the region's export markets, attracting foreign capital that is already equipped for and part of global trade is of paramount importance. Such expertise and network of relations need to be leveraged to achieve the initial strong growth in exports which can then trigger a dynamic of mutually reinforcing capital flows and expanding exports.

- Foreign Capital

International capital that is critical for generating new jobs can flow from various sources.

Funds from the developed market economies flow either from official sources, including the governments and the IFI's, or from the private sector. The former sources are usually in the form of loans and come with strict and broad conditionality that heavily affects the national economic structures. Private funds are expected to flow after these IFI conditionality mechanisms ensure basic market requirements that will alleviate the risk concerns of private players. It is segments of these private funds from sophisticated markets that are most likely to carry the requisite global trade expertise, alluded to before, that can propel MENA countries to export globally and to integrate with the world.

The problem with this seemingly reasonable strategy that simultaneously tackles the export market and the capital components is that it has been tried before. The structural reforms in the region that have started in the 90's have not borne the desired society-wide benefits²⁵ and instead have created more frustration within the population. The social residue of this tried path seems to be loss of faith and trust among the population towards the IFI's, the ruling class and certain favored domestic business groups.²⁶ In hindsight, it is possible to identify the flaws in implementation that lead to the failure of these reforms. Nevertheless, the current perception of and frustration with this recent reform episode is likely to impede efforts for a replay, however improved, of the same strategy.

There is progress with the IMF programs in Jordan, Morocco and Tunisia but their success or sustainability should not be presumed. Egypt, on the other hand, has backtracked from the IMF program which is probably a reflection of the public resistance that is the legacy of recent decades. On the other hand, it is also very hard to mobilize globally integrated private capital without ensuring a certain level of legal security, economic stability, human skill supply etc. The absence of trust is regrettably mutual in this otherwise mutually beneficial strategy.

The other potential capital source is the GCC countries where the financing comes either as official aid and grants or as in-kind support from the governments. As discussed in the previous section, this support is critically important to secure a window of time while the sustainable trajectory for narrowing the expectations-reality gap is implemented. However, these funds do not necessarily bring the technical, managerial, global market expertise that is essential for integrating the region with the world markets through new enterprises²⁷. Moreover, these funding decisions inevitably have a political component that favors certain governments over others in the oil-importing countries. It is neither prudent nor wise to trust and rely on another country's political assessments in designing sustainable long-term economic strategy.

²⁴ See Jean-Pierre Chauffour, *ibidem*, Chapter 3 for a lengthy discussion on the expectations from MENA countries as part of the Deauville partnership process

²⁵ Jean-Pierre Chauffour, *From Political to Economic Awakening in the Arab World, The Path of Economic Integration* Jean-Pierre Chauffour, p. 34

²⁶ Magdi Amin, Ragui Assaad et al., *After the Spring, Economic Transitions In the Arab World*, cit.

²⁷ Magdi Amin, Ragui Assaad et al., *After the Spring, Economic Transitions In the Arab World*, *ibid.*, p. 6

Finally, capital can flow from what may be broadly grouped as state-dominated big economies around the world. Some of those economies have international enterprises that could provide some integration with the world and they may be willing to take risks that the western firms may be averse to. However, those risk and investment decisions usually involve political objectives which can be driven by the governments rather than profit motives. The geostrategic ramifications and the absence of trust at the global level among big players weaken the appeal of this option.

- Missing Axes of Trust

Given the missing axes of trust between the public and the IFI's or ruling classes, between segments of the oil-importing political groups and GCC governments, and among big market powers and state capitalists around the world, a clear mechanism that can combine sustainable capital flow with global market access is elusive. Any strategy that aims to bring jobs rapidly to the impatient populations of MENA needs to work around these missing axes of trust.

One possible approach is to create special economic zones in MENA countries where the international companies can be offered certain conditions of operation that would protect them from their perceived risk elements in these countries.²⁸²⁹ They would employ the nationals of these countries and export their products to the world markets. This is a half-way solution where the public would not be facing society-wide reforms at the behest of IFI's and the international firms would receive some level of protection from the domestic risks. It does not have the comprehensiveness of nation-wide reforms but given the context of weakened trust among stakeholders, these structures or similar half-way attempts may be the region's best bet to start narrowing the expectations gap.

Another alternative is to take even a more pragmatic approach. Parties can pursue all practical and technical steps that would serve the region's internal and external connectivity, that would be agreeable to all stakeholders and that would not require long-term trust. Such measures could include practical steps like investing in trade infrastructure (air, sea, land), improving logistics services and efficiency of border measures, expanding trade finance and eliminating transaction costs on remittances³⁰. These steps do not constitute a strategic pathway but nevertheless serve the ultimate goal of connectivity. More ambitious but piecemeal cross-border projects like harnessing the solar energy capacity of North Africa,³¹³² and linking it to the European power network could also contribute to the overall strategy. The drawback of piecemeal, practical steps and half-way measures is that they are unlikely to provide a strong political narrative for motivating and mobilizing the public. This is a concern because credible narratives of progress are critically important in guiding and softening the impatient expectations of the public. Narrowing the expectation-reality gap is as much about managing expectations as it is about delivering immediate results.

Nevertheless, given the difficulty of the overall challenge and the weak trust among stakeholders, these second-best measures may be the most realistic way forward and it is up to the politicians to develop the convincing narrative to inform and anchor the electorate's expectations.

ii) Bringing people to the job opportunities: Economic immigration

Generating jobs within the MENA countries is certainly the most effective and sustainable path to reduce the discontent due to employment issues discussed in the first section. However, given the magnitude of the problem and the demographic trends, domestic job generation by itself is unlikely to relieve the pressure in these societies at the desired pace. Moreover, domestic job generation faces a host of structural obstacles and trust gaps as discussed before.

²⁸ Tunisia has launched "Special Economic Zones" with some success, see Magdi Amin, Ragui Assaad et al., *After the Spring, Economic Transitions In the Arab World*, *ibid*, p. 121

²⁹ Memduh Karakullukcu discusses special zones as a model in the context of innovation and knowledge economy, see Memduh Karakullukcu, "A Strategy for Pre-Preemption: Designing Innovation Agoras to Inspire Progress and Project Stability" in Mary Sharpe, Abimbola Agboluaje (eds), *NATO Security through Science Series - Human and Societal Dynamics Volume 7*, IOS Press, 2006

³⁰ Jean-Pierre Chauffour, *From Political to Economic Awakening in the Arab World, The Path of Economic Integration*, cit.

³¹ Magdi Amin, Ragui Assaad et al., *After the Spring, Economic Transitions In the Arab World*, cit., p. 25

³² Jean-Pierre Chauffour, *From Political to Economic Awakening in the Arab World, The Path of Economic Integration*, cit., p. 121

Economic immigration is a second complementary channel through which the MENA employment challenge can be addressed. The region has a long history of job-related immigration. In the post-oil boom years, GCC countries and Libya have invited workers from the rest of MENA and the immigrant worker numbers have reached very high levels³³. The current intra-Arab migration is reported at 4.5 million immigrants.³⁴ Similarly, the ageing trends in Europe create a natural complementarity between the young MENA populations and the demand for labor in Europe.³⁵ Economic immigration serves both to create employment opportunities and also to direct financial resources back to the home country through remittances. The total remittances to Egypt, Jordan, Libya, Morocco, Tunisia in reached \$20bn in 2010. The remittances constitute a key source of foreign exchange and were equal to 16%, 9.5%, 5% of the GDP in Jordan, Morocco and Tunisia, respectively.³⁶

Scaling up the immigration mechanism to the GCC and Europe offers a possible trajectory to narrow the expectations-reality gap. However, the weak trust between the partners in this process again complicates an otherwise mutually beneficial partnership.

The GCC countries have been changing the composition of their worker inflows from MENA to Asia and have also been trying to solve their own employment crisis by shifting skilled immigrant jobs to their own nationals. The Asianization of the immigrant workers is a reflection of the GCC countries' concern with the political pressures that result from larger non-GCC Arab populations. The treatment of fellow Arabs as guest workers with limited rights and low wages generates tensions. The political dimension of economic immigration became evident in the aftermath of the Gulf War when Saudi Arabia expelled workers from Yemen, Palestinian and Jordan³⁷. Therefore, there are limits to the number of economic immigrants to GCC, mainly emanating from the uncertainty of social and security implications of having a large underprivileged group of fellow Arab workers in these countries.

The demographic complementarity with Europe is even clearer and pronounced.³⁸ However, the European publics are wary about admitting MENA citizens who may not return to their countries and become growing minorities or join already large MENA communities. The unskilled jobs that are not taken up by European citizens provide a natural basis for economic immigration from MENA but even for those jobs the risk of managing the return of these workers poses a difficult dilemma. The lack of confidence about the guest workers' return to their home countries complicates the immigration path to Europe.

- Missing Axes of Trust

Economic immigration between complementary societies is an appealing idea on paper but there are myriad sensitivities that come with introducing large numbers of new individuals in a society. Unless host and home countries can develop mutual understanding and trust about managing the various challenges that will inevitably arise, the level of immigration is bound to be limited and remain below the optimal number that would ensue in the context of a functioning partnership.

If the immigration mechanism is to be scaled up as a means to reduce the demographic pressures in MENA countries, functioning and mutually reliable structures will have to be designed and implemented. Mechanisms for seasonal immigration and shared responsibility between the home and host countries can be developed where successful practices around the world provide useful experience.³⁹ Parallel to these efforts, immigration options beyond GCC and

³³ Alan Richards, John Waterbury, Melani Cammett and Ishac Diwan, *A Political Economy of the Middle East*, cit., p.390-394

³⁴ Magdi Amin, Ragui Assaad et al., *After the Spring, Economic Transitions In the Arab World*, cit., p.149

³⁵ Jean-Pierre Chauffour, *From Political to Economic Awakening in the Arab World, The Path of Economic Integration*, cit., p. 122-134, p. 264

³⁶ Jean-Pierre Chauffour, *From Political to Economic Awakening in the Arab World, The Path of Economic Integration*, cit., p. 265

³⁷ Alan Richards, John Waterbury, Melani Cammett and Ishac Diwan, *A Political Economy of the Middle East*, cit., p. 392

³⁸ See Jean-Pierre Chauffour for a thorough discussion of labor mobility possibilities between the EU and MENA, Jean-Pierre Chauffour, *From Political to Economic Awakening in the Arab World, The Path of Economic Integration*, cit., p.120-140

³⁹ Jean-Pierre Chauffour, *From Political to Economic Awakening in the Arab World, The Path of Economic Integration*, Jean-Pierre Chauffour, *ibidem*, p. 133

Europe should also be explored. At the end of the day, the social problems in MENA with their broad security implications pose global challenges that demand engagement and initiative from all global actors.

Other more creative approaches may be called for in tackling the complex problem of economic immigration. For imparting the required linguistic and technical skills that the host countries need, more granular vocational education systems may prove to be helpful. Such systems may enable more flexible and dynamic skill build-up, more targeted matching between needs and skills and more effective filtering of self-motivation among the aspiring workers. The host countries and home countries may jointly design and fund these mechanisms. The IFI's may also provide funding support to these systems, directly financing the individuals' skill acquisition.

The IFI's may find that by channeling their resources to the MENA citizens directly for imparting market relevant skills, they may provide strong incentives for the citizens to upgrade their human capital, distance themselves from the skepticism about state's inequitable role in allocating resources and renew their trust in the IFI's competence in helping inclusive growth.⁴⁰

Conclusion

The social discontent in the MENA region that has clearly manifested itself over the last years is undoubtedly the consequence of many complex factors and dynamics. However, irrespective of how one prioritizes various factors, inequality of economic opportunity is a core problem of these societies and this inequality is best captured by and reflected in the exceptionally high unemployment levels, particularly among the youth. The unemployment and misemployment problems described in the paper attest to a fundamental labor market disequilibrium. In the absence of structural changes in these societies that can correct this disequilibrium, the gap between social expectations of fair opportunity and the reality will not close. The societies' resentment will not abate.

The correction of the disequilibrium is not an easy matter and will require well-crafted strategies to integrate the productive capabilities of these societies with the world. That process will take time, especially because there is critical absence of trust among various key stakeholders that need to take active role in these efforts ranging from facilitating market access to providing FDI, from allowing economic immigration to investing in the region's human capital. In this context of mistrust, either key players will take leaps of faith, which rarely happens, or will pursue practical small steps to advance the region's connectivity with the world.

Further complicating this already challenging long-term transition to inclusive, fair and rewarding employment markets is the justifiably impatient and pressing expectations of the population. As the long-term transformative initiatives are launched, it is essential to secure funding to absorb the social costs of the early stages of the transition. Without such funding, even the best-crafted long-term policies stand a small chance of success in the current social environment.

All main actors, including the western governments, IFI's, GCC countries and other big global actors need to recognize that the near-term social stabilization efforts and the long-term transformative reforms are complementary but distinct.

As indicated at the outset, this paper hopes for and assumes a smooth trajectory to close the expectations gap in the region. However, such efforts are of course under permanent threat of being beset by reversion to authoritarianism or socially corrosive identity politics or internal conflict or even intrastate conflict. All these potential adverse developments will divert from a smooth, peaceable trajectory but the underlying disequilibrium and the social demands for fair economic opportunity will probably remain constant and forceful realities for some time. Therefore, all diversions should be handled with the firm political resolve and intellectual focus to bring these societies back to the peaceful, smooth transition path.

⁴⁰ Magdi Amin, Ragui Assaad et al., discusses this issue in detail, see Magdi Amin et al., *After the Spring, Economic Transitions In the Arab World*, cit., p. 168

The region or the globe at large cannot afford any other outcome.

