



FLEXIBLE  
FRAMEWORKS

BEYOND  
BORDERS

UNDERSTANDING REGIONAL DYNAMICS  
TO ENHANCE COOPERATIVE SECURITY

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*Opinions, conclusions, and recommendations expressed or implied within are solely those of the contributors and do not necessarily represent the views of Istituto Affari Internazionali, the University of Bologna, Allied Command Transformation or any other agency of the North Atlantic Treaty Organisation.*

“Flexible Frameworks, Beyond Borders - Understanding Regional Dynamics to Enhance Cooperative Security”

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# Flexible Frameworks Beyond Borders

## Understanding Regional Dynamics to Enhance Cooperative Security

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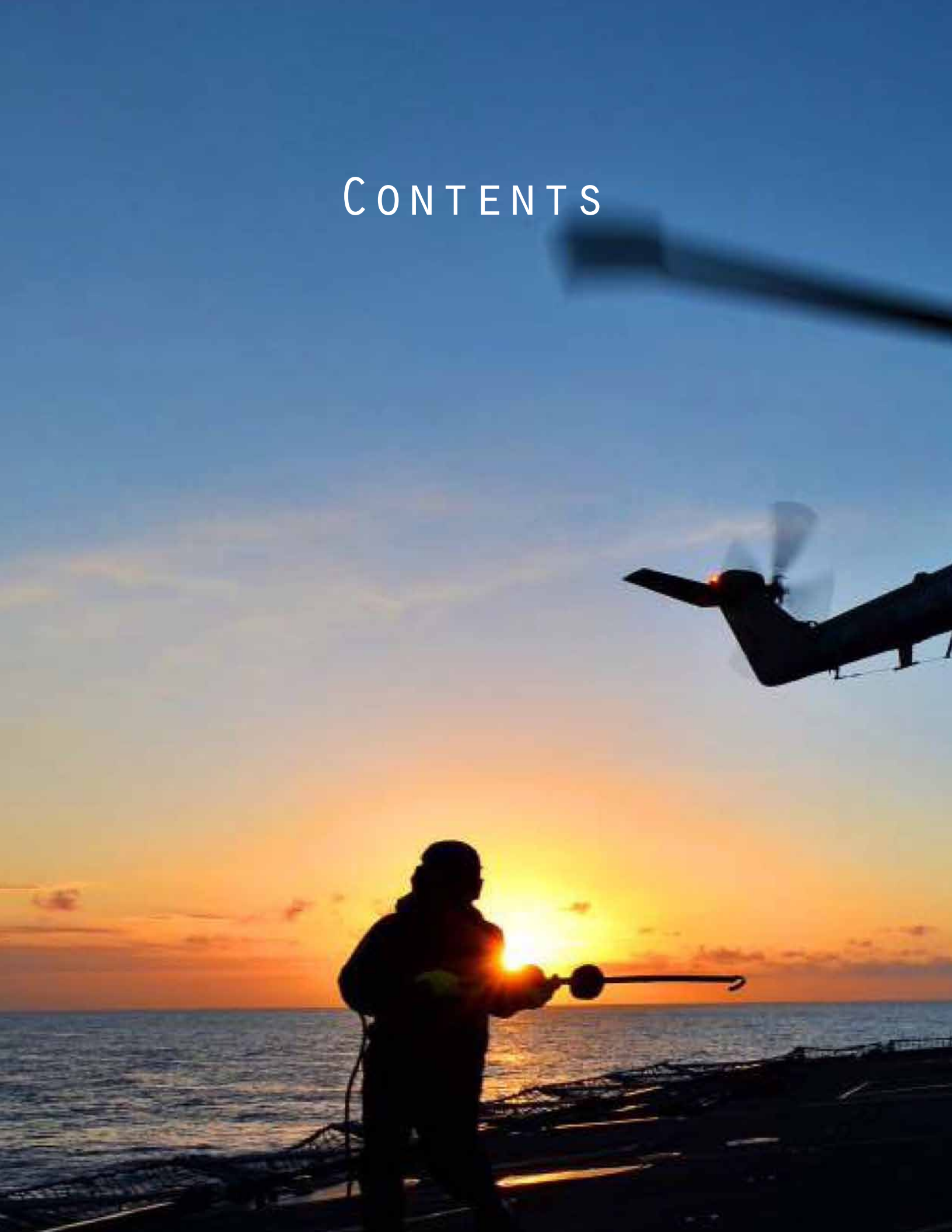
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# EXPLORING REGIONAL SECURITY CHALLENGES

*Federico Casprini, Sonia Lucarelli & Alessandro Marrone*

As of 2014, the post-Cold War illusion of a more secure world has long given way to a gloomy perception of both the present and the future. It has never been so clear as in the past few years that challenges to international security emerge from several different fields (environmental, political, social, economic, etc), touch simultaneously on a wide range of geographic areas and involve different types of actors – from states to transnational and national terrorism, from organized crime to other non-state actors). The transformation of security was a topic studied and understood by several authors already at the beginning of the 1990s. The specialized literature has captured such a change by reflecting both on how security has come to become a multi-faced issue, and on the extent to which (in)security is not only an objective data but the result of a process of social construction which involves the elites, the general public and the media. The literature has equally acknowledged that challenges to security have become ever more complex because of the range of issues they touch upon, the number and variety of actors involved, as well as the type of instruments they require to be handled.

In this transformed scenario, the regional dimension of security continues to be of utmost importance, even if regional and interregional dynamics have changed with respect to the past. Regions are the context in which cooperative communities can be created and stabilized over time (in the form of “Security Communities” for instance), the areas in which there is a higher interdependence in terms of security concerns (“Security Complexes”), or the areas in which local conflicts are more likely to spread. Regions are also historically-defined entities, whose borders are shaped and reshaped over time by security dynamics. Therefore, it is of paramount importance for an organization like NATO—which has security and cooperation at the core of its mandate—to understand the new and old security challenges by looking at their regional dimension, and to evaluate their interregional and global implications.

The Academic Conference 2014 “*Flexible Frameworks, Beyond Borders*” aimed to contribute to this effort by analyzing regional dynamics, the eventual role of NATO in their regards, and possible ways to enhance cooperative security. The Conference was the third of a series jointly organized by NATO Allied Command Transformation (ACT), the Istituto Affari Internazionali (IAI) and the University of Bologna, and took place in May 2014 in Bertinoro – near the town of Forlì, Italy. More than sixty scholars from Africa, Asia, Europe, the Middle East and North America convened and worked both in plenary sessions and in working groups focused respectively on Asia-Pacific, Greater Middle East and North Africa, and Sub-Saharan Africa. Each working group was introduced by two papers, included in this publication together with the report of the respective debate as well as of the round table “*The Black Sea Region and Euro-Atlantic Security*.”