Table 1

MENA Countries GDP Growth Rates

		Projections						
	2000-2007	2008	2009	2010	2011	2012	2013	2014
MENA Oil Importers	5.0	6.1	4.9	4.3	1.6	2.0	2.8	3.1
GCC	5.9	7.8	0.9	6.4	7.7	5.2	3.7	4.1
Egypt	4.7	7.2	4.7	5.1	1.8	2.2	1.8	2.8
Jordan	6.6	7.2	5.5	2.3	2.6	2.8	3.3	3.5
Lebanon	3.5	8.6	9.0	7.0	1.5	1.5	1.5	1.5
Morocco	4.6	5.6	4.8	3.6	5.0	2.7	5.1	3.8
Syria	4.2	4.5	5.9	3.4	..	..	..	..
Tunisia	4.8	4.5	3.1	2.9	-1.9	3.6	3.0	3.7
Algeria	4.4	2.0	1.7	3.6	2.6	3.3	3.1	3.7
Bahrain	6.4	6.3	3.2	4.7	2.1	4.8	4.4	3.3
Iraq	..	6.6	5.8	5.9	8.6	8.4	3.7	6.3
Kuwait	7.4	2.5	-7.1	-2.4	6.3	6.2	0.8	2.6
Libya	5.4	2.7	-0.8	5.0	-62.1	104.5	-5.1	25.5
Oman	4.0	13.2	3.3	5.6	4.5	5.0	5.1	3.4
Qatar	12.0	17.7	12.0	16.7	13.0	6.2	5.1	5.0
Saudi Arabia	4.7	8.4	1.8	7.4	8.6	5.1	3.6	4.4
UAE	6.6	3.2	-4.8	1.7	3.9	4.4	4.0	3.9
Yemen	4.2	3.6	3.9	7.7	-12.7	2.4	6.0	3.4

IMF World Economic and Financial Surveys Regional Economic Outlook, Middle East and Central Asia, Nov 2013, p. 8,31,53

Table 2

Labor Force Participation Rates (%)

	2007	2008	2009	2010	2011	2012	2013
World	64.2	64.0	63.7	63.4	63.4	63.4	63.5
Developed Economies and EU	60.5	60.6	60.4	60.2	59.9	60.0	59.9
Central and South-Eastern Europe/CIS	58.6	58.9	59.0	59.1	59.5	59.7	59.8
East Asia	71.5	71.1	70.7	70.2	70.4	70.6	70.8
South-East Asia and the Pacific	70.2	70.2	70.3	70.3	70.4	70.4	70.4
South Asia	59.4	58.6	57.8	57.1	56.6	56.1	56.1
Latin America and the Caribbean	65.4	65.6	65.7	66.0	65.9	66.2	66.2
Middle East	47.8	47.2	47.5	48.0	48.4	48.7	49.0
North Africa	48.3	48.4	48.4	48.5	48.7	48.9	49.1
Sub-Saharan Africa	70.2	70.4	70.4	70.4	70.5	70.6	70.8

Unemployment Rates (%)

	2007	2008	2009	2010	2011	2012	2013
World	5.5	5.6	6.2	6.1	6.0	6.0	6.0
Developed Economies and EU	5.8	6.1	8.4	8.8	8.4	8.6	8.6
Central and South-Eastern Europe/CIS	8.2	8.1	9.9	9.2	8.5	8.0	8.2
East Asia	3.8	4.3	4.4	4.2	4.3	4.4	4.5
South-East Asia and the Pacific	5.5	5.2	5.1	4.7	4.4	4.1	4.2
South Asia	4.1	4.1	4.2	3.8	3.8	3.9	4.0
Latin America and the Caribbean	6.9	6.5	7.5	7.3	6.7	6.6	6.5
Middle East	10.2	10.1	10.3	11.1	10.8	10.9	10.9
North Africa	11.1	10.5	10.6	10.4	11.8	12.1	12.2
Sub-Saharan Africa	7.5	7.7	7.7	7.6	7.6	7.6	7.6

Employment-to-population ratios (%)

	2007	2008	2009	2010	2011	2012	2013
World	60.7	60.4	59.7	59.6	59.6	59.6	59.6

Developed Economies and EU	57.0	57.0	55.3	54.9	54.8	54.8	54.8
Central and South-Eastern Europe/CIS	53.8	54.1	53.1	53.7	54.4	54.9	54.9
East Asia	68.8	68.0	67.5	67.3	67.4	67.5	67.5
South-East Asia and the Pacific	66.4	66.6	66.7	67.0	67.3	67.5	67.4
South Asia	57.0	56.1	55.4	54.9	54.4	53.9	53.9
Latin America and the Caribbean	60.9	61.4	60.7	61.2	61.5	61.8	61.9
Middle East	43.0	42.5	42.6	42.7	43.1	43.4	43.6
North Africa	43.0	43.3	43.3	43.5	42.9	43.0	43.1
Sub-Saharan Africa	65.0	65.0	65.0	65.1	65.2	65.3	65.4

ILO Global Employment Trends 2014, Risk of a Jobless Recovery, Geneva, 2014

Table 3 Youth Unemployment

Labor Force Participation Rates (%)

	2007	2008	2009	2010	2011	2012	2013
World	49.8	49.2	48.5	47.7	47.6	47.3	47.4
Developed Economies and EU	49.9	49.8	48.6	47.4	47.0	47.0	47.3
Central and South-Eastern Europe/CIS	40.3	41.3	41.4	40.9	41.1	40.3	40.5
East Asia	56.6	55.9	55.2	54.2	54.7	55.1	55.1
South-East Asia and the Pacific	53.2	52.7	52.6	52.3	52.4	52.4	52.4
South Asia	45.6	44.1	42.7	41.4	40.5	39.6	39.6
Latin America and the Caribbean	53.4	53.3	52.5	52.6	52.4	52.5	52.5
Middle East	31.7	30.8	30.7	30.9	31.1	31.1	31.1
North Africa	34.1	34.0	33.6	33.4	33.5	33.6	33.6
Sub-Saharan Africa	54.2	54.3	54.2	54.1	54.1	54.2	54.3

Unemployment Rates (%)

	2007	2008	2009	2010	2011	2012	2013
World	11.6	12.0	12.9	12.9	12.7	12.9	13.1

Developed Economies and EU	12.5	13.3	17.4	18.1	17.6	18.0	18.3
Central and South-Eastern Europe/CIS	17.5	16.9	20.0	19.0	17.9	17.5	18.0
East Asia	8.0	9.2	9.4	9.1	9.4	9.7	10.1
South-East Asia and the Pacific	14.8	14.1	13.9	14.5	12.9	12.7	13.0
South Asia	9.2	9.5	9.8	9.7	9.7	10.1	10.2
Latin America and the Caribbean	14.1	13.6	15.5	15.0	14.3	13.8	13.6
Middle East	23.9	24.1	23.7	26.2	26.0	26.7	27.2
North Africa	24.2	23.7	23.9	23.7	28.1	29.2	29.4
Sub-Saharan Africa	11.7	12.1	12.1	12.0	11.9	11.9	11.9

ILO Global Employment Trends 2014, Risk of a Jobless Recovery, Geneva, 2014

Table 4

MENA Countries' Overall Fiscal Balance (% of GDP)

		Projections						
	2000-2007	2008	2009	2010	2011	2012	2013	2014
MENA Oil Importers	-5.4	-4.7	-5.3	-6.0	-7.2	-8.7	-10.7	-9.6
GCC	12.0	24.0	-0.7	3.6	11.2	13.9	10.8	9.4
Egypt	-7.2	-8.0	-6.9	-8.3	-9.8	-10.7	-14.7	-13.2
Jordan	-3.3	-5.5	-8.9	-5.6	-5.7	-8.8	-9.1	-8.0
Lebanon	-14.2	-9.7	-8.3	-7.7	-6.1	-9.0	-10.4	-11.0
Morocco	-4.4	0.7	-1.8	-4.4	-6.7	-7.6	-5.5	-4.8
Syria	-2.1	-2.9	-2.9	-7.8	..	..	..	..
Tunisia	-2.7	-0.7	-2.3	-0.4	-3.0	-4.4	-7.2	-6.3
Algeria	7.2	7.6	-6.8	-1.8	-1.2	-5.1	-2.1	-2.7
Bahrain	1.6	4.9	-6.6	-7.0	-1.7	-2.6	-4.2	-5.0
Iraq	...	-0.9	-12.7	-4.3	4.9	4.1	-0.7	-0.3
Kuwait	29.5	19.8	26.8	24.5	33.2	33.4	28.9	25.6
Libya	15.4	27.0	5.2	15.9	-9.0	19.3	-7.4	-5.9
Oman	49.4	13.7	-2.1	4.0	7.3	2.5	5.2	2.6
Qatar	9.0	9.8	13.4	2.7	3.7	8.2	10.8	8.5

Saudi Arabia	10.7	31.6	-4.1	2.1	12.0	15.0	9.6	8.6
UAE	8.3	16.9	-13.1	-1.8	4.1	8.6	8.3	8.2
Yemen	-0.7	-4.5	-10.2	-4.0	-4.4	-6.3	-5.8	-5.8

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Table 5

MENA Countries' Current Account Balance (% of GDP)

Projections

	2000-2007	2008	2009	2010	2011	2012	2013	2014
MENA Oil Importers	-1.2	-2.6	-4.4	-3.4	-5.1	-7.7	-6.7	-4.9
GCC	15.3	21.1	6.6	12.4	23.7	24.4	21.3	19.8
Egypt	1.6	0.5	-2.3	-2.0	-2.6	-3.1	-2.6	-0.9
Jordan	-3.5	-9.3	-3.3	-5.3	-12.0	-18.1	-9.9	-9.1
Lebanon	-12.5	-7.7	-9.3	-9.9	-12.4	-16.2	-16.7	-16.7
Morocco	1.9	-5.2	-5.4	-4.1	-8.1	-10.0	-7.2	-6.1
Syria	0.3	-1.3	-2.9	-2.8	...	...	...	...
Tunisia	-2.7	-3.8	-2.8	-4.8	-7.3	-8.1	-8.0	-6.6
Algeria	16.4	20.1	0.3	7.5	8.9	5.9	1.8	1.2
Bahrain	7.4	10.2	2.9	3.6	12.6	8.2	13.5	11.9
Iraq	...	12.8	-8.3	3.0	12.5	7.0	0.7	0.8
Kuwait	29.8	40.9	26.7	30.8	41.8	43.2	38.7	37.7
Libya	25.3	42.5	14.9	19.5	9.1	29.2	-4.7	-4.7
Oman	9.7	8.3	-1.3	10.0	15.3	11.6	10.1	7.3
Qatar	20.2	23.1	6.5	19.0	30.3	32.4	29.6	25.6
Saudi Arabia	15.9	25.5	4.9	12.7	23.7	23.2	19.3	-17.7
UAE	9.4	7.1	3.1	2.5	14.6	17.3	15.2	15.6
Yemen	3.2	-4.6	-10.2	-3.7	-4.1	-0.9	-2.7	-3.4

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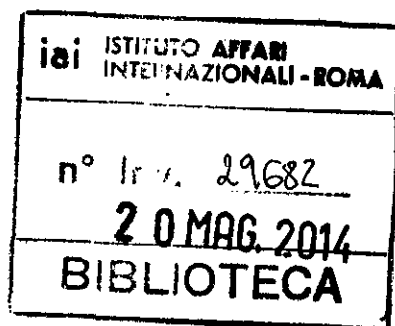
Table 6

MENA Countries Total Government Gross Debt (% of GDP)

Projections

	2006-2010	2011	2012	2013	2014
MENA Oil Importers	69.9	72.7	78.4	84.1	86.0
GCC	14.7	11.7	10.2	9.7	9.3
Egypt	77.4	76.6	80.6	89.5	91.8
Jordan	68.4	70.7	79.6	83.8	87.0
Lebanon	159.6	137.5	139.5	143.1	147.9
Morocco	52.3	54.4	60.5	61.8	63.1
Syria	37.2	..	..	..	..
Tunisia	44.2	44.0	44.0	45.5	49.7
Algeria	14.2	11.1	10.5	10.8	10.4
Bahrain	23.7	36.5	33.6	35.4	39.5
Iraq	95.4	40.2	34.1	17.5	14.9
Kuwait	6.6	4.5	3.4	2.4	2.4
Libya	0.1	0	0	0	0
Oman	6.5	5.5	6.0	6.9	7.8
Qatar	21.7	38.2	36.2	33.2	30.2
Saudi Arabia	15.5	5.4	3.7	3.3	2.8
UAE	14.6	17.4	16.5	16.7	16.8
Yemen	41.9	45.2	47.8	48.1	50.1

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ALMA MATER STUDIORUM
UNIVERSITÀ DI BOLOGNA



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FLEXIBLE FRAMEWORKS, BEYOND BORDERS

Understanding Regional Dynamics to Enhance Cooperative Security

May 15-17, 2014

Centro Residenziale Universitario di Bertinoro (Forlì, Italy)

DRAFT – NOT TO BE QUOTED

Background paper for Working Group 2. Greater Middle East and North Africa: Trends

STRATEGIC TRENDS IN THE MIDDLE EAST AND NORTH AFRICA

By Tewfik Aclimandos

College de France

Two years ago, democratization and democratic transition were the key words, the mothers of all issues. This is no longer true – now Security and the State's roles are the main topics.

What Went Wrong with Democratization

The story is too long to tell and it has yet to end. But things went clearly wrong almost everywhere, with the possible exception of Tunisia¹ – admittedly not the most crucial country. We do not dwell on whether things could have been different, we try to suggest some causes of the failure, which is probably temporary. The forces unleashed may quiet down; they will not disappear. The main drivers of the “change” (be it a revolution or a transition) – young educated people increasingly independent from the State for their earnings, and very angry against it, and/or Islamist militants, are here to remain.

- a) Despite some postmodern revisionism, democratization presupposes a demos. Country inhabitants who agree they are “one people”, who agree that their allegiance to this “people” is the key one, who agree on “who is part of this people”, and who think they are distinct and significantly different from their neighbors. This consensus might be old; it might be very recent. This prerequisite is not met in all the states of the region.
- b) Transition studies proved, long time ago, that democratization is most difficult when more than 40% of the population is young. Democracy has better chances to take root in ageing countries – In our case, youth is associated with radicalism, revolutionary trends and a crisis of the notion and practice of political representation, as severe tensions between generations are a constant of this area's history, that can be explained by socioeconomic factors and the pace of modernization. And Egypt, a crucial country, will remain young for a while, for some twenty years – the demographic progression is still catastrophic.²
- c) Revolutionary process and democratic transition do not obey to the same logics. For instance: revolution excludes old regime members, democracy includes them. Democracy is about people's *representation*, revolution is about the people *being present, in the streets*. Democracy is about “pluralism” and “power rotation”, revolution is about “the people” versus the “bad guys” in a fierce and Manichean struggle. Revolution prefers the big cities and the active political minorities able to mobilize urban crowds; democracy is neutral but has a soft spot for the countryside. Revolution is about destroying institutions, at least in the beginning, democracy needs sound and nice institutions. Hence democracy and revolution do not easily go together. *And it should be noted that in many countries the classes that could rebel against authorities or support a revolution represent an important percentage of the whole population.*
- d) “Political Islam” (an ideology, not a religion), *in its current state at least*, proved to be a terrible challenge for democracy, democratization and even stability. This is especially true for the “mother of all Islamists formations”, the Muslim Brotherhood and for many trends of the Salafism. This is a multifaceted problem. First of all, we should not forget the Brotherhood is effectively ruling a country since 1989 – Sudan. The results and the evidence are compelling: secession, genocide, authoritarianism, and the economic performance is, at best, mixed. Western capitals tend to forget President Bashir's political affiliation – Arab elites and counter elites do not. Second, the Brotherhood's pan Islamic and transnational ideology and practices were, rightly (as I believe) or wrongly, seen by an increasing number of segments and classes as a very serious threat to Existing Nations or Nations in the being – Egyptians, who belong to a very old nation, felt their Nation, identity, way of life, social cohesion, frontiers, threatened. Most Gulf elites, which try to create a “national tie” within their very recent countries, were scared. Pundits tended to think that populations wary of or hostile to secularism wanted an Islamist order – which would be “democratic” and “conservative”. This needs a serious reassessment: Conservative revolutionaries are not necessarily the kind of “conservatives” people long for; devout people can be hostile to the ideologization and the instrumentalization of religion and tradition, and do not want to be lectured on religious issues by folks who consider them to be bad Muslims, etc. Third, evidence tends to prove

¹ According to Western experts. Arab political scientists and intellectuals say the country is in bad shape.

² Moreover, the tensions between those under thirty years old and the others are immense.

Islamist ideologies exacerbate confessional strife (and in some cases civil war) almost everywhere. This is an especially negative issue for democratic transition, as only a tiny minority of the countries in the region is homogeneous in terms of religion. (Libya, Tunisia, Algeria, Morocco). Fourth, the Egyptian Brothers' alleged commitment to democracy³ did not resist the test of power. Their policies often looked like the implementation of a totalitarian grand design, combining hate speeches, use of militias, systematic attacks on judiciary, exclusionary practices, attempts to seize total control of state institutions, of religious ones, of labor unions, attempts to create new and obedient institutions, electoral frauds, etc. Fifth, those who thought Muslim Brothers were a moderate force, with a distinct ideology, that would fight and beat the multiple Salafists and the Jihadists, who were construed as the *really* bad guys, were proved wrong. I) The main difference between the two trends is about pace and gradualism, not about the end of the road – a modern theocracy⁴. II) The Muslim Brothers' bases in Egypt and Tunisia were not immune to Salafist ideologies and discourses, which are more consistent – the salafization of the Brotherhood is a well-established fact. III) In any case, the Brotherhood leadership in Egypt opted for a set of "Islamist alliances". They developed a "working relation", and probably an alliance, with both Salafists and Jihadists. They rejected working with the (admittedly divided, unbearable, difficult to handle) democratic, leftist, conservative and liberal forces. Egypt's constitution was the result of an agreement between the Brothers and the Salafists, against the other political (and religious) forces. More than 3000 jihadists returned or came to Egypt under Mursi's reign. Sixth, This ominous choice worsened the polarization between Islamist and Non Islamist actors almost everywhere and the latter proved they were more resilient than we thought. When the main players do not agree on the rules of the game, and when the differences are unbridgeable, democracy is under threat. Seventh, it can be said, with the benefit of hindsight, that the so called moderate Islamists in Egypt and Tunisia misread the mandate given by the electorate: they had to fight corruption, to behave ethically, and to avoid imposing their agenda on the societies – it seems that the Tunisian Al Nahda finally understands this, at least for now. Eighth, the overthrow of the Muslim Brothers led them and their allies to opt for violence in Sinai and elsewhere. This (and the failure of negotiations between them and the new regime) led to the terrible massacre of their (mostly innocent) militants in Rab'a, which was for both sides a point of no return. This violence greatly strengthened the strong State's advocates. Ninth, the Salafists are an understudied political trend – although things quickly change. This is a plural trend, with many currents, schools, ideologies, but we can construe a typology opposing political/legalist salafism, jihadi and violent salafism, and apolitical salafism. The first type proved to be a quick learner and to be abler than the Brotherhood at the art of compromise with other forces. It converted to gradualism. Nonetheless, it is hard to imagine how it could modify its positions on issues such as the stance towards women, shiism and non Muslim minorities. The second type, of course, is a very serious challenge to political orders almost everywhere in the region. To sum up, I would say that the Brotherhood faces an unprecedented crisis – at least in Egypt: it lost both its political appeal (this has happened before) and religious credentials (this is a new situation). It has a problem with both the State and a majority of the opinion. Its internal divisions (between radicals who want a fight to the end, reformists who want to draw the lessons of the past and to restructure the organization, and the undecided) seem to prevent bold moves toward a negotiated solution. And the other side is not willing to help – the popular pressure is too great.⁵ This crisis does not mean political Islam is dead – it means it will change.

³ The Brotherhood is double: on one side, it is a clandestine apparatus trying to look and behave as a Leninist party, intensely focusing on the seizure of power – while presenting some troubling similitude with a "Brezhnev-era" communist party. This apparatus is heavily controlled by apparatchiks who can grossly be described as "qutbians" (heirs of Sayyid Qutb, theorist of islamist revolution, who is a kind of Muslim Lenin). On the other side, it is also a mixture of a mass movement and of a sect, or a mass movement that has some features of a sect, but this mass movement is more plural than the apparatus. I admit I never understood how so many pundits could believe this movement could accept democratic values and behave accordingly. It is clear, for me, that a "democratic moderate Islamism" is possible, and it is even clearer that the Egyptian Brotherhood does not fit in this category.

⁴ Salafists would strongly disagree. They say they are willing to make concessions on the means, and not on the ends, and they add the MBs do exactly the opposite. Variation: they make concessions in politics, not in religion, contrary to the MBs. I think this is unfair.

⁵ The analysis of the internal divisions within the MBs stems from Ahmad Ban's (a dissident) articles and interviews in Egyptian press. The ruling coalition's stance is difficult to decipher and Egyptian colleagues strongly disagree on what it means: it seems clear, anyhow, that the two warring parties still talk to each other, to "gauge" the other side, not to reach an agreement, and that al

- e) At least in the Middle East, huge polarization along ideological divides within the same country means unbridgeable disagreement on regional alliances. It also means foreign meddling, trying to support political forces that support close cooperation with their mentors. Foreign (Arab and Turkish) funding for political players is not well studied, but all pundits took notice of its importance in Egypt, Lebanon, Syria, Iraq, Tunisia, Libya (and may be Palestine). Furthermore, the often employed "you are a stooge" argument, when credible, represents a dangerous tactic for democracy

Reconsidering the Arab State and the Security Challenges

The whole GMENA area and each country in it are facing serious security challenges, of different types. The result of these successive storms and daunting challenges is reconsideration, *inter alia* by Arab public opinion, of the role of the Arab State. In most Arab countries, security now is on the top of the public's concerns⁶ – and not democracy.

I argue that while it can be said that the prerequisites for a working democracy are not (yet?) here, those for an efficient authoritarianism are no longer there.⁷ Patriarchy and traditional patriarchal relations are undergoing a severe, and possibly mortal, crisis. Arab youth massively reject them – at least in all the countries I know. So we face years of generalized instability.

The main plague threatening Arab societies is civil war. True, some of the States played a key role in construing, protecting, maintaining their society's integration and cohesion; others destroyed these societies or were a real threat to them. In most cases, the evolution of the security situation leads many people to plead for a strong State and to call for new missions for the Arab State. This is not only true for police and military operations – the same goes for welfare efforts, to "buy" social peace. On welfare issues, this is a reversal of previous tendencies. The last three decades were the "disengagement years", with an ominous result: the Islamist movements (and the churches) replaced the State in many poor areas and neighborhoods. A huge and unanswered question is whether the State will have the resources and the know-how enabling it to succeed in this task – crucial for security. The different States, till now, had proved unable to adapt to the evolution of their societies, which have grown, modernized and become more complex. A curious paradox lies in the fact that Gulf States seem willing to fund this effort in some countries – Egypt, for instance, crucial for their security.

Of course, there are different types of Arab regimes: authoritarian republics, more or less authoritarian monarchies, semi liberal ones, Emirates. None of them can be considered as a functioning representative democracy. The States' size, resources, role, ideologies, relations with society (the fact that societies differ is of course relevant), and vocation greatly vary.⁸ Nevertheless, the Arab States had and have some common features. They all strongly relied on clientelist networks and suffered from endemic corruption. More often than not they also relied on huge and bloated bureaucracies. They all were deemed to be "in crisis", to have a serious legitimacy problem. Legitimacy is always crucial, but all the more if and when control is impossible.

Some States collapsed: Somalia, Libya. Many others are in serious danger. Almost all are confronting an Islamist challenge. Most of them are "police states", "securitocracies", etc. Many of them are unable to control their territory: Sudan, Libya, Egypt, Yemen, Iraq, Libya, Syria, Lebanon and possibly Algeria. But we should point out that some States have today an historic opportunity: there is, in some countries, for instance Egypt and Algeria, a broad popular support for the concept of a Leviathan protecting the poor and maintaining social peace.

Sissi decided to postpone any serious opening because he feels he now has not a popular mandate to negotiate a deal with the MBs. He is strongly helped by the Islamists' absurd stances and use of terrorist attacks, which radicalizes the public opinion.

⁶ According to a poll organized in five countries by a team led by Munqith Dagher, a former Iraqi general – he summed up his conclusions during a workshop organized by The European Institute, held in Florence in April 2014. These five countries did not include Egypt, where the evolution is similar.

⁷ I borrow this idea from my colleague Gamal Sultan.

⁸ See Ayubi Nazih., *Over-Stating the Arab state: Politics and society in the Middle East*, Tauris, 1995. Or the collective work: *The crisis of State in the Arab world*, (in Arabic), Beirut 2011.

Consider some security challenges.

The whole region is facing serious water shortages, which will be a serious cause of conflict- To deal with this is not an urgent priority, except for Egypt, Jordan and Yemen, but this problem, and the need for public works, rationing, powerful armies, may support those who want a very strong State.

- a) We have some failed states in the region, and many others are unable to control their territory. This creates vast holes in the regional security system: al Qaeda and other organizations are quick to identify the regions that are no longer under the State's watch. Al Qaeda is now entrenched in Sinai, Somalia, Yemen, Libya, Iraq and now Syria. This is a strategic nightmare. A future of long, even perpetual low-level wars can be plausibly envisioned, and it is not a worst-case scenario. In Egypt, some 10.000 Jihadists, many of them foreigners, are concentrated in the Sinai. Yemen is also a huge challenge, and security experts think it is a major hub for al Qaeda... and for Iran's clients and allies. Many armies, including the Egyptian, are now considering the creation of quick intervention forces, to deal with these groups. Other regional and international powers try to help the local armies, to improve their capacities and abilities. But other entities are happy to get rid of the "troublesome" elements and let their jihadists go to the "grey zones". Anyhow, the task may prove impossible (at least in Sinai and Yemen, the topography does not help and some tribes may prefer the Islamist groups to the central government) and the handling of tribal sensibilities often complicates it. Moreover, many major players are wary: the weapons and armies used to fight terrorism can later be used elsewhere and to other purposes.
- b) The collapse of Egypt's police and of Libyan's security forces and army, combined with other factors, have led to a proliferation of illegal weapons and the development of illegal arms trade and flux. It is no longer rare to see missiles, heavy guns, in the hands of families, groups, tribes in Egypt and Libya. Segments of the Egyptian and Libyan societies are now better armed than the police. Organized crime and thugs enjoy considerable freedom of action, and are able to organize increasingly daring operations. The Egyptian regime considered a program of "buying" these weapons – but the situation has yet to improve. It is difficult to figure out a scheme to disarm people. Either the police will strongly rearm, further complicating the issue of its submission to civilian authorities (or even to military ones), and its relations with the population, or the army's implication in internal security will grow (with the same risks).
- c) The rise of the number and of the fighting abilities of armies that do not obey to the "authorities" has ominous consequences. Hezbollah inadvertently launched a war with Israel in 2006. The Palestinian al Jihad could do the same trick. Libya could face such a future. These armies are funded by States willing to meddle, seed instability, to have a say, to interfere. Their presence also gives credence to the well known middle east problem, described by Rashid Khalidi as "tawrit strategy" – that is, the ability of small (State or non State) actors to create crisis or wars that drag major ones into it.⁹
- d) Civil wars (1) – Algeria, Libya, Sudan, Lebanon, Iraq, Syria, Oman and Yemen have known civil wars. Some of them were purely internal affairs. Others however were, and still are, "proxy wars." When this civil war is a religious or a confessional one, it drags foreign groups or foreigners willing to take sides. Lebanese, Iranian Iraqi chiites, Sunni jihadists and Islamists from everywhere are fighting in Syria. Some will be decimated; others will gain combat experience and will try to return home or to participate in another conflict.
- e) Civil wars (2)- Millions of persons are displaced and the humanitarian disaster is frightening. Millions of Syrians are leaving their countries, and represent a terrible burden on Lebanon, Turkey and Jordan. Their impact on internal security is great – and negative.
- f) The Gulf countries host millions of immigrates, many of them coming from other Arab countries. This phenomenon has a lot of implications for internal and regional security, some of them surprising. It gives the Gulf monarchies considerable leverage on countries that export labor forces and that rely on their remittances as a source of foreign currencies. Egypt has a huge stake in the stability of the Gulf, as a war could endanger millions of Egyptian families' earnings. Shaykh Qaraqawi once complained thousands of Egyptians converted to

⁹ The 1967 war is a case in point. Fatah and the Syrian regime went on collision course with Israel, creating a crisis that soon became regional. I think political regimes or forces with transnational ideologies (like Political Islam and Pan Arabism) are less immune to this tawrit disease, as their ideology is centered on transnational solidarity and compels them to support their brothers, clients, etc. This is another reason that should lead us to reassess the "stabilizing" role of Political Islam...

shiism in the Gulf. Capitalists and middle classes in the concerned countries (Egypt, the Gulf countries) increasingly share common values, interests and represent powerful lobbies for closer cooperation, etc.

Regional Challenges

I do not want to dwell on the debate on America's declining influence in the Middle East, and on its coming "disengagement". As long as the Chinese army – or that of any other major power – is unable or unwilling to project military forces, the USA, even if it opts for a "retreat and see" attitude, will remain the ultimate power – and this will last sometime. This is reinforced by American Naval superiority, needed for the security of crucial lines of communication. This region can be described as multi-polar or as a-polar. The main powers are Turkey, Israel, Saudi Arabia, Egypt and Iran, with Iraq being a possible prospect. While the first two look relatively more stable than the others, none of these key players can be described as absolutely immune to sharp and serious security crises. Each one has crucial weak points. None – with the possible exception of Israel- can go alone. Egypt is a kind of crucial swing State, where Saudi Arabia recently scored a great victory against Qatar and Turkey. Objectively, its best allies are Saudi Arabia and the Emirates. But the Saudi ruling family is the most powerful foe of the Muslim Brotherhood. So a Cairo regime ruled by the MBs will probably be on bad terms with Riyadh, Dubai and Abu Dhabi. Turkey and Iran are the most serious candidates for the Hegemon status. The Muslim Brotherhood and Jihadist networks are important transnational players. The first have a definite political project, the second are an "Islamist" version of Nihilism.

The region security system is now under reconstruction, with different competing projects. One year ago, the Saudis and the Gulf felt surrounded by Iran and a Cairo/Ankara/Doha axis. Erdogan and Sheikh Hamad bet on the Muslim Brothers, who seemed to be seizing power in Egypt, Libya, Tunisia, and who ruled Sudan. Cairo, Ankara and Teheran were discreetly cooperating on some issues, while disagreeing on others (Syria). Turkey and Doha strongly helped Egypt's very weak economy. Seen from Cairo or Riyadh, Washington did not seem to have problems with this new set up, despite Israel's fears.

Today the situation looks very different. Turkey's grand strategy is in shambles. Its zero problem policies are a failure: its relations with all its neighbors and with the key players are tense, with the relative exception of Teheran. Saudi Arabia gained the upper hand: it uses its financial clout and its networks to define a different defense (against Iran) system, relying on the Gulf Monarchies, Egypt, Pakistan, Jordan and Algeria. It says it no longer trust Washington. It is too early to know whether this is temporary (due to Obama's regional policies¹⁰) or not. In the same time, its defense budget has seen big increases the last year. It remains the USA's defense industry main customer, but it also tries to diversify its "sources". It has bought Chinese missiles and it has vested interests in Pakistan's nuclear industry. Pakistan is its most important ally and Nawwaz Sharif is said to be very close to the Saudi establishment. Riyadh also funds Egypt's shopping in Moscow. Egypt is currently planning to buy dozens of Mig 35 and it uses Russian satellites to monitor Sinai. Egypt's army also participated in joint military exercises with Gulf armies, and many Egyptian officers are now experts advising the Gulf armies. Of course, many tensions oppose members of this kind of alliance, but the States seem to be willing to manage it. Egypt and Saudi Arabia disagree on Syria, Saudi Arabia is not "happy" with Kuwait's stance on its dispute with Qatar. The Gulf States did not adopt the same attitude toward the Muslim Brotherhood (Bahrain and Kuwait being significantly more cautious) or toward Iran. The small Gulf States are ambivalent toward Saudi's hegemony, etc. Israel's attitude toward this new "Holy alliance" is also ambivalent. Its government was relieved to see the end of the Muslim Brothers' regime. It proved to be a staunch supporter of Cairo's new rulers and it fiercely lobbied for him in Western capitals. Its relations with Riyadh are discreet, but not hostile. But Israel is wary when it sees Arab countries gaining military clout.