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As for the working group on the Asia-Pacific region, participants acknowledged that the spectacular economic growth of many countries in the area is one of the major factors that brought the region to international relevance. The scale and pace of Asia's rise at the same time led many observers to question its sustainability – and to wonder whether the 21<sup>st</sup> will be in fact, the *Asian Century*. While the expression was first used by former Chinese leader Deng Xiaoping to contest the thesis that the world's center of gravity was shifting to Asia and the Pacific, the region's robust economic performance has indeed led many observers to reverse the meaning of the expression. Andrea Goldstein, in his paper "Asia-Pacific in the global economy: an overview" presents some of the major economic trends observable in the region, and makes the case for an optimistic approach when looking at Asia-Pacific's future. According to Goldstein, extremely high levels of private and public investments have enabled Asian countries to exploit their advantageous demographics—allowing national governments to build a favorable climate through a conscious strategy of institutions-building and marketing-enabling reforms. At the same time however, the author cautions that the *Asian Century* scenario assumes that Asian economies maintain the economic momentum of the past two decades for another 40 years. While the estimates of several international organizations and those of many observers do not run against this possibility, Goldstein presents a number of issues that will either enable or hamper the march towards the *Asian Century*. At the national level, demographics and human capital developments are presented as two of the major determinants of the sustainability of growth. At the regional level, the author argues, the 1997 Asian economic crisis showed the need for increased cooperation in institution building and market creation. Regional efforts, such as the Asia-Pacific Economic Cooperation forum, should be paired with an increase in national public spending, accompanied by strategic planning and innovative policies, in order to foster equality of opportunity and ensure the sustainability of growth. Ultimately, Goldstein concludes, the ability of all G20 countries in Asia to handle these challenges will determine the success of the necessary reforms.

With his paper "The new center of power: political and strategic trends in Asia-Pacific" Antonio Fiori provides a detailed picture of the political and security environment in Asia-Pacific, and argues that the region is today in a process of change towards a new equilibrium. Inter-state tensions worsened by nationalist sentiments led to a fragmented region, where the major actors maintain both common and competing interests. China, according to Fiori, has become significantly more assertive in foreign policy, and it has expanded its non-negotiable concept of "core interests" to include the nation's political system, national security, and socioeconomic development. Beijing, emboldened by the country's economic success, has repeatedly advocated for a "new type of relationship" with the United States, and has appeared increasingly daunted by what it perceives as attempts to contain China. Washington, for its part, has declared with the rebalancing that the United States is in Asia-Pacific "to stay." The hub-and-spokes system of alliances with many regional actors, not only makes the United States a major player in the region, but is at the same time a significant part of Washington's strategy to handle China's growth and military development. The relationship between many of the "spokes," however, is not what the United States would have desired. A concoction of historic grievances, conflicting nationalistic sentiments and competing territorial claims keep Washington's allies apart from each other—further heightening the complexity of the region. Maritime disputes, Fiori argues, have significant disruptive potential, and will be crucial for regional stability. Furthermore, the standing confrontation in the Korean peninsula, together with the unfathomable nature of the North Korean regime, adds a supplementary level of concern for Asia-Pacific.

The working group witnessed a very lively debate on the expected path of Asia-Pacific, and the implications for NATO. The participants identified three sets of trends within the region as well as three variables that are expected to affect the trajectory of these trends and the impact they will

have on the stability of Asia-Pacific. First, endurance of economic growth will be of paramount importance to provide all relevant actors with sufficient incentives to keep their relationships within the cooperative spectrum. Second, the group argued that it would prove crucial the way national governments will be able to handle nationalism in a healthy manner to enhance internal cohesion, rather than international confrontation. Third, as *trust-building* mechanisms are a much-needed asset in the region, international organizations have the potential to greatly influence the stability of Asia-Pacific. In conclusion, however, while the participants concurred on the enduring salience of the region, there was no consensus over what role should the Alliance play in it: Asia-Pacific is not within NATO's area of responsibility, and yet the Alliance has everything to gain from enhancing the balance in the region.

As for the working group on the Greater Middle East and North Africa region (hereon MENA), the two papers presented adopted a complementary focus. Memduh Karakullukcu focuses his analysis on "Economic perspectives for the MENA region: impatient expectations, deferred promises and the missing axes of trust". According to his analysis, two long-term trends need to be dealt with: the distorted labour market characterized on the one hand by an extremely weak private sector and on the other hand by a huge and corrupted public sector; and the distorted education systems, too much focused on public sector career and tertiary education. Both trends have fuelled an unemployment rate well above the world average, as well as a social discontent that erupted in the 2011 turmoil across the Arab World. After the turmoil, the new governments have not been able to address the economic situation, therefore the expectations gap has increased together with mistrust towards both domestic elites and foreign actors – despite of the funding coming from the oil-exporting countries of the Gulf Cooperation Council. Possible ways to tackle these issues are economic by nature, and require a strong political commitment by Europe and the international community as a whole.

Tewfik Aclimandos' paper addresses strategic trends in the Middle East and North Africa (MENA) with a focus on politics and security. He points out two structural drivers for the enduring unrest in the region: the cohort of young educated people no longer relying on the State for their basis needs – a view shared by the other paper - and Islamist movements. The latter in particular have proved to be a formidable challenge for any democratization process. Currently and for the foreseeable future, the conditions for the existence of previous authoritarian regimes are not present anymore in the MENA region, while the conditions for functioning democracies are not there either. Consequently, the situation moves back and forth between revolution and democratic transition, the state is much weaker than before 2011, and the great degree of violence and insecurity has recently led a substantial part of the society in the region to consider security on top of the agenda, and even to desire a strong state able to achieve and maintain it. At the same time, the regional security context is likely to remain bleak: failed states, civil wars, diffusion of small and heavy weapons after the collapse of Libya's armed and security forces, take place while regional powers compete with each other by shifting alliances and interfering in local conflicts – which in turn risk to become sectarian and/or regional ones.

The working group largely shared the analysis proposed by the two papers, and discussed structural trends and relevant variables in the region. The former were grouped into three sets of variables related respectively to borders, resources and identity. Concerning cooperative security and a possible role of NATO in the Middle East and North Africa, a number of considerations were made. First, the Alliance should take into account that many challenges in the region are not about hard security, and even when this is the case they may be out of NATO's reach. Second, almost all current NATO initiatives towards states in the MENA region should be reviewed, because



the regional security environment is in flux. Any military or technical cooperation is political by nature, therefore should be linked to both a strategic assessment of the situation and a political dialogue with local stakeholders. Third, NATO should approach the region in partnership with the EU, the UN, the African Union and the Arab League in order to achieve greater results and avoid backfire.