The main question is: are Arab countries increasing their military capabilities? The answer is indeed be nuanced. Of course things are improving, but these countries are no military powerhouses. And the threats are daunting: Egypt, which has the best army of the bunch, faces a lot of challenges at his frontiers. It can be argued that it is surrounded by

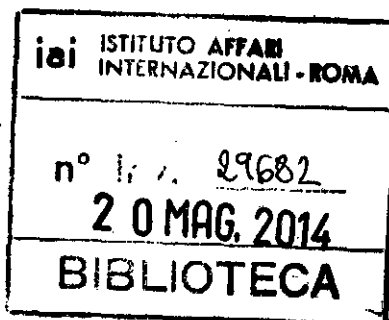
¹⁰ Iran is a top issue, of course. And the Arab States say they consider Washington to be unwilling to choose between "the allied States" and the transnational "Muslim Brotherhood", trying to please both.

unfriendly, even hostile, neighbors: Libya, Gaza, Sudan – not to mention Ethiopia and its hydraulic threats. It faces a formidable challenge in Sinai. Things, two months ago (February), were not going well. It has also a lot of other internal missions. Jihadists are now better warriors than their predecessors, they have more sophisticated weapons, good intelligence and good logistics, probably provided by the Brotherhood. The Saudi Arabia troops did not impress foreign observers when they clashed with Houthi rebels. I am no military expert but it seems quite clear these countries still badly need America's umbrella.

It seems to me that for the Gulf countries, Iran and Yemen should represent the most serious long-term challenges. Regardless of the future of its nuclear program, Iran is a powerful country, with a qualified, shrewd and tough political elite, a country that consistently and aggressively claims hegemony. Saudi Arabia, a country that contemplates a complicated transition, has considerable stakes in regional stability. Iran's strategy relies strongly on its nuisance capacity. It proved to be as able as Riyadh at the game of confessional politics. It has potential clients (or more) in Iraq, Yemen, Syria, Lebanon, Egypt, Palestine, Saudi Arabia and Bahrain. Yemen is in very bad shape and is near them. Syria is also daunting: Things can go very different ways: The only certitude is that this regime cannot stay: its responsibility in the bloodshed is so overwhelming that it will not be able to rule again. But at least three different scenarios are possible: an endless war, a political transition with Syria remaining a unified State, and a partition. Political transition remains a distant prospect. The fact jihadists account for 40% of the rebels troops is of no help.

The situation is bleak. But it is also a historic opportunity for those who want, dream of an Arab integration. Never since the 1973 war the Mashreq had been so united, sharing a sense of danger and trying to stand up. We already mentioned increasing military cooperation. The economic help the Gulf monarchies are providing have never been so great. The intelligence organisms and the leadership closely cooperate together. The business communities are closely intertwined. There is an Arab Academic camp, or system, and scholars from different countries often meet. Attitudes, among middle classes, are slowly evolving: the Egyptian middle classes no longer scorn their Gulf counterparts. Saudi Arabia vocally and decisively supported Egypt, a most unusual thing for such a discreet diplomacy. Nevertheless, many pitfalls should be avoided: this help should be conditional; it should not be construed as "means" to "quiet down" an upheaval – of course it is, but it also should be creative and seen as a way to unleash potential. The leadership should beware of their bureaucracies, which can sabotage any joint effort.

I did not evoke the Israeli/Palestinian conflict. For now, it is sleeping. The ruling coalition in Israel quietly and efficiently sabotaged Kerry's mediation and diplomatic efforts. It is falling into the famous "Israeli dilemma": Israel does negotiate under pressure, under threats of violence, as it does not want to look weak. And when the waters are calm, it does not negotiate, because it does not feel the need to do so. On the contrary, it consistently gains new ground, builds new colonies, new settlements. An American diplomat said things would not change unless a third intifada flared up.





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FLEXIBLE FRAMEWORKS, BEYOND BORDERS

Understanding Regional Dynamics to Enhance Cooperative Security

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Background paper for Working Group 3. Sub-Saharan Africa: Trends

ECONOMIC AND SOCIAL TRENDS IN SUB-SAHARAN AFRICA

By Giovanni Carbone

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Executive Summary

Sub-Saharan Africa is arguably the fastest-changing region in the world. As diverse as the area is, its economies and societies also feature a number of shared developments. This paper focuses on two key dimensions of change, namely the region's sustained economic expansion and its massive demographic growth, and also briefly points to two more specific phenomena, namely Africans' new "connectedness" and the forceful rise of Nigeria.

1. *Africa's new economic season.* Africa remains the poorest region in the world. Yet, as its annual growth rates rose to a 5.4% average between 2000 and 2013, talk began of an African economic boom. Contrary to a commonly-held opinion, growth has not been limited to countries rich in natural resources. While structural transformations remain limited, the recent positive economic trend brought about significant poverty alleviation, as absolute poverty declined from 58.0% in 1999 to 48.5% in 2010. Inequality has also been declining since the 1990s but remains an obstacle to faster growth.

2. *Demographic changes and related challenges.* The XXI century will mark the rise of Africa as a major demographic power, as the number of Africans is set to reach 3.8 billion by 2100, approaching the size of Asia. The continent's sustained demographic expansion results from the contrast between its rapid health improvements and a slow reduction of fertility rates. The completion of the demographic transition requires fertility rates to fall and the labour force to expand. Population growth of this scale will unquestionably raise crucial social, political and economic challenges. Such challenges include the management of urbanisation processes, access to land and water resources, food security and migration patterns.

3. *Africans' growing connectedness.* Africans are experiencing growing levels of "connectedness", both among themselves as well as towards the outside world. Opportunities for individual-to-individual interactions, citizen-state exchanges, regional-level networks and extra-African relationships have all been expanding due to economic, political, social and technological changes. Mobile phone penetration, for example, saw the regional average exceeding 59 subscriptions per 100 people in 2012, up from just 1 in 1999, opening new possibilities to many Africans. An exponential surge of external interest in Africa's resources, as well as in its expanding markets, led to new economic and political partnerships with a range of advanced and emerging economies.

4. *The rise of Nigeria.* Nigeria is fast emerging as Africa's rising power, challenging the leading role so far played by South Africa. A notoriously complex and fissiparous country, Nigeria has two key assets, namely people and hydrocarbons. Currently home to 169 million inhabitants, Nigeria will be the largest contributor not only to the region's but to the world's demographic increase, with almost a billion citizens by 2100. The second, related drive behind the country's rise is its economic expansion. A 7.4% average growth rate over the past decade confirmed it as one of the continent's fastest growing economies. As a recent estimate almost doubled the size of the Nigerian GDP to \$510bn (2013) and halved the share of it represented by oil and gas, it becomes apparent that there is increasingly more than resource wealth to the current trend. The recent estimates make Nigeria the world's 24th biggest economy, behind Poland and Norway and ahead of Belgium and Taiwan.

Introduction

Sub-Saharan Africa is arguably the fastest-changing region in the world. It is a composite area, with a land mass as large as Europe, the US, China, India and Mexico combined. It comprises over 900 million people fragmented in 49 nation states and several hundreds ethnic groups. Africa hosts the poorest populations in the world alongside South Africa, a country where heart transplants were pioneered some fifty years ago.

As diverse as the region is, its economies and societies also feature a number of shared traits and developments. The broad picture shows a subcontinent that is undergoing major social, economic and political transformations. This paper focuses on two key dimensions of change, namely the area's sustained economic expansion and its massive demographic growth, and also briefly points to two more specific phenomena, namely Africans' new "connectedness", among themselves and towards the outside world, and the forceful rise of Nigeria.

Africa's New Economic Season

At less than \$2,700 per capita income (PPP), Africa¹ remains the poorest region in the world. In spite of positive expectations and of relatively favourable beginnings during the 1960s, the region's newly-independent states had become a synonym for failed development over the 1970s and 1980s. Not only industrialisation strategies proved unsuccessful, but overall agricultural production declined as well. By 1994, Africans' average income – a mere \$744 – was back at its 1968 level.² Most of the continent remained trapped in underdevelopment and poverty, often compounded by authoritarian rule, political instability and violence.

Things began to change just prior to the turn of the century, as annual growth in sub-Saharan Africa sped up from 0.8% in 1990-1994 to 3.5% in 1995-1999. Rates further rose to a 5.4% average between 2000 and 2013, and talk began of an African economic boom (Figure 1). Economic performance remains robust, driven by agricultural production and investments in natural resources and infrastructures, with estimates for 2014-2019 projecting a 5.5% annual average growth. Large increases in external trade, foreign direct investments, development aid, migrants' remittances, infrastructure investments and consumer spending have accompanied and sustained the region's growth process.³ The size of Africa's markets and middle classes has expanded significantly.

The roots of Africa's current economic renaissance lie in favourable international commodity prices (particularly for mineral exports), economic reforms and better management (initiated by the tough structural adjustment programmes that donors forced upon sub-Saharan governments since the 1980s), political governance reforms and stabilisation (a result of both domestic demands for ending maladministration and post-Cold war foreign pressures), and external support in the form of debt cancellation and increases in development aid.

The continent's wealth of natural resources played an important role. In terms of shares of sub-Saharan Africa's GDP, the weight of natural resources increased the most, up from 13.4% in 2000 to 18.1% in 2011, followed by the service sector, which also expanded significantly from 54.2% to 58.0%. Agriculture, on the other hand, was slimmed down from 16.3% to 12.1%.⁴ The fact that manufacturing also declined from 14.9% to 11.8% is a sign that the continent struggles to turn the gains of economic growth into structural changes. Africa's growth, in particular, has so far created few jobs.

Contrary to a commonly-held opinion, however, growth has not been limited to countries rich in natural resources (Figure 2). Resource-poor countries not only marginally outperformed resource-rich countries during the early phases of economic renaissance (3.1% as against 2.9% annual average growth during the 1990s), but also strengthened their advances in subsequent years (4.0% in 2000-2012). As many as 8 of Africa's 12 fastest-growing economies during 1995-2010 were countries poor in natural resources, or at least countries in which the exploitation of natural resources was yet to play a prominent role, including Ethiopia, Mozambique, Burkina Faso, Uganda, Rwanda and Tanzania.⁵

More generally, vast differences remain among the region's economies. As Figure 3 shows, sub-Saharan economies are not only very diverse in terms of size (Nigeria, South Africa and Angola topping the ranking) and per capita income

¹ Unless otherwise specified, the paper uses the term "Africa" interchangeably with "sub-Saharan Africa".

² World Bank online databank, *World Development Indicators*, April 2014.

³ Giovanni Carbone, Gianpaolo Bruno, Gian Paolo Calchi Novati and Marta Montanini, *Scommettere sull'Africa emergente. Opportunità e scenari della presenza italiana nell'Africa subsahariana*, Milano, ISPI, 2013

⁴ Ernst & Young, *Africa attractiveness survey 2013*, 2013, <http://www.ey.com/ZA/en/Issues/Business-environment/Africa-Attractiveness-Survey>, p.17

⁵ International Monetary Fund, *Regional Economic Outlook. Sub-Saharan Africa: keeping the pace*, Washington DC, IMF, October 2013, p. 31, <http://www.imf.org/external/pubs/ft/reo/2013/afr/eng/sreo1013.htm> and The Economist, "No need to dig", 2 November 2013, <http://www.economist.com/news/finance-and-economics/21588849-many-africas-fastest-growing-economies-have-not-relied-oil-or-mining-no-need>

(Equatorial Guinea's is about one hundred times that of Burundi), but the extent of variation in their sectorial diversification (as proxied by the quota of manufacturing and services over GDP) and export orientation (as proxied by the value of per capita exports) also loom large. Based on the latter two dimensions, four groupings can be identified that summarize these differences, namely: a number of *oil exporters* (from Gabon to Angola), a few *diversified economies* (South Africa, some of its neighbours, and a few small island economies), the expanding collection of *transition economies* (from Zambia to Ivory Coast or Senegal) and the remaining *pre-transition countries* (including some of the poorest states in the world, such as Burundi, the Congo-DRC, Niger and Liberia).

While structural transformations remain limited, the recent positive economic trend brought about significant poverty alleviation. As the share of people living with less than \$1.25 a day at PPP, absolute poverty south of the Sahara declined from 58.0% in 1999 to 48.5% in 2010 (Figure 4), with further decreases projected over the years to come, a noteworthy change from the 1980s and early 1990s.⁶ Yet, the number of people who remain 'stuck' under the international poverty line has increased from 376 million in 1999 to 413 million in 2010. Compared to faster progress in other developing areas, turning Africa's growth into poverty reduction has been held up by the region's high inequality levels, by the concentration of the benefits of mineral wealth, and by the slow pace of agricultural advancements.⁷

According to some estimates, inequality in Africa has also been declining since the 1990s, reversing the increases of the 1970s and 1980s.⁸ Yet inequality does remain a major concern and an obstacle to faster growth. Sub-Saharan African countries have an average Gini index of income distribution of 45.1 (26 of them, or a majority, with a Gini of 40 or more, including the likes of South Africa, Angola, Zambia or Mozambique), second only to Latin America's 50.1.⁹ High inequality means that a large number of people have little or no access to assets (such as education, land, credit, etc.) that would allow them to better benefit from the opportunities generated by economic growth. Inequality thus strongly hinders the impact of growth on poverty reduction and the contribution of the poor to furthering economic expansion. This again calls for more inclusive growth. A 6 Gini points reduction in inequality in Zambia (i.e. a 10% reduction, or a decrease often seen in Latin America over the past decade), for example, would make 3.6% annual growth enough to achieve the same gains in poverty reduction produced by the country's 4.2% average rates over the last 20 years.¹⁰

⁶ World Bank, *Africa's pulse. An analysis of issues shaping Africa's economic future*, Vol. 8, Washington DC, October 2013, p. 14, <http://www.worldbank.org/en/events/2013/04/15/africa-s-pulse-an-analysis-of-issues-shaping-africa-s-economic-future>

⁷ World Bank, *Africa's pulse. An analysis of issues shaping Africa's economic future*, *ibidem*, p. 14-15

⁸ Maxim Pinkovskiy and Xavier Sala-i-Martin, Xavier, *African poverty is falling ... much faster than you think!*, Cambridge (MA), National Bureau of Economic Research, 2010 (NBER Working Paper No.15775)

⁹ A World Bank study also points out that, "taking into account that Latin America's Gini coefficients are largely based on income distributions which are typically more unequal than distributions of consumption and which form the basis for Africa's Ginis, inequality in Africa appears not so different from that in Latin America" (World Bank 2013, pp.25-26).