The working group on the Sub-Saharan Africa region discussed two complementary papers. The first one - by Giovanni Carbone - provided a broad overview on the main trends in the entire region, while the other – by Lydia Amedzrator and Kwesi Aning – focused more specifically on security challenges in Western Africa.

Giovanni Carbone's broad overview of trends in Sub-Saharan Africa, underlines the fast path of transformation of the region but at the same time shows evidence of deep internal differences among states. In terms of common traits, three issues are emphasized as particularly important: the region's sustained economic expansion, its growing connectedness and its massive demographic growth. In all respects Africa is a booming area of the world, with an annual growth rate of 5.4% average between 2000 and 2013. However, the potential associated to Africa's economic rise is expected to have a contained impact on the actual development of the region if a structural transformation is not undertaken and inequalities reduced. Africa has also acknowledged a growing level of "connectedness" (particularly through mobile phones) within the region and with the outside world - an instance which could have important economic repercussions. Finally, Africa's population is expected to rise further, with unquestionably social, political and economic challenges, from the handling of urbanisation processes to food security, from access to land and water resources to migration patterns. In this scenario, particular attention is devoted to the rise of Nigeria in both economic and demographic terms.

The paper authored by Amedzrator and Aning paper focuses on challenges to security in West Africa, which are summarized in the seven crucial ones: state fragility; narcotics trafficking; Islamic radicalism; the increasing alliance between illicit trafficking activities and Islamist terrorism; the implications of the Libyan crisis; maritime insecurity and oil discoveries; the so-called youth bulge and food insecurity. Weak state institutions and vulnerable political environments are the context in which violent conflicts, socio-economic inequalities, transnational crime, religious extremism and food insecurity can proliferate. Narcotics trafficking is such a relevant problem that the whole continent is now perceived as 'NarcoTrAfrica'. Facilitated by a partnership with state apparatuses, a certain social tolerance and the persistence of a sort of "parallel legal milieu", narco-criminals can operate without significant constraints. Rising Islamic radicalism is also causing concerns in the region, particularly in Nigeria with the activities of Boko Haram. The worries for the rise of fundamentalist groups are also exacerbated by the expanding nexus of illicit trafficking and transnational Islamist terrorism. In this respect the consequence of the Libyan crisis have been particularly negative for West Africa, as it is negative the growing maritime insecurity in area marked by armed robbery and piracy, illegal fishing, narco-trafficking, oil bunkering, and transport of counterfeit materials. Moreover, in West Africa the presence of a large and poorly educated young population, limited job opportunities, and lack of legitimate sources of livelihood contribute to social instability that might turn in the use of violence. Finally, current environmental challenges might further contribute to severe cases of food and water shortage. Hence, multiple challenges affect West Africa's security and seem to be there to stay for a while.

The discussion in working group 3 confirmed the argument that Sub-Sahara Africa is fast-changing region that continues to be characterized by high levels of diversity. The overall sustained economic

growth is believed to have had already a positive social impact (i.e. a decline in poverty rates), but poverty and inequality indicators are still high. Nigeria is regarded as Africa's rising power; the Gulf of Guinea has gained importance in terms of economic activity, but has also become an arena of maritime security challenges. From a demographic viewpoint, UN population projections suggest that Sub-Saharan Africa's rising population will impact on the region's ability to deliver sustainable development. The group also agreed on the overall weakness of local politics, although recognized that many countries in the region have made progress on their political reform agenda. This, according to some participants, might have reduced the appetite for social uprising. During the group's discussions, it emerged that conflicts are showing an increasing religious dimension and radicalization, and a strengthened nexus between narcotics traffickers and terrorists has been acknowledged. The youth bulge (a high percentage of populations aged 15-24) adds another layer of complexity to the security situation. All in all, it has been recognized that multiple security challenges persist in the region. However, most participants in working group 3 were of the opinion that NATO's role in Sub-Saharan Africa will and should continue to be limited.

The Academic Conference also featured a round-table discussion on the Black Sea Region and Euro-Atlantic security. While the challenges emerged at the turn of the Century tilted NATO's attention "out of area," the crisis in Ukraine urged the Alliance to take a more careful look at its eastern flank. According to the panel, NATO's measured response to Russia's "provocative" move into Ukraine, was just as much an attempt to deflate the crisis, as it was the result of "strategic surprise"—and the chances for a return to the status-quo ante bellum remain low. This is due to Ukraine itself, which is a heterogeneous nation that struggles with a unifying national identity and inclusive narrative for all of its ethnic minorities. In addition, the Ukraine's government and economy suffer from a lack of transparency and inclusion. Politically, Ukraine's government is torn at every level with corruption and graft, and militarily, efforts to improve and modernize have not succeeded. Despite ample time and opportunity to reform, Ukraine's military and its security infrastructures remain in ruinous conditions: Ukraine has no divisions or brigades, as organized units. Battalion size is the basic organization unit. Russia's unlawful annexation of Crimea has long-term implications for Ukraine, Europe and the international system. Redrawing borders through coercion is the antithesis of the Western order that NATO and its allies support and maintain. Thus, NATO and regional allies must make it a priority to ensure Russia's action cannot cause further destabilization, while working with the international community at large to prevent copycat actions elsewhere.

All in all, the worldwide security scenario before us is definitely challenging, highly uncertain and cognitively demanding. It shows once again how security challenges should be understood as the result of a complex interaction among different processes of economic, demographic, social and political nature. These interactions tend to be particularly relevant at the regional level, but developments at the domestic level of certain crucial regional actors (e.g. China, Nigeria, South Africa, Russia) are fundamental. At the same time regional trends are nowadays due to project their effects also on other regions, as well as on interregional and global relations. For this reason, cooperation among regional area experts, sociologist, demographers, international relations scholars, security analysts and practitioners is all the more important if we want to make our complex world more intelligible.



SCENE SETTER

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# THE WEST AND THE REST







# TRENDS IN INTERNATIONAL POLITICS: “THE WEST AND THE REST”

*Sonia Lucarelli*

A discussion about flexible frameworks – with the ambition to transcend borders – requires a shared understanding of our “self.” NATO is in fact just one of several constituencies that together give life to a broader category, often labelled *The West*. Many of the challenges ahead of NATO are not exclusive to the Atlantic Alliance, and for this reason the opening roundtable of the Conference focused on the role of the West in the context of the rise of the non-Western world. The panel recognised three main risks in addressing the topic:

1. Being Western-centric (and thus collapse together everything which is “non-West”)
2. Assuming an overall agreement of what is to be understood as “the West”
3. Assuming an “adversarial” perspective towards the non-Western world.

With the aim of overcoming at least one of such risks, the panel addressed the issue of what is to be considered “the West” and identified two underpinning narratives:

- A civilizational West, that affirms the unique character of Western civilization, de facto non exportable elsewhere.
- A modern West, defined as industrially and economically developed, supported by a certain sense of superiority of its civilization, able to influence the transformation of the rest of the world.

In contemporary debates we have seen a rebalancing from a prior emphasis on the former to a growing emphasis on the latter. The challenge is to accept the cultural specificity of the West, abandoning at the same time both the assumption of alleged superiority and that of universalism. Acceptance of differences is a key element to address the current challenges. The difficulty lies in the identification of the degree of difference from the Western model that is perceived by Westerners as legitimate and the means to cope with unacceptable differences.

A second aspect relative to the definition of the West addressed by the panel was that of its borders and of its relations with its immediate periphery. The issue was addressed by looking particularly at its Eastern neighbourhood and its relations with Russia. At the end of the Cold War, many sincerely believed Russia could become a fully-fledged part of the “West.” Russia has indeed a long history of European orientation (from Peter the Great’s founding of St. Petersburg as a

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*“window on the West,”* to Mikhail Gorbachev’s vision of a Common European Home) and at the end of bipolarity the country was poised to join (or re-join) Europe. History proved these hopes to be short-lived. The panel tackled the issue of “what went wrong” with the *assimilation* of Russia, and some of the participants identified a responsibility of the West for failing to understand that the eastward expansion of Western institutions was pursued at a faster pace than what could be assimilated by an old foe, accidentally causing the discredit of the pro-Western political forces within Russia and play into the hands of the nationalists. The transition of Russia from “The West” to “The Rest,” noticed one of the participants, should be considered as an example of the worst case scenario coming true: it should be taken as a lesson-learned for the West’s relations with the rest of the world.

Then the participants addressed at least five challenges to West security and prosperity:

1. *Economic.* The economic rise of the so-called BRICs tells the story of a non-Western world which is not violently antagonistic, but which is nonetheless challenging the West’s consensus over the guiding principles of the international economic system.
2. *Political and cultural.* Western models of state, democracy and institutions are all the more challenged by a diminished credibility and reduced faith in the possibility that the model can be exported. In fact, the very attractiveness of “The West” (as a community or choice rather than a natural geographic expression) is nowadays diminished in comparison with the early 1990s. The traditional ticket “democracy-free market” is put under question by the rapid economic growth (and participation in the liberal economic order) of non-democratic regimes of the rising rest. The fact that economic development can apparently be pursued without the adherence to democratic norms represents a severe challenge to the Western-shaped international liberal order and to the role of the West in world politics.
3. *Relational.* The 9/11 attacks have been a dramatic example of the fact that the appreciation for what the West is and represents challenged. The aforementioned case of the West’s relations with Russia is a case in point of a relational difficulty, but not the only one.
4. *Strategic.* Globalization has transformed the strategic scenario creating opportunities of cooperation, but also spread of security challenges and a reduced power of some traditional security tools of deterrence such as sanctions. The recent economic crisis in the West has added further limits to the strategic tools that could be used, by limiting military expenditures in NATO members.
5. *Demographic.* Most European countries, a significant component of the West posed at its most difficult frontiers, are expected to experience demographic stagnation at best.

In conclusion, the panel argued, the main challenge in front of the West will be to effectively adjust to a situation where the rest of the world no longer gravitates around it. The task for Western countries, then, will be to find ways to ensure the continued functioning not only of their region, but also of the global governance. Surely, it is more likely the West will succeed in this endeavour if it will attain a deeper understanding of its strengths and limits, its responsibilities and the medium and long-term impact of its political decisions.

FOCUS AREA I

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ASIA PACIFIC







# ASIA-PACIFIC IN THE GLOBAL ECONOMY: AN OVERVIEW

*Andrea Goldstein*

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 was credited with first using the term *Asian Century*, in a meeting with Indian Prime Minister Rajiv Gandhi—only to refute the thesis that the 21<sup>st</sup> 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 geography and demographics, others the result of human agency, such as policy experimentation and institutional strengthening.

## **An introduction to the *Asian Century***

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 located 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).<sup>1</sup> Asia will not only remain the most populous region in the world, but it will also be the biggest economic zone, the home to the majority of the world's middle class, and the biggest consumption zone.

Will this transformation prove sustainable over time? The exhaustion of the "easy" catching up trajectory, the moderate economic growth expected in advanced economies, a greater competition for natural resources, further environmental constraints, increasing income and wealth inequality: all these are factors that will require a fundamental adaptation of the Asian development models. Despite substantial declines in poverty levels, rising income disparities may challenge social cohesion and interact with other elements in defining the course of political reforms.

Furthermore, Asia's continued growth will not occur in a strategic vacuum. It may significantly alter the distribution of power — economic, political, military, technological, and soft — on the planet. Increasingly unstable relations among major Asia-Pacific powers — China, India, Japan, Russia, and the United States — as well as other elements (tensions in the Korean Peninsula, instability in Pakistan and some Southeast

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<sup>1</sup> Australian Treasury, "Australia in the Asian Century White Paper," 2012

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Asian countries, uncertainty concerning the Russian Far East) will require sustained efforts 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.

### **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 Chinese Communist Party (CCP) leaders 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%. Beijing's dual-track approach to reform encouraged private sector 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—ascend at the end of 1980s and early 1990s: its growth has averaged around 4% during this early reform period, then accelerating in the early 2000s, and hitting 9.2% in 2006. Following that peak, 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 crisis—and in combination with infrastructure investments and economic reforms, it 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—Japan and South Korea—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.<sup>2</sup> Still, if nominal GDP per capita is the focus, Japan suffered a lost decade and then some: only in 2010 did its economy regain the level of income attained in 1995. In fact, Japan's economy has significantly underperformed reasonable expectations over the past two decades: a failure partially—if not mostly—attributable to macroeconomic policy failures.