¹⁰ World Bank, *Africa's pulse. An analysis of issues shaping Africa's economic future*, *cit.*, p. 25-26

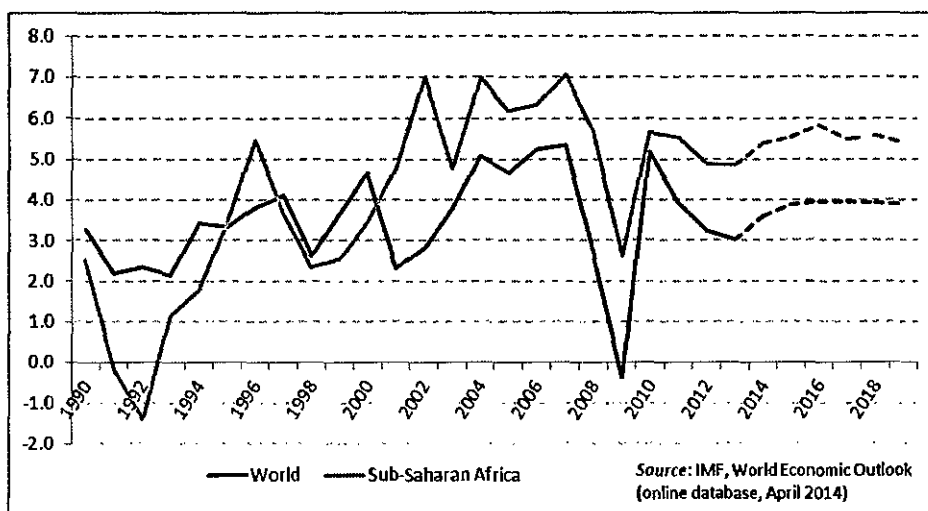


Fig. 1. Real GDP growth (% change), 1990-2019

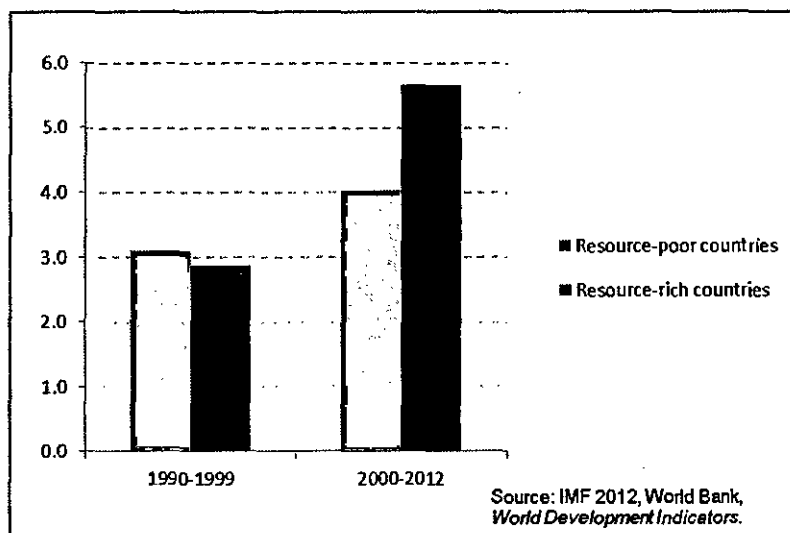


Fig. 2. Growth and natural resources (average annual % change of GDP), 1990-1999 and 2000-2012

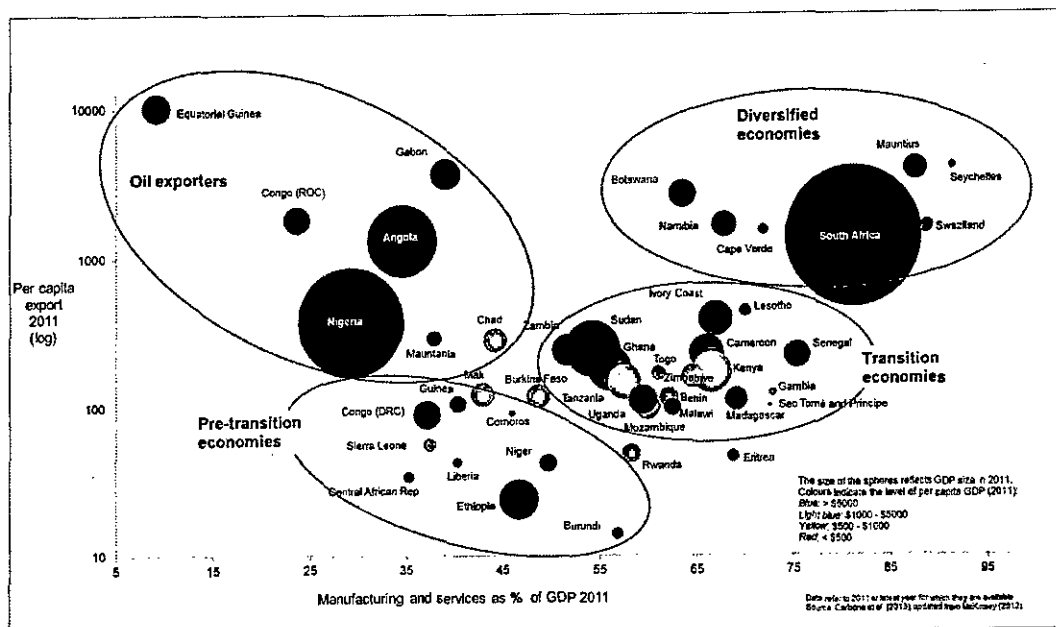


Fig. 3. Structure of the economy and development trajectories, 2011

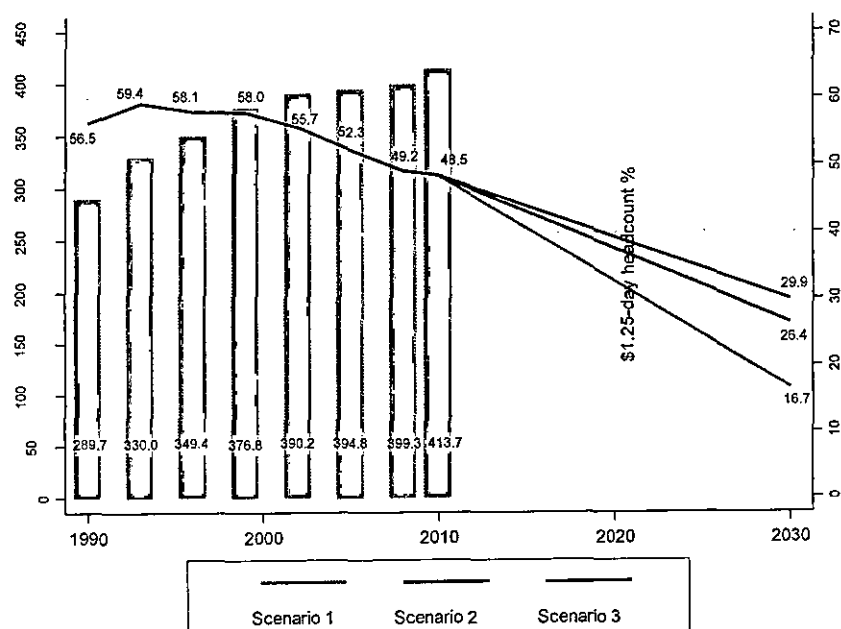


Fig. 4. African poverty by 2030. Three scenarios.

Source: World Bank, *Africa's pulse. An analysis of issues shaping Africa's economic future*, cit, p. 17.

Demographic Changes and Related Challenges

Population growth

Sub-Saharan Africa has historically displayed comparatively low levels of population and population density. The subcontinent, however, is in the middle of a phase of huge demographic expansion. Since 1950, its population has more than quadrupled, growing from 179 million to 831 in 2010 (1 billion for Africa as a whole, when North Africa is included). Over the same period, the region also overtook Europe in terms of population density – 34 vs. 32 inhabitants per square kilometre – although it remains far behind Asia (131).

According to UN projections, the course of the XXI century will mark the rise of Africa as a major demographic power.¹¹ In fact, it is Africa's further, dramatic population increases that will drive the world's population growth dynamics over the current century.¹² The population in the subcontinent is currently growing at an annual 2.65% rate, compared to Asia's 1.03% and Europe's 0.08%. The number of Africans is set to skyrocket and will reach past 3.8 billion by 2100, approaching the size of Asia, whose demographic expansion will plateau in about fifty years and then start declining towards a projected 4.7 billion (Figure 5). In the space of one hundred years, Africa will have grown fivefold.

Two key factors are behind these projections. The first is a marked increase in life expectancy. Life in 2100 will be some 40% longer for the average African than it is today – up from 56 years in 2010-2015 to 77 years in 2095-2100 – narrowing the gap with the developed regions, for which life expectancy will increase from 78 to 89 years. Secondly, Africa's birth rates are notoriously high and will remain so for some time. Between 2010 and 2015 sub-Saharan Africa's average fertility rate was 5.1 children per woman, down from 6.8 in the late 1970s but still more than twice Asia's 2.2. Fertility rates will only reach below 3 children per woman after 2055, and only at the end of the century they will essentially align with world and developed regions averages at around 2.0 children per woman. The continent's trend towards a sustained demographic expansion, in other words, results from the "striking contrast" between its rapid health improvements – leading to sharp declines in mortality rates, particularly for children – and a slow reduction in fertility rates.¹³

This kind of dynamic has important implications in terms of Africa's chances of capitalising from the so-called demographic dividend, or the advantages associated with an expanding workforce and a declining number of dependents. Africa's current dependency ratio – i.e. the ratio of dependents (people younger than 15 or older than 64) per 100 working-age population (people of 15 to 64 years of age) – is about 85, implying that there is almost one non-working dependent for every working person on the continent (Figure 6). This is essentially the result of a large number of under-15. The completion of the continent's demographic transition requires fertility rates (and thus the number of young dependants in need of being fed and looked after) to fall and the labour force to expand. Africa's fertility rates and dependency ratios are already going down, as pointed out, but not very fast. As the slowdown combines with entry of younger generations into the workforce, the dependency ratio will fall below 70 by 2040 and below 60 by 2060: a growing advantage at a time when an ageing population will increase Europe's ratio to about 76 and China's to 75.

Yet, whether a similar dynamic will allow African states to actually reap the benefits of a demographic dividend or, on the contrary, open the way to Malthusian scenarios remains an open question. Population growth of this scale will unquestionably raise crucial social, political and economic challenges, affecting both life on the continent as well as its relations to outside states. Sub-Saharan governments will have to manage massive and fast-growing young generations

¹¹ Data in this paragraph are from the UN Population Division online database

¹² Max Fisher, "The amazing, surprising, Africa-driven demographic future of the earth, in 9 charts", *The Washington Post*, 16 July 2013

¹³ John May, *The demographic dividend, Revisited*, Population Reference Bureau, March 2014, <http://www.prb.org/Publications/Articles/2014/demographic-dividend-revisited.aspx>

whose aspirations, when not met by expanding educational and job opportunities and rising living standards, may turn against the political, social and economic establishment, as recently reminded us by the Arab Spring up north.

Urbanisation

Vast urbanisation processes go hand in hand with the current demographic and economic growth trends. The share of Africa's population that lives in urban centres has reached 36.8%, up from 27.9% in 1990.¹⁴ Combined with population growth, this implies that cities such as Johannesburg, Lagos, Nairobi or Kinshasa have to cope with large new settlements set up by millions of new urban immigrants. More broadly, large urban agglomerates are emerging in all corners of the continent. Africa reached in 2010 the same number of cities with at least 1 million inhabitants as Europe, i.e. fifty-two. The larger these agglomerates, and the faster they expand, the harder the challenges of providing adequate security, housing and services to their populations. Concentration of population and mobilizational opportunities imply that fast urbanization can also make social conflicts more likely.

Land

Rural areas are also affected by rapid demographic increases. Land remains a key source of livelihood for a majority of Africans. While Africa is home to 50% of the world's uncultivated arable land (or 202 million hectares, from Kenya or Tanzania to Ivory Coast or Angola)¹⁵ and is thus a region with a huge potential for agricultural expansion, population pressures have traditionally raised tensions over land issues, including land and water use and land tenure systems. Local conflicts between farmers and herders and/or between ethnic communities (at times compounded by inflows of immigrants or refugees), for example, have emerged in countries as diverse as Liberia, Zimbabwe, Ivory Coast, Kenya and Congo-Kinshasa.

Environmental or climate changes also contribute to the picture, as soil erosion and degradation (i.e. the physical, chemical and biological deterioration of soil quality, implying fertility loss) and desertification threaten the livelihoods of many rural Africans, particularly those living in dry lands, often forcing small-scale farmers to displace or migrate, destabilizing their communities and encouraging conflicts over water and land use, as in Mali, Darfur or Chad.¹⁶ Adding up to recurring droughts, for example, deforestation and inappropriate land management have contributed to the surface of Lake Chad shrinking from 23,000 sq.km to about a tenth of it.

Finally, over the past decade, so-called "land grabbing" – i.e. large-scale land acquisitions on the part of corporations or sovereign funds from advanced or emerging countries – added a new form of pressure. Such acquisitions not only force local farmers and pastoralists from the land, depriving them of their main source of livelihood, but they are aimed at biofuels or food productions for faraway markets, thus reducing the overall availability of food for local consumption and markets and further increasing food insecurity and occasional instability.¹⁷

Food security

In spite of an abundance of land and water, Africa has long lacked food security (i.e. food availability and accessibility), the result of an underdeveloped agriculture as well as of the impact of natural disasters – such as the dramatic 2011 drought in the Horn – and man-made instability – such as the 2012 crisis in the Sahel. The continent has received food

¹⁴ World Development Indicators online database, April 2014

¹⁵ World Bank, *Securing Africa's land for shared prosperity*, Washington, World Bank, 2013, p. xv. Cf. McKinsey Global Institute, *Lions go digital: the internet's transformative potential in Africa*, McKinsey & Company, 2013, p.59.

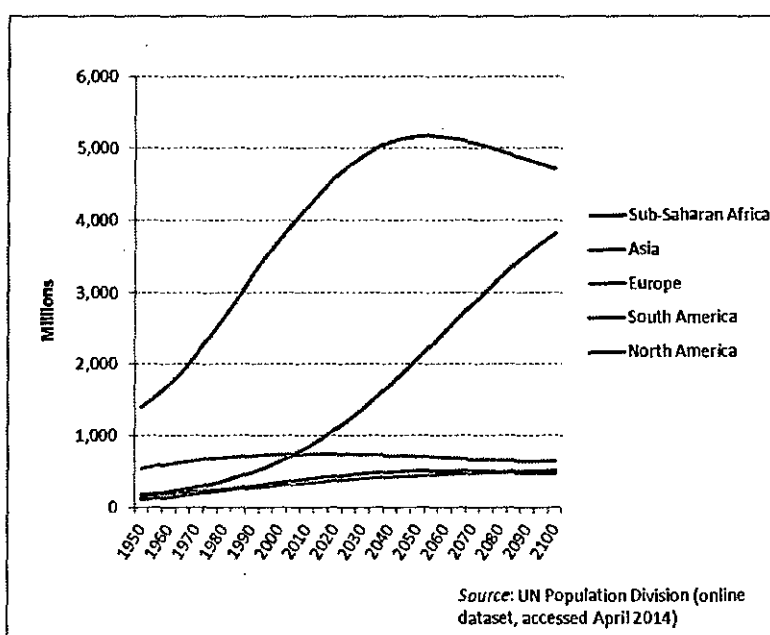
¹⁶ United Nations Convention to Combat Desertification, *Desertification. The invisible frontline*, Bonn, Germany, UNCCD, 2014, http://www.unccd.int/Lists/SiteDocumentLibrary/Publications/Desertification_The%20invisible_frontendline.pdf

¹⁷ Kai M. Thaler, *Large-scale land acquisitions and social conflict in Africa: analysis and issues with cross-national land grab data*, International Conference on "Food Sovereignty: A Critical Dialogue", Yale University, September 14-15, 2013 (Conference Paper No.22), http://www.yale.edu/agrarianstudies/foodsovereignty/pprs/22_Thaler_2013.pdf

aid since the 1950s, and food emergencies tripled in the 1980s.¹⁸ While the reduction of hunger, between 1990 and 2012, led to an overall improvement in food security, Africa remains a net food importer. The 2008 spikes in food prices led to riots in a number of sub-Saharan countries and food insecurity is a prominent issue in places such as Eritrea, Burundi, Ethiopia (in spite of major progress), Chad or the CAR.¹⁹ Addressing food needs and food crises is a key aim of the Comprehensive Africa Agricultural Development Programme (CAADP) established by the African Union in 2003, which, among other things, commits regional governments to devote 10% of their budgets to investments in agriculture. To address the issue, the G8 also launched an Alliance for Food Security and Nutrition in 2012.