South Korea was one of the countries worst hit by the 1997 crisis, and its IMF-led emergency bail-out programme costed 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,

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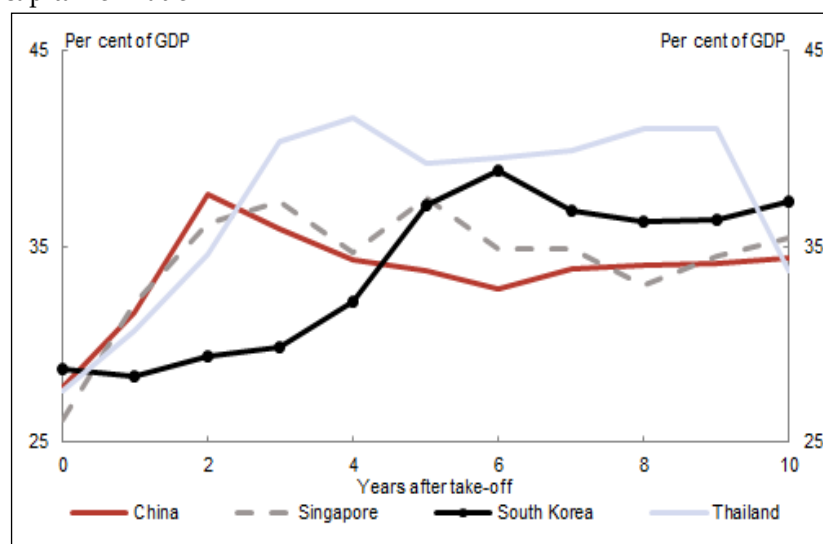
2 William Cline, "Japanese Optical Illusion: The 'Lost Decades' Theory Is A Myth," The International Economy, Spring 2013; retrieved at [http://www.international-economy.com/TIE\\_Sp13\\_Cline.pdf](http://www.international-economy.com/TIE_Sp13_Cline.pdf)

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, the case of South Korea is typical of post-crisis Asian economies, as the country recurrently faces difficulty in preventing further accumulation of foreign reserves and keeping its currency from appreciating. This is a concern for exports, particularly when the yen is weak, as South Korean industrial exports compete with Japan's 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 existing levels of schooling—that were high relative to the capital stock—and the 'latent' return to capital was therefore high. Import, as well as adaptation of technology and management systems further boosted productivity.

**Figure 1: Investment in physical capital**  
Gross fixed capital formation



Note: The take-off years are 1990 for China, 1969 for Singapore, 1984 for South Korea and 1986 for Thailand (Hausmann et al. 2005).

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

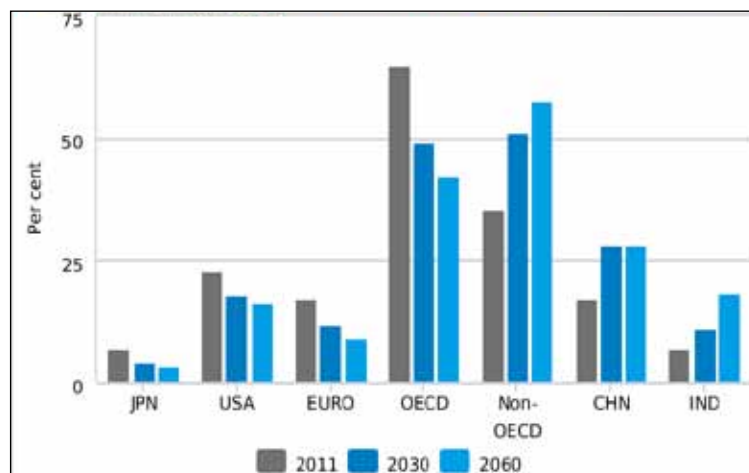
As countries emerged, governments built a favourable investment climate through a succession of – typically gradual and rudimentary – institution-building and market-enabling reforms. For reasons having to do with market failures – among which coordination failures figure prominently – private investment needed a push before the latent returns could be realized. Different approaches ranged from putting in place export processing zones, to various types of 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 which is still subject to debate. Nonetheless, these efforts were undeniably part of conscious decisions by key political leaders, especially in India and China.



The *Asian Century* scenario assumes that Asian economies can maintain this impressive momentum for another 40 years. Asia would see its share of global GDP rise to 52% by 2050, by which time per capita income could rise six-fold in purchasing power parity (PPP) terms to reach Europe's levels. According to the same study, the region would then have no poor countries, compared with eight in 2011.<sup>3</sup>

The OECD reaches the same broad conclusions (Figure 2).<sup>4</sup> 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.

Figure 2: Shifts in the share of World GDP to 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.<sup>5</sup> 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 those of its 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 their 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 for them to reach quite rapid growth over the medium term—ranging from over 6% for Cambodia and Myanmar, to more than 7% in Lao PDR.

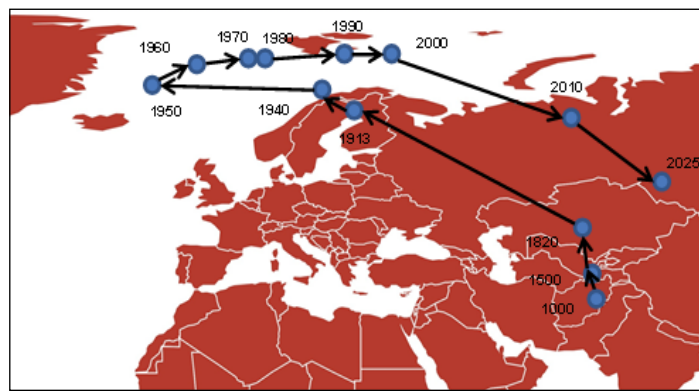
Asia is thus set to become the centre of global economic activity, reclaiming a title it held 1,000 years ago and then moved westwards, before making a U-turn in the middle of the 20<sup>th</sup> century (Figure 3).

3 Asian Development Bank, "Asia 2050: Realizing the Asian Century," 2011

4 OECD, "Looking to 2060: A Global Vision of Long-Term Growth", *OECD Economics Department Policy Notes*, No. 15, 2012.

5 Jim O'Neill and Anna Stupnytska, "The Long-Term Outlook for the BRICs and N-11 Post Crisis", Goldman Sachs, *Global Economics Paper*, No. 192, 2009.

**Figure 3: Shifts in the center of world economic gravity**



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. The centre of economic gravity slowly shifted from East Asia to Europe, then more quickly to the Atlantic and in more recent decades it has shifted rapidly back towards Asia.

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 adopted a governance structure that gave local and provincial governments incentives to experiment different approaches to growing local economies, and was thus able to adapt institutions and settings to fit each stage of its development.<sup>6</sup> The November 2013 Third Plenary Session of the 18<sup>th</sup> 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 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.

In order to revitalise the country's economy relative to China's, in 2012 Japanese Prime Minister Abe Shinzo launched a three-pronged strategy: *Abenomics*, as it went on to be known. Abenomics's first "arrow" is a monetary policy aimed at eliminating deflation. Some results have been achieved, but it is still premature to conclude that deflation risks have evaporated. The second arrow is a flexible fiscal policy, aimed at supporting the Japanese economy in the short run, and at achieving fiscal stability in the long term. As for the previous point, the jury is definitely out on the actual results this measure will be able to achieve. As per the third arrow – that of structural reform, aimed at raising potential growth – relatively little has been announced so far, let alone achieved.

As far as South Korea is concerned, President Park Geun-hye aims to overhaul the economy with her '474 Vision.' On 26 February, at a speech marking the first anniversary of her inauguration, she

6 World Bank & DRC, "China 2030: building a modern, harmonious, and creative society," 2013, [http://www-wds.worldbank.org/external/default/WDSPContentServer/WDSP/IB/2013/03/27/000350881\\_20130327163105/Rendered/PDF/762990PUB0china0Box374372B00PUBLIC0.pdf](http://www-wds.worldbank.org/external/default/WDSPContentServer/WDSP/IB/2013/03/27/000350881_20130327163105/Rendered/PDF/762990PUB0china0Box374372B00PUBLIC0.pdf)

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 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**

	<b>now</b>	<b>in 2017</b>
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%

The 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 the 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 launched in 2010, which are expected to lead to a large influx of foreign investment.

## Demographics

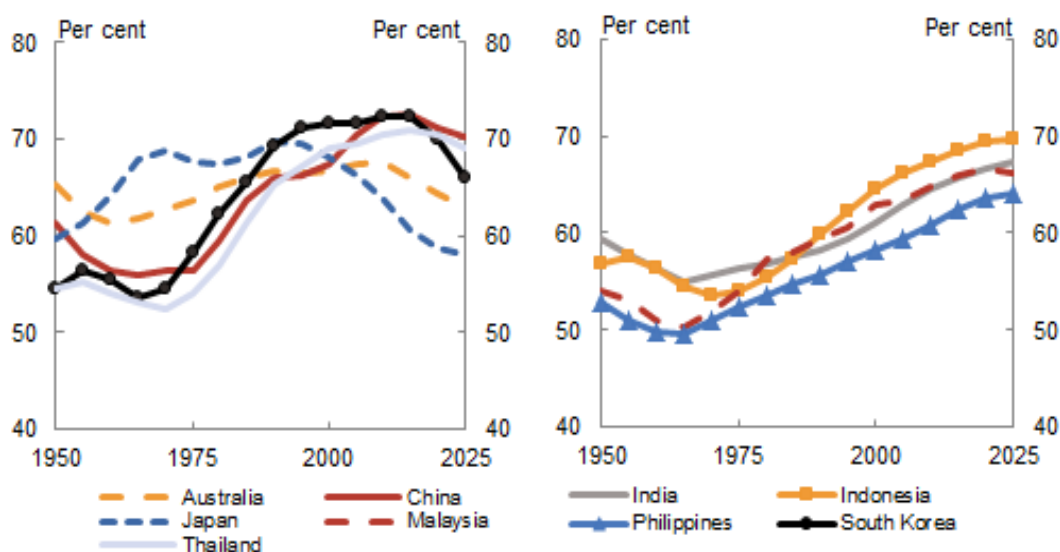
Asia’s take-off owed a lot to a favourable set of demographic circumstances: transition from high to low rates of mortality and fertility, large numbers of young people approaching working age, and boosting productive capacity.<sup>7</sup> The East Asian baby boom, which started in post-war Japan and 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, thus managing 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.

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<sup>7</sup> 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 & Jeffrey G. Williamson, “Demographic Transitions and Economic Miracles in Emerging Asia”, *NBER Working Paper*, No. 6268, 1997.

**Figure 4: Asia's demographic dividend**  
Share of working-age population



Source: UN

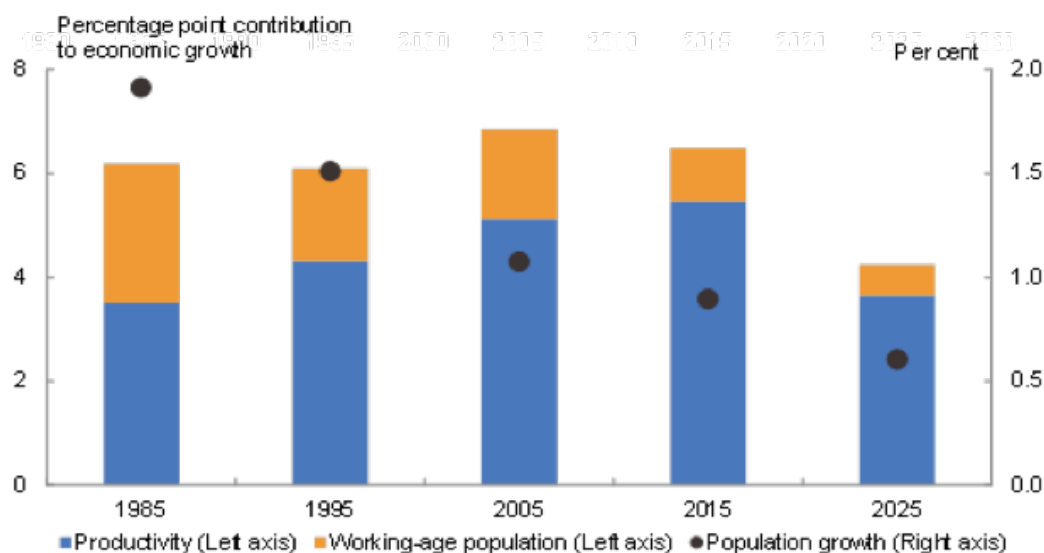
Population growth in Asia has slowed significantly since the late 20th century, though it is expected to continue through at least the first half of the 21st century. At four billion people in the beginning of the 21st century, the Asian population is predicted to grow to more than five billion by 2050. If current trends continue, India's long-term population could potentially almost 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 it will begin to decline from around 2025. While Asia's working age population is expected to grow at 0.8% per year in the next two decades—around half the rate of the past twenty years—the proportion of elderly people is expected to increase as well.<sup>8</sup> South Korea is ageing faster than any other country in the OECD.<sup>9</sup> Last year almost 12% of the population was aged 65 or over. By 2030 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.

<sup>8</sup> 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 Sciences, "China's Financial Policy Report from 2010 to 2011," 2012

<sup>9</sup> R. S. Jones & S. Urasawa, "Sustaining Korea's Convergence to the Highest-Income Countries," OECD Economics Department Working Papers, No. 965, OECD Publishing, 2012; <http://dx.doi.org/10.1787/5k97gkd8jgzs-en>

**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.<sup>10</sup> High educational attainment, especially at the secondary level, has significantly improved educational achievement, with externalities in the quality of institutions and the transition into modern democracies. Primary education was compulsory in many East Asian economies, and by 1960 it was prevalent in China, Hong Kong, Japan, Singapore, South Korea and Taiwan.<sup>11</sup> It is well known that these are now the world's highest-performing education systems. According to PISA 2012 (the OECD survey that evaluates education systems worldwide), 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.<sup>12</sup>

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; in this regard, South Korea is a standout performer, with almost universal post-secondary education.