Migrations

Strong population growth and poor living conditions contribute to migration patterns. While Africa retains a comparatively low migration rate (i.e. the ratio of emigrants to the total population of the country of origin, or 2.5% for the sub-Saharan region in 2010), more and more Africans have left their home countries over recent decades. Contrary to North Africans, however, some 65% of sub-Saharan migrants go to other African countries – often neighbouring countries – largely due to a lack of financial or educational resources. This is the largest intracontinental movement of people in the world. Still, demand and supply of migrants from sub-Saharan Africa to advanced economies remain strong, favouring human trafficking networks and the related dangers. A significant part of emigrants leave their home country due to political instability or natural disasters, causing high volatility in each country's migration rates.²⁰ While pressures for Africans to emigrate towards high income countries will remain high in the foreseeable future, it will ultimately be the continent's own development processes, and in particular the expansion of job opportunities, that will determine the extent of migrations in the years to come.



¹⁸ United Nations Economic Commission for Africa (UNECA) – African Development Bank (AfDB) – African Union Commission (AUC) – United Nations Development Programme (UNDP), *Assessing progress in Africa toward the Millennium Development Goals. Food security in Africa: Issues, challenges and lessons*, 2013 (MDG Report), p. 101, http://www.uneca.org/sites/default/files/publications/mdgreport2013_eng.pdf

¹⁹ United Nations Economic Commission for Africa (UNECA), *Assessing progress in Africa toward the Millennium Development Goals*, *ibidem*, p. 102 and United Nations Convention to Combat Desertification, *Desertification. The invisible frontline*, *cit.*

²⁰ While the number of African migrants has been on the rise, the number of refugees declined substantially from the late 1990s, largely due to less frequent coups and violent conflicts, see World Bank, *Leveraging migration for Africa. Remittances, skills and investments*, Washington DC, World Bank, 2011, p. 20, <http://siteresources.worldbank.org/EXTDECPROSPECTS/Resources/476882-1157133580628/AfricaStudyEntireBook.pdf>.

Fig. 5. Population projections, 1950-2100

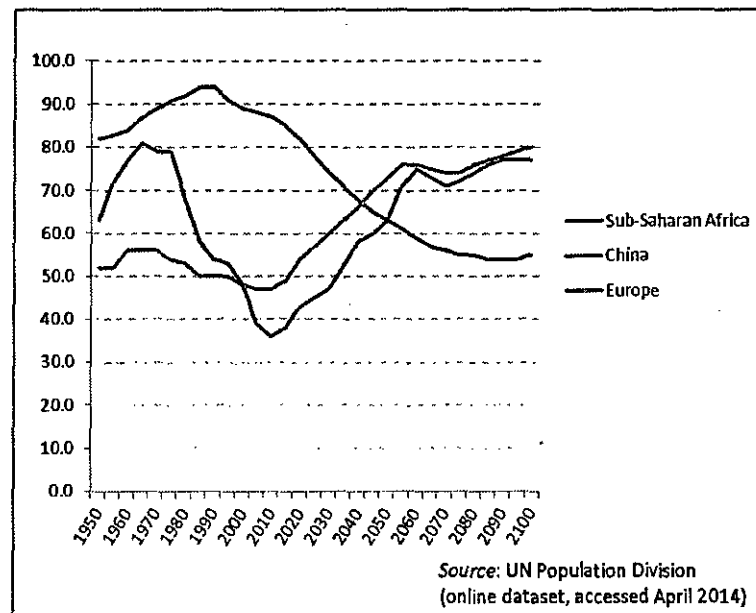


Fig. 6. Dependency ratios, 1950-2100

Africans' Growing Connectedness

Part of the development and globalization processes that Africa south of the Sahara is currently experiencing reflects in the growing "connectedness" of Africans, both among themselves as well as towards the outside world. Opportunities for individual-to-individual interactions, citizen-state exchanges, regional-level networks and extra-African relationships have all been expanding. A recently-published global connectedness index, for example, points that sub-Saharan countries registered the largest increases in global connectedness, primarily driven by trade and information flows.²¹

According to a long-predominant narrative, after independence Africans were gradually 'abandoned' and isolated as a result of the deterioration of physical, political and administrative infrastructures as well as of their own conscious attempt to stay as far away as possible from the reach of weak but predatory states.²² Many farmers, for example, shifted their production from export cash crops to subsistence agriculture. Adding to these long-term domestic dynamics, during the post-Cold war 1990s sub-Saharan countries also faced a decline of interest on the part of

²¹ Pankaj Ghemawat and Steven Altman, *DHL Global Connectedness Index 2012. Analyzing global flows and their power to increase prosperity*, DHL, November 2012, p. 37, http://www.dhl.com/content/dam/flash/g0/gci_2012/download/dhl_gci_2012_complete_study.pdf

²² Nelson Kasfir, *The shrinking political arena. Participation and ethnicity in African politics with a case study of Uganda*, Berkeley, University of California Press, 1976; Robert H Bates, *When things fell apart. State failure in late-century Africa*, Cambridge, Cambridge University Press, 2008 and Martin Doornbos, "The African state in academic debate: retrospect and prospect", in *Journal of Modern African Studies*, Vol. 28, No. 2 (1990), p.179-198

advanced economies, as most evident in the decrease of international aid levels and in the relative disengagement of influential players such as France or the US. The continent was perceived and famously portrayed as "hopeless".²³

But the seeds of a new trend had been sown already. The beginning of the economic revival, the urbanisation fostered by population growth, the introduction and diffusion of mobile and internet communication technologies, and the adoption of new, more inclusive and participatory politics (based on elections and political party activities as well as on the spread of the free media, particularly private radios, and civic associations) all favoured a multiplication of individual-level exchanges and interactions. Some governments also strived to begin functioning better, and their revitalized education policies (notably those aimed at granting universal primary education) or taxation efforts (as in some non-oil countries like Burkina Faso, Ethiopia, Rwanda, Tanzania and Uganda) helped re-connecting citizens and public apparatuses.²⁴

The diffusion of mobile telephony, which happened unexpectedly fast, has come to play a largely unforeseen role. It allowed Africans to effectively leapfrog the prior development of landline networks, which had characterized advanced economies but had proved too expensive and problematic south of the Sahara, and opened an amazing range of new possibilities to many of them. The staggering progress of mobile phone penetration saw the regional average exceeding 59 subscriptions per 100 people in 2012, up from just 1 in 1999.²⁵ While countries such as Ethiopia or the Central African Republic retain lower rates of penetration (22-25 per 100 people), in much of rural Africa cell phones represented the very first opportunity for telecommunications. The impact has been huge. As Aker and Mbiti point out, "across urban-rural and rich-poor divides, mobile phones connect individuals to individuals, information, markets, and services. In Mali, residents of Timbuktu can call relatives living in the capital city of Bamako – or relatives in France. In Ghana, farmers in Tamale are able to send a text message to learn corn and tomato prices in Accra, over 400 kilometers away. In Niger, day laborers are able to call acquaintances in Benin to find out about job opportunities without making the US\$40 trip".²⁶

The penetration of the internet has been slower and more complex, but it nevertheless increased more than tenfold in the past decade, and, thanks to the expansion of mobile-broadband services and the related lowering of the costs of access, was expected to reach 16% at the end of 2013.²⁷ Once again, the social and economic potential of digital connections in sectors such as health, education, banking, etc. in Africa is very high.²⁸ To better reap the benefits of a digital age, the government of Kenya, one of Africa's best connected countries, invested in the development of a submarine cable system to reduce the reliance of internet users on satellite links.²⁹

Economic growth with an expanding population also generated new resources and stronger incentives for investments aimed at improving the continent's ailing infrastructures, not only the long-neglected road and railway networks, but also ports, airports or ICT. The African Union itself, in 2010, launched an ambitious region-wide Programme for Infrastructure Development in Africa. At the same time, Africa's Regional Economic Communities (RECs) were revived, from the East African Community to ECOWAS, with the aim of raising a historically low level of intra-African trade and pushing ahead with deeper economic integration projects, including the prospect of closer union among some RECs for establishing an African Free Trade Zone (AFTZ) stretching from Cape Town to Cairo by 2018.

Finally, Africa saw an exponential surge of external interest in its mineral and agricultural resources and expanding domestic markets. This contributed to the rapid forging of new international economic and political relationships. While

²³ *The Economist*, 13 May 2000

²⁴ African Development Bank, OECD, UNDP, ECA, *African Economic Outlook 2010. Public resource mobilization and aid*, Paris, OECD Publishing, 2010, p. 96

²⁵ World Development Indicators online database, April 2014.

²⁶ Jenny Aker and Isaac M. Mbiti, "Mobile Phones and Economic Development in Africa", in *Journal of Economic Perspectives*, Vol. 24, No. 3 (2010), p. 207

²⁷ UN-ITU 2013, p.10

²⁸ McKinsey Global Institute, *Lions go digital: the internet's transformative potential in Africa*, McKinsey & Company, November 2013,

http://www.mckinsey.com/insights/high_tech_telecoms_internet/lions_go_digital_the_internets_transformative_potential_in_africa

²⁹ UN-ITU 2013, p. 47

China's distinct return to the continent dates back to the mid-1990s, a range of advanced and emerging economies followed in more recent years, including the likes of India, Turkey, Brazil and the Arab states. Aid flows (including those from the US) surged and diversified, as did trade volumes and foreign direct investments. China, India, Turkey, Russia, France and the US led the way in revamping or expanding the coverage of their diplomatic missions and in establishing new forms of economic diplomacy, including the use of comprehensive conferences, such as the China-Africa Forum, in which they could work out and strengthen their partnerships with African counterparts.

The Rise of Nigeria

Nigeria is fast emerging as Africa's rising power, challenging the leading role that South Africa had played in the region since the mid-1990s. A notoriously complex and fissiparous country, Nigeria remains plagued by self-reinforcing predicaments, ranging from widespread poverty and youth unemployment to vast corruption and chronic political instability, from religious extremism to violence. Yet Abuja has two key assets upon which to build its regional primacy, namely people and hydrocarbures.

Nigeria is currently home to 169 million inhabitants, far exceeding Ethiopia's second place (92 million) on the continent. While, as pointed out, countries such as Tanzania, Ethiopia or even Uganda are projected to feature massive populations of 200-270 million each by 2100, Nigeria will be the largest contributor not only to the region's but to the world's demographic increase, with almost a billion citizens. It will become the third largest country in the world by population size, behind India (peaking in 2065) and China (the slowdown favoured by the one-child policy will lead to a population peak around 2030 and a subsequent contraction), but the only one of the three still on the rise (Figure 7). Tensions and challenges will inevitably derive from this trend. While Nigeria, for example, might one day have as many citizens as China, the latter's land area (9,596,000 sq.km) will remain ten times as large as that of the former (924,000 sq.km). The violent Boko Haram insurgency in the north points to some of the worst scenarios Nigeria might face when political, social and economic tensions are unscrupulously exploited.

The second, related drive behind Nigeria's rise is its economic expansion. Abuja's 7.4% average growth rate over the past decade reinforced and stabilized the country's performance and confirmed it as one of the continent's fastest growing economies. Oil and gas, as pointed out, loom large in all this. Yet there is increasingly more than resource wealth to the current trend. This has become even clearer since, in early 2014, the estimated size of the Nigerian GDP almost doubled to \$510bn (2013), a 89% increase on previous estimates due to a technical process of "rebasings". Grounding the new assessment on 2010 as a more recent base year (previous appraisals used 1990) allowed not only a better measurement of the size of new industries (the telecoms sector makes up almost 25% of the overall increase, but also other industries such as banking and filmmaking contribute to the forward jump) and of manufacturing (which sees its share of GDP up from 2% to 7%), but also, more generally, the addition of small businesses, including informal shops. With oil and gas reduced to 14% of GDP, or half what they were thought to represent, "the new figures show that Nigeria is much more than just an oil enclave".³⁰

Shooting ahead of South Africa by almost \$150bn, Abuja thus adds an economically-leading role to its long-standing demographic predominance in the region. Pretoria does retain a much richer per capita income and the most modern economy on the continent, producing ten times more electric power for a population of less than a third.³¹ But the recent estimates catapult Nigeria in a significantly higher position in international rankings, making it the world's 24th biggest economy, behind Poland and Norway and ahead of Belgium and Taiwan, well in line with the goal of becoming part of the 20 largest global economies set out by the government's *Nigeria Vision 20:2020*.³² And the world is taking notice.

³⁰ The Economist, "Nigeria. Africa's new number one" and "Nigeria's GDP. Step change", 12 April 2014, p.12 and 75

³¹ *Africa Confidential*, 18 April 2014

³² National Planning Commission, *Nigeria Vision 20:2020: Economic Transformation Blueprint*, Abuja, October 2009

The country entered Goldman Sachs' so-called "Next-11" group of emerging economies as well as Jim O'Neill's "MINT" markets (joining Mexico, Indonesia and Turkey). In 2012, economist Ngozi Okonjo-Iweala's (Nigeria's Minister of Finance) bid for the top job at the World Bank was openly backed by many influential independent voices, including the *Financial Times* and *The Economist*, a further if indirect recognition of the country's growing geo-economic relevance.

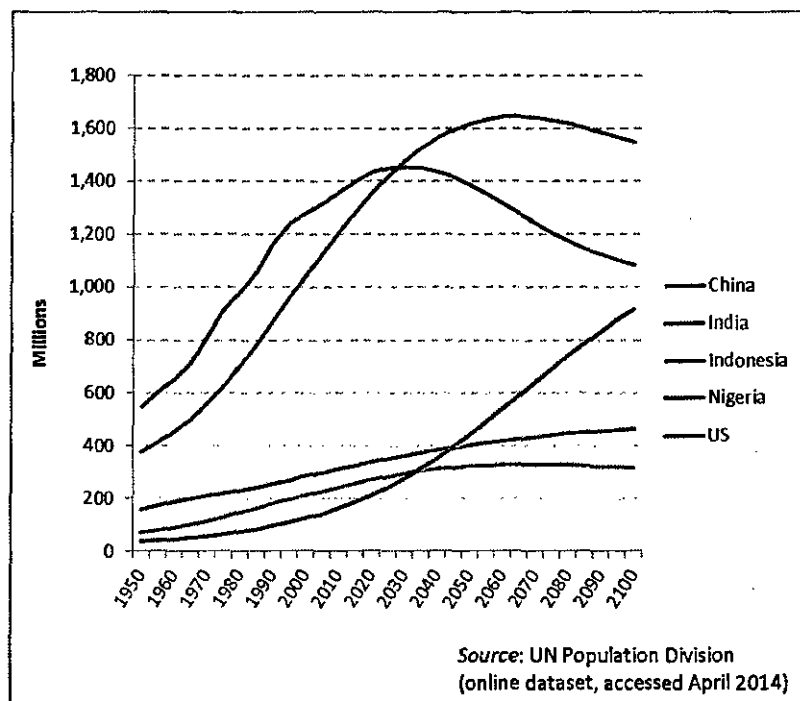
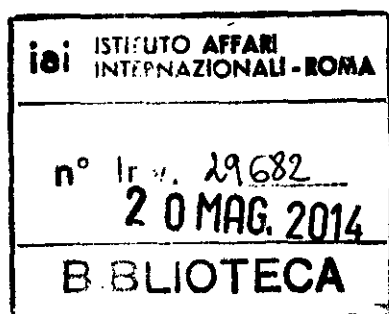


Fig. 7. Population projections (5 most populous countries), 1950-2100





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Background paper for Working Group 3. Sub-Saharan Africa: Trends

AN OVERVIEW OF WEST AFRICA'S SECURITY SITUATION

By Lydia Amedzrator and Kwesi Aning

Kofi Annan International Peacekeeping Training Centre, Accra

ABSTRACT

This paper provides an overview of the current security and political trends in West Africa. Our discussions are focused on the prevailing security trends namely narcotics trafficking; Islamic radicalism and youth violence, particularly focusing on the Boko Haram menace; exploring and understanding the possible expanding alliance between illicit trafficking networks and groups and violent radical groups; the youth bulge problematic; food insecurity and the enduring repercussions of the Libyan Crisis on West Africa. Furthermore, there is an examination of the maritime insecurity issues in the Gulf of Guinea and how these new dynamics have now surpassed the Gulf of Aden, and how they impact on the political and economic situation in the region. Subsequently, attempts are made to analyse the factors which have contributed to what the paper characterizes as the pervasiveness of these security trends and their impact on institutions and the region at large.