Demography in Asian countries, however, could becoming a 'drag' on growth, as their international cost advantage—based on cheaper labor costs—is progressively eroding. Therefore, to sustain their human development, Asian economies must invest in improving educational quality and raising enrollment rates at the secondary and tertiary levels. Average years of schooling are in fact forecasted to increase from 7 to 7.6 years by 2030—a significantly slower pace than the increase of

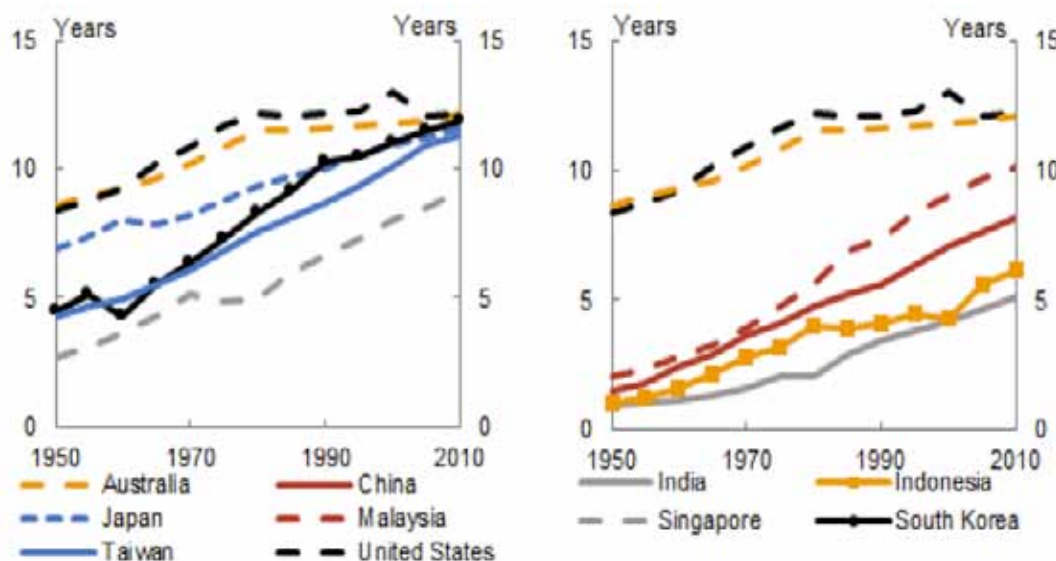
10 Jong-Wha Lee & Ruth Francisco, "Human capital accumulation in emerging Asia, 1970–2030," *Japan and the World Economy*, Vol. 24, No. 2, 2012, pp. 76–86.

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," 2013, <http://www.oecd.org/pisa/keyfindings/pisa-2012-results-overview.pdf>

4.1 years achieved between 1970 and 2010. That would put emerging Asia's educational capital in 2030 at only the 1970 level of the advanced countries; in other words, still 3.5 years behind the level of advanced countries in 2010.

**Figure 6: Asia's demographic dividend**  
Population aged 15 and above



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 quality are complicated by the diversity and the size of the education system. India has made large strides in improving school enrolment rates, and reducing the impact socioeconomic, caste and gender gaps have on enrolments at the primary level. Unfortunately, despite these efforts, significant challenges remain. They include the lack of qualified teachers, poor student-centered teaching, absenteeism, and poor school infrastructure.<sup>13</sup>

South 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.

### Building institutions and markets

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

<sup>13</sup> Deepa Sankar & Toby Linden, "How much and what kind of teaching is there in elementary education in India? Evidence from three states", World Bank Group, South Asia: Human Development Sector, *Discussion Paper*, no. 67, 2014.

<sup>14</sup> Dani Rodrik, "East Asian Mysteries: Past and Present", *NBER Reporter*, Spring, 1999.



Economic institutions were not the only ones 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 South 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 a strong emphasis on an overhaul of the public sector, often shaken by corruption scandals. As a result, every piece of information about public institutions will be disclosed to the public except for core business secrets. Furthermore, the accounting system for government-led projects and public entities' projects will be strictly separated.

Southeast Asian countries have consolidated their political institutions, although domestic institutions of conflict management are still weak, and disenchanted groups indeed pose a challenge to the consolidation of cooperative institutions. Democracy imposes mechanisms of participation, consultation, and bargaining, thus potentially providing 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 epitomised 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 not surprisingly, relatively few of the elements of the Western democracy are firmly in place. The new leadership has talked of “serving the people” by avoiding “formalism” and “empty talk”—a commitment that to this day 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 large-scale mobilisation of investments—contributed to inflate asset-price bubbles that later burst, leading to capital flight, sharp currency movements, and the abandonment of pegged exchange rates.<sup>15</sup>

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

The response to the crisis has taken many forms. One practice that has proven particularly effective and influential beyond the region is the adoption of “macroprudential” policies: that is regulatory and supervisory action by the central bank used in place of monetary policy to guard against financial instability. Partly as a result, the “Great Moderation” has taken root in developing Asia, where growth has been both steadier and faster than in the G7.<sup>16</sup> From 2002 to 2011, for instance, Lao PDR, Indonesia and Bangladesh recorded three of the four steadiest growth rates (as measured by its standard deviation).

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15 Indermit Gill & Homi Kharas, *An East Asian Renaissance: Ideas for Economic Growth*, World Bank, 2007.

16 *The Economist*, “Asia’s great moderation,” 10 November 2012.

The concern nowadays regards the implications of sharply rising credit. One traditional view is that growing leverage corresponds to healthy “financial deepening,” and it is therefore conducive to higher growth and greater stability. Another view, associated with the late Hyman Minsky, is that stability eventually becomes destabilising—when drops in volatility allow firms and households to borrow more of the money they invest. Overleverage does not require excessive optimism, merely excessive certitude: not fast growth, but steady growth. The 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.<sup>17</sup> 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 compared with the advanced economies, but also with its “peers” in Latin America. Boosting public spending on these sectors appears to be increasingly necessary in order to foster equality of opportunity—provided that both strategic planning and innovative policies accompany spending.

### **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 integrating its economy with the global system.<sup>18</sup> Regional efforts also supported greater levels of openness. The Asia-Pacific Economic Cooperation forum (APEC), for example, helped to sustain market-driven integration in the region. More broadly, an open global trading regime enabled Asia’s rising economies to secure energy and resources vital to their growth, including from Australia. This was particularly important for economies such as Japan and South Korea, which lacked adequate resource endowments.

In the immediate aftermath of the 1997 crisis, concerns also rose that the IMF was dictating policy settings to the crisis-affected countries in an 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 today become a single, uniform facility to manage regional financial crises.

In the aftermath of the crisis, governments in Asia-Pacific have increasingly discriminated against foreign commercial interests.<sup>19</sup> 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 than before the crisis.

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<sup>17</sup> Asian Development Bank, *Asian Development Outlook 2014: Fiscal Policy for Inclusive Growth*, 2014.

<sup>18</sup> No other member joining the WTO made as many concessions on the way to accession. 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.