Introduction

Currently, West African politics and the general political and security situation can be characterized by what can be termed as a mixture of opportunities and challenges. The current trends are characterized by multiple contradictory developments with some offering cause for optimism, while there are disturbing developments that need careful evaluation and response.

On the one hand, there is a decrease in the number of intra-state election-related crises with the Mano River Union (MRU) area, for example, ceasing to continue as the epicenter of the regions' election-related conflicts system. The major challenge, however, is how to build and sustain peace, and undertake post-war reconstruction. This entails revamping the infrastructure and building new ones; working towards economic recovery; carrying out security sector reform, judicial reform and other reforms as part of the overall governance reform processes. Reconciling West African societies that have experienced violent conflict – Liberia, Sierra Leone, La Cote d'Ivoire, Guinea, Mali and parts of Nigeria and maintaining national balance is critical to this. Such challenges notwithstanding, the holding of regular elections and how such processes lead to tensions and instability needs to be examined. For example, between March 2014 and December 2016, several regional states will be holding crucial elections that merit careful and consistent monitoring. This is because these elections can be potentially destabilizing in Nigeria, Burkina Faso, Sierra Leone, Ghana, Liberia and La Cote d'Ivoire. The *coups d'états* which occurred just before scheduled elections in both Mali and Guinea Bissau in March and April 2012 respectively and the election-related violence in La Cote d'Ivoire following the 2011 elections are cases in point.¹

The While the Praia Declaration on Elections and Stability in West Africa endorsed in 2011 provides a new framework and opportunity for West African states to reaffirm support for the ECOWAS Supplementary Protocol on Democracy and Good Governance. Its intention is to strengthen the respect for political rights, credible, transparent and peaceful elections. Closely tied in is the fact that the vast majority of these elections are not decided by issues but by personalities. Besides, risk factors namely severely flawed voter lists; the misuse of incumbency; lack of transparency and the actual or perceived bias of election officials, have triggered electoral violence in the region.² However, though election-related violence has occurred, many countries continue to experience regime change through elections and not through the barrel of the gun.

While these developments suggest a peaceful West Africa, there is need to sound a caution that all is not well in the West. There are still low intensity conflicts in northern Ghana, the Cassamance crisis in Senegal, the Niger Delta

¹ International Peace Institute, Elections and Stability in West Africa: The Way Forward, May 2012, http://ipinst.org/media/pdf/publications/ipi_e_pub_elections_in_west_africa.pdf

² International Peace Institute, Elections and Stability in West Africa: The Way Forward, *ibidem*

debacle, and now the further challenge of the widening domestic and transnational terrorism. Several of these challenges will be discussed in some detail.

West Africa's Current Security Situation

The dilemma of narcotics trafficking

Similar to other parts of Africa, there is an increasing occurrence of cross border and structural threats to West African states. Narcotics continue to infiltrate several West African states, to the extent that the whole continent is now perceived as 'NarcoTrAfrica'. Recent trends in which terrorist groups, drug lords use aviation infrastructure has been characterized as 'the most significant development in the criminal exploitation of aircraft since 9/11'. This concern captures the growing incidences where criminal groups owning aircrafts now smuggle drugs into West Africa's uncharted and disused landing strips, makeshift runways and airports.

Furthermore, anxieties have been raised regarding an understanding of the pervasiveness and the levels of penetration of the drug trade in West Africa. As a result, several questions arise. For example, how do we explain the growth and survivability of the drug trade? What role and position does the region play in the international drugs trade? And how is the region perceived? Firstly, West Africa presents an ideal geographical choice for the narcotics trade.³ For instance, Guinea Bissau, with its numerous uninhabited islands and archipelagoes, has for a long time served as a logistical transit center for drug traffickers. There are vast uninhabited spaces, weak borders and vast stretches of coastal lands which are poorly monitored. Secondly, well-established networks of West African smugglers and crime syndicates operate in the region, and there is a vulnerable political environment that creates opportunities for such operations.⁴ These trafficking networks are facilitated by a range of actors, including businessmen, politicians, state officials, traditional leaders and young people.⁵ In particular, there is a disturbing opportunistic partnership between criminals and aspects of state apparatuses.⁶ Also, formal security apparatus provides cover for traffickers.⁷ Almost every case of cocaine seizures in West Africa involves either barons with high level connections in government or senior public officials (or their cronies) directly conniving with traffickers.⁸ Meanwhile in other cases, a symbiotic relationship is developed where state actors become the initiators of investment in or relationships with this criminal enterprise rather than being bribed, persuaded or threatened by criminal groups.⁹

In addition to state complicity and vulnerabilities, the pervasiveness of drug trafficking activities can be explained by family, cultural and historical relationships between local people and criminals.¹⁰ This social capital plays an important role in the process of supply, sale and profits accruing from the sale of drugs, and criminals exploit this support base sometimes without a strong intervention of law enforcement agencies.¹¹ What has to be explained is that: (a) social capital fosters a sense of community closeness and acceptance among traffickers and a protective mechanism for the communities within which they are located and at the same time it ensures reciprocity; and (b) it also enhances mutual

³ Kwesi Aning and John Pokoo, "Understanding the nature and threats of drug trafficking to national and regional security in West Africa", in *Stability: International Journal of Security and Development*, Vol. 3, No 1 (2014) p. 1-13

⁴ Kwesi Aning and John Pokoo, "Understanding the nature and threats of drug trafficking to national and regional security in West Africa", *ibidem*

⁵ Kwesi Aning and Lydia Amedzrator, "The continuing and changing transitions in North Africa: examining the impact on and role of Sub-Saharan Africa (Il Passa Tuareg)" in *Aspenia* 60, (2013), p. 221-225

⁶ Kwesi Aning, *Review: Africa and the War on Drugs*, 5 February 2013, <http://sites.tufts.edu/reinventingpeace/2013/02/05/review-african-and-the-war-on-drugs/>

⁷ Kwesi Aning and Sarjoh A. Bah, *ECOWAS and Conflict Prevention in West Africa: Confronting the Triple threats*, New York, Center on International Cooperation, 2009

⁸ Kwesi Aning and John Pokoo, "Understanding the nature and threats of drug trafficking to national and regional security in West Africa", *cit.*

⁹ Rachel Locke, *Organised Crime, Conflict, and Fragility: A New Approach*, New York, International Peace Institute, July 2012

¹⁰ Kwesi Aning, *Review: Africa and the War on Drugs*, *cit.*

¹¹ Kwesi Aning, *Review: Africa and the War on Drugs*, *ibidem*

trust that promotes cooperation between local communities and societal economic actors in the process of shared knowledge, growth and economic spin-offs. This makes it difficult and sometimes impossible for these illicit trafficking activities to be disrupted by security actors.

More so, another factor which has to be understood regarding the survivability of the narcotics trade is the legal duality within West Africa.¹² In fact, two systems are operational in the region: the official (modern) and the "unofficial" (traditional/cultural) one. The official system refers to a parliamentary and judicial/legal system together with all its accoutrement and relevant institutions including a police force that was inherited from former colonial masters. This modern system that appears on the surface is increasingly perceived by the population as alien and corrupt. The traditional system of governance together with its traditional laws often in the form of taboos, having various sanctions and systems of institutional support, operates beneath the surface. Due to this duality, West Africans are used to shifting from one system to another whenever it is felt to be appropriate and in that light what is regarded as criminal by political elites may be perceived differently and alien to the interests of all the peoples in West Africa especially of the economically marginalised communities.¹³ Trafficking networks provide welfare services for marginalised populations who rely on these criminal networks to fulfill their economic and social needs. In that regard, drug barons are protected by the community including local police especially in rural areas because from the perspective of the local communities, they bring in much needed money and they perform valuable service to the community of which they are upstanding members. Another factor relates to the linkages that West African transnational organized criminal networks have with other organizations outside the region – in particular in the rest of Africa, South America, Europe and Asia.¹⁴ Drug barons form circumstantial alliance with these associates only where necessary and generally on an *ad hoc* basis to avoid detection by law enforcement agencies. These networks search for weak entry points within states structures and then exploit such institutional fragilities to their economic benefit.¹⁵

Indisputably, narcotics trafficking has differentiated impacts on public, private sector and community institutions in the region. In the public sector, drug traffickers have infiltrated public institutions and bought cronies in high official positions such as commerce, politics, law enforcement, the judiciary and traditional institutions.¹⁶ As there is no established fund for political campaigns, most political activities in the region are financed by monies of dubious sources. As a result, narcotic traffickers are able to influence political parties and eventually parliaments and the executive branches of governments in West Africa. This has contributed to the increase in crime, political corruption and to the destabilization of political institutions and their processes.¹⁷ In the private sector as well the drug trade has impacted on the economy of most countries in the region. This is because most narcotic traffickers establish front companies such as restaurants, hotels, shipping and automobile companies which are used to launder their illicit proceeds. As these illegitimate companies are barely motivated by profit they are able to gain competitive advantage over legitimate business, and consequently to displace these genuine businesses. In most circumstances, these front companies fold up after their illicit proceeds are successfully laundered. Potentially, this illegal activity has a long term negative effect on economic planning and sometimes can contribute to political violence. Meanwhile, in local communities the drug trade is seen as an important part of the means of livelihood and of achieving societal status. Due to governance deficits in most communities, drug traffickers compete with the state in the provision of services. Alternately, in situations where the government is mostly absent, criminals take up the role of the government and provide welfare services to the communities especially in politically vulnerable environments.¹⁸ In those instances, criminal elements play on societal divisions and facilitate violence in order to stimulate vulnerable conditions which will ensure economic gains for them. The 2012 Mali crisis is a case in point.

¹² Kwesi Aning, *Review: Africa and the War on Drugs*, *ibidem*

¹³ Kwesi Aning, *Review: Africa and the War on Drugs*, *ibidem*

¹⁴ Kwesi Aning, *Organised crime in West Africa: Options for EU Engagement*, Stockholm, Sweden, International IDEA, 2009

¹⁵ Kwesi Aning, *Organised crime in West Africa: Options for EU Engagement*, *ibidem*

¹⁶ Kwesi Aning, *Review: Africa and the War on Drugs*, *ibidem*

¹⁷ Kwesi Aning and John Pokoo, "Understanding the nature and threats of drug trafficking to national and regional security in West Africa", *cit.*

¹⁸ Kwesi Aning, *Addressing Environmental and Security Concerns, Legal Frameworks, Civil Society and Community Issues*, Second Graphic Business Roundtable Forum on "Ghana's Emerging Oil Economy: Prospects and Challenges", August 2010

Militancy, Islamic Radicalism and Youth Violence

The issue of Islamic radicalism is causing concern in the region. It has taken roots in no other country than Nigeria with a population of about 150 million people. Recently, Boko Haram has claimed the roadside bombing of military patrol vehicles in Maiduguri, and there is a definite shift in the tactics and operational capabilities of the group, which poses critical challenges to the Nigerian state. But, what are the root causes of the Boko Haram menace? First of all, Boko Haram is a symptom of the corruption, mismanagement and unresponsiveness of the government.¹⁹ Members of this group are using violence as a *façade* to draw attention to their grievances over persistent government corruption and mismanagement, economic injustice and poverty especially in the northern part of Nigeria. Although Nigeria remains one of the largest producers of oil in the world, about 69% of its population, (approximately 112.6 million people) live below the poverty level according to the *Nigerian Poverty Profile Report, 2010*. The north-west and north-east geo-political zones of Nigeria, the home region and bastion of Boko Haram, are the areas with the highest poverty rates with 77.7% and 76.3% respectively. For several decades, the northern part of Nigeria has remained impoverished and underdeveloped with a very high rate of youth unemployment, extreme poverty, poor health care, poor educational facilities and poor infrastructure. The unemployment statistics from the Nigerian Bureau of Statistics in 2010, for example, showed that the northern states of Yobe, Zamfara and Sokoto remain the areas with the highest rate of unemployment with 39.0%, 33.4%, and 32.4% respectively.²⁰ This contrasts sharply with the southern states such as Lagos, Oyo and Ogun which have an unemployment rate of 7.6%, 8.8% and 9.9% respectively. Thus, development in the northern part of Nigeria is in sharp contrast to that of the south. According to adherents of Boko Haram, bad governance and acute corruption by the political elites account for this economic injustice and underdevelopment. They attribute this political canker to the influence of modernization and of western education on those who govern the states. The group's ambitions, therefore, are to mobilize against modern state formation and government establishment, which is seen as the root cause of all these social ills, and to establish an Islamic state governed by the Sharia Law.²¹

Another major factor fuelling the violence is the indiscriminate imprisonments and arbitrary killing of Boko Haram members by the police and the military and the failure of the Nigerian government to prosecute security officers implicated for extrajudicial killings. Ever since the insurgency began, no single police and military officer has so far been held accountable or convicted for the death of the Boko Haram leader, Mohammed Yusuf, who died in police custody, and for other unlawful killings reported by groups such as Amnesty International and Human Right Watch. In reaction to that, members of the Islamic sect have vowed to revenge the killing of their members, especially of Mohammed Yusuf, which they now seem to be honoring through increasingly lethal attacks on security forces and government authorities.

Boko Haram's attack on Christians also reflects longstanding political, ethnic and religious divisions in Nigeria.²² There is a long history of polarization between the majority-Muslim north and the majority-Christian south, mainly over issues of economic inequalities and political power struggle. Many southerners, for example, see the ongoing attacks on Christians as a deliberate attempt by some northern elites to make the country ungovernable for President Goodluck Jonathan, because he ignored an informal power-rotation agreement that should have kept a Muslim as president after the death of the Muslim President, Umar Musa Yar'dua in 2010.

In the midst of this violence by Boko Haram, concerns are that 'power-hungry politicians from the North [are] using indoctrinated young militants, drawn from the ranks of the poor unemployed and educated in Islamic schools' as foot soldiers in a battle over who should control the country. Given the pervasiveness of poverty and the lack of legitimate economic opportunities, these young people are becoming easy prey to gang activities and violent crimes including Islamic radicalism'.²³ Young people including Boko Haram members are usually recruited from slums and gang

¹⁹ Kwesi Aning, "Confronting the Boko Haram Challenge to the Nigeria State: Exploring Options for a Peaceful Settlement" in the *Stability Operations Magazine*, Vol. 8, No.1 (July/August 2012), p. 24-26

²⁰ Nigerian Bureau of Statistics, 2010 National Manpower Stock and Employment Generation Survey (Household and Micro Enterprise), July 2010

²¹ Kwesi Aning, "Confronting the Boko Haram Challenge to the Nigeria State: Exploring Options for a Peaceful Settlement", *cit.*

²² Kwesi Aning, "Confronting the Boko Haram Challenge to the Nigeria State: Exploring Options for a Peaceful Settlement", *cit.*

²³ Kwesi Aning and Andrew Atta-Asamoah, *Demography, Environment and Conflict in West Africa*, Accra, Kofi Annan International Peacekeeping Training Centre, April 2011 (KAIPC Occasional paper No. 34), <http://dspace.cigilibrary.org/jspui/bitstream/123456789/31687/1/Occasional-Paper-34-Aning-and-Asamoah.pdf?1>

networks of young adult *desperadoes* in the many slum communities where young people are idle, frustrated and sometimes resent those perceived to be enjoying the few available opportunities. Prompted by their frustrations, these young people are resolved to survive by any means possible and available. This has contributed to their proclivity to engage in collective violence, revolts and, to contribute to revolutionary inertia.²⁴ A critical issue which arises, however, is whether the time has arrived for exploring possible options and opportunities to engage Boko Haram group in dialogue.

Increasing Alliances between Illicit Trafficking Activities and Islamist Terrorism

The 'expanding nexus of illicit trafficking and transnational Islamist terrorism' poses increasing risks to stability in the region and to global security in general. Narco-traffickers are forging alliances with terrorist and radical groups, and are providing new sources of financing for terrorism.²⁵ These criminal actors exploit state vulnerabilities in order to advance economic and political objectives. Al Qaeda in the Islamic Maghreb (AQIM) for instance has expanded its spheres of influence to the more southern states of West Africa and transformed its operational tactics by: (a) expanding into the drug trafficking business; (b) illegally taxing drug smugglers; (c) supporting the recruitment, training and radicalization of other groups; and (d) kidnapping for ransom and hostage of especially West citizens. For example, in 2009, Oumar Issa, Harouna Touré, and Idriss Abelrahman -from Mali- who attempted to transport cocaine through West and North Africa were charged by the U.S. Attorney for the South District of New York with conspiracy to commit acts of narco-terrorism and conspiracy to provide material support to Al-Qaeda, al-Qaeda in the Islamic Maghreb (AQIM), and the Revolutionary Armed Forces of Colombia (FARC).²⁶

This shift in the operational dynamics of the cocaine trade and the emergence of opportunistic alliances into the cocaine smuggling business by AQIM and other militant groups have: (i) substantially raised their potential to raise income for extremist activities; (ii) enabled them to learn more professional methods of contraband transport; and (iii) given them access to light and medium weight arms that can easily be packaged along with the cocaine from South America (Laremont, 2011). In addition to this, there are deepening and widening operational relationships between terrorist and militant groups which involve the exchange of intelligence, resources and arms and weapons. For instance, when one rebellion ends in a particular country, weapons and fighters are hired to the active rebellion for a fee.

AQIM is also believed to have benefited from assisting undocumented workers to migrate from the northern edge of the Savannah particularly from Nigeria, Ghana, and Burkina Faso to intermediary Saharan cities, especially to Kidal in Mali, Tamanrasset in Algeria, Agadez in Niger, and Tripoli in Libya for a fee. But what has facilitated this growing influence of AQIM in the region? AQIM has opportunistic and cooperative alliances with a collection of militant and separatist groups.²⁷ For instance, its kidnapping operations are executed by a loose arrangement of a multiplicity of groups including local criminal groups and militias who act as contractors and conduct kidnap operations, and deliver their hostages to AQIM leaders for a fee.²⁸ The leaders of these militias also negotiate the release of hostages and collaborate with AQIM in other joint illicit trafficking operations.²⁹ These intermediaries take a significant cut of the ransom payments and perhaps share this with their political protectors in state institutions.

Furthermore, AQIM collaborates with local people who exploit already established networks in order to provide information on routes, on the presence of tourists, on the activities of soldiers or security officials and to offer safe houses, to guide traffickers across the desert, to provide fuelling facilities and, in some instances, to connive with law

²⁴ Kwesi Aning and Andrew Atta-Asamoah, *Demography, Environment and Conflict in West Africa*, *ibidem*

²⁵ Rachel Locke, *Organised Crime, Conflict, and Fragility: A New Approach*, *cit.*

²⁶ Peter Pham, "Emerging West Africa Terror- Drug Nexus Poses Major Security Threats", in *The World Defense Review*, January 28th 2010, <http://worlddefensereview.com/pham012810.shtml>

²⁷ Kwesi Aning and Sarjoh A. Bah, *ECOWAS and Conflict Prevention in West Africa: Confronting the Triple threats*, *cit.*

²⁸ Sage, 2011

²⁹ International Crisis Group 2012

enforcement agencies.³⁰ This mutually reciprocal relationship has facilitated AQIM's adaptability and prevented it from being disrupted by national and international actors.³¹

The general rise in the activities of terrorist groups in the region, however, has caused concern and raises questions about the potency of these links between criminal activities especially narcotics and terrorism to contribute to further violence in the region.

Implications of the Libyan Crisis on West Africa

The continuing negative unintended impact of the Libyan crisis on West Africa constitutes the fourth security concern that needs to be examined, explained and understood. While the removal and killing of Gaddafi has been greeted with triumphalism in the North Atlantic Treaty Organisation (NATO) circles, this has serious security implications for West Africa. Given the porous borders of the country and of the countries surrounding it, there is the potential for this corridor to be used for infiltration of mercenaries and loyalists of Gaddafi into nearby countries like Niger and Mali. Many of those fleeing the crisis carry various weapons and come with their fighting skills. With the internal bickering among the 140 tribes and clans in Libya who are jostling for positions, there is the possibility for the further proliferation and circulation of small arms and light weapons and this could feed into the flow of rebels and arms into the Sahel sub-region.

Finally, about 40 different militia groups that emerged during the rebellion remain at large. Some of these groups have developed interdependent alliances with already existing networks of disaffected and disenfranchised militant and extremist groups who sought to destabilize their own states with limited political agendas. AQIM, for instance, is taking advantage of the porosity of the borders in North Africa and sub-Saharan Africa to infiltrate states and carry out criminal activities, and its income from such activities are reinvested to trigger revolts.³² The net effects of the security implications of returnee migrants, Tuareg mercenaries and the flow of arms from Gaddafi's weapon caches have contributed to deteriorating the situation in the region. Since the beginning of the 'Arab Spring' and the fall of Mu'amar Gaddafi, Boko Haram has intensified its attacks as a consequence of the spread of arms in the region.³³ In essence, the post-Gaddafi period has opened a sort of insecurity Pandora's box that needs to be closed or the region could risk being flooded with arms and ex-fighters who can become willing tools for armed violence and organised crimes.

Maritime Insecurity and Oil Discovery in Ghana

Fifth point is the growing maritime insecurity in West Africa. This is characterized by armed robbery and piracy, illegal fishing, narco-trafficking, oil bunkering, and transport of counterfeit materials. Since the discovery of new reservoir of oil reserves in the Gulf of Guinea, pirates have targeted this region. Illegal fishing undercuts economic development and leads to food security challenges. Piracy is not good for trade and investment in the region because of the risks involved. All of these illegal activities impact on legitimate businesses. Closely tied in is the need for effective natural resource management. The oil finds in the gulf of Guinea may be a blessing in terms of generating resources for national development but our experience tells us that this may not necessarily be the case; instead, it could be a curse.

³⁰ Kwesi Aning, *Addressing Environmental and Security Concerns, Legal Frameworks, Civil Society and Community Issues*, cit.

³¹ Kwesi Aning, *Transnational Threats, Political Risk - Terrorism, Drugs and Crime*, IISS Conference on "The Geo-Economics of Resources and Conflict in Africa", April 7-9 2013

³² Kwesi Aning and Lydia Amedzrator, "The continuing and changing transitions in North Africa: examining the impact on and role of Sub-Saharan Africa (II Passa Tuareg)" in *Aspenia* 60, (2013), p. 221-225

³³ Mustapha Abdallah, Jenna Sapiano, Frank Okyere, and Doreen Ivy Bentum, *Exploring the post-Gaddafi Repercussions in the Sahel*, June 28-29 2012 (Report from an experts' workshop organised by the Kofi Annan International Peacekeeping Training Centre and the Nordic Africa Institute with the support of the Australian Government)

Particularly in Ghana, the announcement of the discovery of oil and gas in the Western region in 2007 has opened expectations on addressing development challenges in the country, especially in the Western Region. However, even in the aftermath of oil exploration, citizens in the western region are complaining of marginalization by the government.³⁴ The chiefs presented a petition to Parliament requesting a 10% allocation of oil revenues to the region for development projects.³⁵ However, this petition was rejected on constitutional grounds and has perhaps caused the inhabitants to feel more slighted. The youth are especially frustrated by the lack of opportunities in the oil and gas industry. This is because some young people do not have employable skills. Consequently, these idle youth could possibly engage in illegal oil bunkering in order to survive. They could also be mobilized by politicians to cause tension, and advance the latter's political agenda. Besides, there are simmering conflicts experienced by the Nzema and Ahanta ethnic groups in the Western Region, critically on land sale and "because the chiefs and people of Ahanta and Nzema descent were not 'officially' informed about the discovery of oil on their ancestral land and neither consulted on the processes and procedures towards the utilization of and demarcation of the blocs, initial tensions arose between them as to whose portion of the sea the oil discovery had taken place".³⁶ Probably, the feeling that companies will profit more from the oil wealth, though this is due to their stakes in the industry, could lead to resentments against these foreign companies and can be a possible source of tension in the country, especially in the western region.³⁷

Another critical issue relates to the country's capability to manage the multiple security, safety and environmental issues that may possibly arise. This is because the "offshore oil and gas extraction involves a complex web of ships, structures, installations and people, all interacting with each other. It also takes place in a multiple use of sea environment involving existing sea lanes for commercial and military vessels, productive fishing grounds, with countless numbers of fishing vessels".³⁸ The interaction of these different facets has to be managed in order to prevent any risks. Additionally, another source of worry is the 'deep water location' of some of the oil fields. This relates to the capacity and preparedness of the Ghana Maritime Authority to monitor and enforce regulatory frameworks and forestall pirate attacks and other security threats on the installations.

Youth Bulge Problematic

In East Asia, the large population of young people has provided a demographic dividend to these economies. In fact, this is deployed as productive force in labour markets, and represent an important slice of overall consumers. In West Africa, however, the exceeding numbers of young people combined with their ill-exploitation and lack of legitimate sources of livelihood continue to contribute to the outbreak, intensity and the sustenance of conflicts.³⁹ Young people in the region have become active participants in rebellions, protests and insurgencies, sometimes in order to express their 'needs'. First, conflict situations afford some young people the opportunity to act as a revolutionary group in order to break certain patterns like social, political and economic inequalities. For instance, disaffected young Tuaregs were involved in recurrent rebellions in Mali in order to draw attention to the political and economic marginalization of the north. Second, some young people form social networks which may be transformed into gangs or paramilitaries, such as Boko Haram, which are disaffected groups. Also, young people who seek to draw attention to their needs, engage in activities which threaten the stability and security of targeted groups and countries. Third, conflicts facilitate some young

³⁴ Joana Ama Osei-Tutu, *Managing Expectations and Tensions in Ghana's Oil-Rich Western Region*, South African Institute of International Affairs, August 2012 (SAIIA Policy Briefing No. 55), <http://www.saiia.org.za/policy-briefings/managing-expectations-and-tensions-in-ghanas-oil-rich-western-region>

³⁵ Joana Ama Osei-Tutu, *Managing Expectations and Tensions in Ghana's Oil-Rich Western Region*, *ibidem*

³⁶ Kwesi Aning, *Addressing Environmental and Security Concerns, Legal Frameworks, Civil Society and Community Issues*, *cit.*

³⁷ Friedrich Ebert Stiftung, *Youth and oil & gas governance in Ghana. A Nationwide Survey on the Expectations and Participation of the Youth in Ghana's Oil and Gas Industry*, Accra, Ghana, Friedrich Ebert Stiftung, December 2010, http://www.fesghana.org/uploads/PDF/YouthOilGas_Final.pdf

³⁸ Martin Tsamenyi, *The Ghana Maritime Authority Positioned to Play a crucial role in developing Ghana's offshore Oil and Gas*, The Ghana Maritime Authority, p.1, <http://www.ghanamaritime.org/en/media-centre/downloads/presentations.php>

³⁹ Kwesi Aning and Andrew Atta-Asamoah, *Demography, Environment and Conflict in West Africa*, *cit.*

people's desire to 'control' resources. They present opportunities and incentives for the daring ones to support themselves by looting, robbing and exploitation of available natural resources.⁴⁰

A multiplicity of factors contributes to the involvement of some young people in the perpetration of conflict situations in the region. There are social and economic conditions such as unemployment, high education or lack of education, and demographic trends which increase their propensity to use violence. Under such circumstances, their energy, vulnerability and utility are exploited to serve self interested political, social and economic ends.

Food Insecurity

Climate variability, desertification, land degradation, failing water supplies, deforestation, fisheries depletion, and even ozone depletion continues to represent environmental drivers of conflicts in the region.⁴¹ This is because such factors continue to threaten water and food security which can increase forced migration, raise tensions and trigger conflicts. For instance, the sequential droughts in the 1960s, 1970s and 1980s created a temporary crisis in local production systems, especially those based on both farming and pastoralism in the Sahel. Consequently, many young Tuareg men had to migrate to neighboring countries in the Maghreb, especially to Algeria and Libya, where they became familiar with revolutionary positions and this contributed to the recent 2012 Tuareg rebellion in Mali.⁴²

Particularly in the Sahel, a majority of the population is directly dependent on natural resources for its livelihood such as farming, fishing and herding.⁴³ Therefore, recurrent droughts, rainfall patterns, frequent floods and recent political situation have impacted on food availability, access and supply to the population. Also, the forced migration and displacement of people who were fleeing from the 2012 Malian crisis has aggravated the food security situation in Mali and its neighboring countries. It is reported that about 20 million people face food and nutrition insecurity, and about five million children under the age of five are at risk of acute malnutrition.⁴⁴

Conclusions

Multiple security dilemmas continue to pose challenging difficulties for several West African states. In this paper, we have discussed some of the most difficult issues facing several of these states and have examined some key concerns that have the potential to destabilize the sub-region, within the context of state fragility. First, we have discussed the continuing and persistent threats posed by narcotics to West African states and their impact on different institutions. Secondly, we have focused on the increasing correlation between terrorism and narcotics availability. This deals with the role of Al-Qaeda in the Islamic Maghreb (AQIM) and its purchase of narcotics, among other commercial ventures, to fund its activities, and how such diversification of income and funding sources has the potential to deepen the specter and the growth of narco-terrorism in West Africa. Thirdly, we have analysed food security challenges in the region, especially in the Sahel, and how this has contributed to and exacerbated the recent Sahel crisis. Finally, we have discussed the potential security challenges that Ghana's recent oil and gas discoveries might pose to the country. It is critical that such an initial assessment is undertaken, because while the discovery of oil and gas, by themselves has the

⁴⁰ Aning and Andrew Atta-Asamoah, *Demography, Environment and Conflict in West Africa*, cit.

⁴¹ Oli Brown, Anne Hammill, and Robert Mcleman, "Climate change as the 'new' security threat: implications for Africa", in *International Affairs*, Vol. 83, No.6 (2007), p. 1141-1154.

⁴² Kwesi Aning and Lydia Amedzrator, "Mali: Insecurity Hotspot in the Sahel" in *Digital Development Debates*, Issue 12 (2013), <http://www.digital-development-debates.org/issue-12-power-oppression-mali-insecurity-hotspot-in-the-sahel.html>.

⁴³ United Nations Environment Programme, *Livelihood Security: Climate Change, Migration and Conflict in the Sahel*, Châtelaine, Geneva, UNEP (2012), <http://unu.edu/news/news/climate-change-is-impacting-food-security-in-west-africa.html>

⁴⁴ Al Jazeera, "UN says millions at risk in Sahel food crisis", February 4th 2014, <http://www.aljazeera.com/news/africa/2014/02/millions-at-risk-sahel-food-crisis-20142455448969400.html>

potential to generate considerable incomes for Ghana, the excessive optimistic rhetoric of official sources does not reflect the realities of the economic situation of the regions where the oil and gas discoveries have been made. For instance, a recent study assessing the human security and the developmental needs of oil communities in West Africa has painted a dire picture of poverty, environmental degradation, unemployment and armed violence.

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