<sup>19</sup> Simon Evenett, “Mapping Crisis-Era Protectionism in the Asia and Pacific Region”, *ADB Working Paper*, No. 445, 2013

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.<sup>20</sup> They are all members of the G20, as Indonesia is. It is unclear, however, whether increasing economic power has empowered Asia to assume global leadership in the production of global public goods, such as control of climate change, or 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. Growing economic integration of Asian countries has hardly brought them closer politically, as testified in recent years by concerns about Beijing's hegemonic ambitions, and the tensions in the South China Sea and the Sea of Japan/East Sea. Eventually, an Asian regional bloc may be developed around ASEAN and other bodies, on the basis of free trade agreements. 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.

### **A very short conclusion**

The Asian miracle(s) has been the fruit of an original combination of various elements: free-market economics governed by a strong state, meritocracy and limited corruption, investment in science and technology and faith in pragmatism, a culture of peace and major 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.

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<sup>20</sup> 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).

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

*Antonio Fiori*

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 several countries in the region has changed, many of the problems upsetting the area have either remained stable or 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 still characterizes *its rise* as intrinsically "pacific," military expenditures are constantly growing, alarming regional neighbors—especially those 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 considerably affected regional integration, as clearly demonstrated by the fact that to this day, no formal meetings were held among the Japanese Premier and the Chinese or South Korean heads of state. This fragmentation has obvious repercussions on 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 Kim Jong-un's rise to power—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 is the *force* driving the country's emergence as a great power. In a period in which many Western countries are in distress, China maintained its economic growth, effectively overtaking Japan in 2010 as the world's second-largest economy. The economic success has been coupled by a tangible change of direction in foreign policy, bringing China to adopt a more assertive stance in international affairs. Beijing is in fact increasingly referring—both in official statements and diplomatic documents—to the

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non-negotiable concept of “core interests,”<sup>1</sup> with regard to issues involving the international community, and the US in particular. Originally the term was coined for China’s concern over the Taiwan issue, but nowadays it is also employed in relation to two other sovereignty-related issues: Tibet and Xinjiang. Furthermore, its purview 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 this term signals not an attempt by a more assertive Chinese leadership to elicit greater respect and deference from other nations; it is also a sort of warning of China’s intransigency on those issues.

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 proved now prepared to oppose perceived slights on issues that affect the rule of the Chinese Communist Party (CCP). This postural shifting is evident not only over “global” issues like US arms sale to Taiwan, Western support to the Dalai Lama or to activists in Xinjiang’s secession from China, but also over more “local” ones, such as disputed suzerainty over maritime territories. In sum, China no longer avoids appearing confrontational in dealing with the West and with its neighbors.

This renewed confidence is frequently associated with the PRC’s frustration over perceived attempts by other nations, to prevent Beijing’s rise. This sense of frustration often sustains a popular nationalist sentiment, exploited by the Chinese government to compensate for the declining appeal of communism. In turn, the grievances of the population—who blames Western powers’ suspicions, and calls for the redemption of all *lost* territories—pressures the government to take a firmer international position, and to adopt tougher measures in order to claim for itself the sovereignty over said disputed maritime territories.

From the Chinese point of view, Beijing has not modified its foreign policy goals; it did not expand the country’s territorial claims, or adopt a more assertive attitude towards existing territorial disputes. Quite to the contrary, the PCC claims that other countries, emboldened by passive or active US support, have stepped up their efforts to challenge China’s long-established territorial claims, forcing China to take appropriate measures in response. According to the Chinese government, China has not taken any action that violates the legitimate freedom of navigation. Instead, it has repeatedly claimed that its policies are designated to resolve territorial disputes through peaceful dialogue—as shown by the country’s willingness to set aside the sovereignty-issue to pursue a joint exploitation of natural resources in the disputed areas. Chinese officials insist that conflicting territorial claims must be resolved on a bilateral basis, and have urged Washington not to interfere or take sides.

In this regard, since 2011, top Chinese leaders have repeatedly advocated in their meetings with US officials the need for a “new type of relationship between major powers.” This vaguely defined concept, frequently used by President Xi Jinping, refers to a renewed US-China partnership based on equality, mutual respect, mutual benefit and cooperation. It also reflects China’s aspirations to be regarded as a great power, emphasizing the importance of conflict avoidance as part of its “peaceful rise” narrative. The US on the other hand, while recognizing the extreme importance of Sino-American cooperation, has to this day neither agreed to, nor fully endorsed China’s “new type of relationship between major powers.”

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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>

## United States' "Rebalancing" to Asia

"The US is a Pacific power, and we are here to stay."<sup>2</sup> With these words, pronounced in a speech to the Australian parliament in 2011, US President Barack Obama highlighted that the American presence in Asia-Pacific was a top priority of his administration, while at the same time, sending an unmistakable message to Beijing. If, in the wake of 9/11 attacks, it appeared that America's focus revolved around the Middle East—thus allowing China to pursue regional predominance—the 2011 "rebalancing" (often characterized as the "Pivot to Asia") placed Asia-Pacific at the core of Washington's interests. It must be noticed though, that the US military presence never really declined in the region:<sup>3</sup> America's "hub and spokes" alliance system is in fact regarded as an intrinsic regional specificity, and the American presence remains for many countries a guarantee of stability. Therefore, it can be maintained that the "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 target or "contain" China, but rather "to advance US interests, exploit opportunities, and reassure allies and friends of US staying power and commitments."<sup>4</sup> Nonetheless, China's rise—and the growing mistrust it creates in East and Southeast Asia—is one of the most significant reasons motivating the White House to retool its new strategic posture in Asia-Pacific.<sup>5</sup>

China's dissatisfaction with America's military and diplomatic presence in the region has become evident, as confirmed by a series of maritime incidents, that the Pentagon consider part of a "anti-access, area denial" (A2/AD) *strategy* that would deny US forces access to regional seas. If effective, this *strategy* would not only deter US military deployment into the Western Pacific (South Korea, Japan, Guam), but it would also disrupt the operationality of combat forces 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—together with the awareness that China seems scarcely prone to accept the basic principles of international maritime law, pushed the then US Secretary of State Hillary Clinton to strongly reaffirm, at the 2010 ASEAN Regional Forum (ARF), the US interest in the peaceful resolution of territorial disputes, as well as the assured 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 China's rapid defense modernization, particularly in naval and air forces. For this reason, as noted in 2012 by the US Secretary of Defense Leon Panetta, by 2020 60 percent of the US Navy will be stationed in the Pacific, in order to project power and advance peace and security in the region.<sup>6</sup> The American objective, according to Panetta, is the achievement of a US military presence in Asia that is "geographically

2 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>

3 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

4 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](http://csis.org/files/publication/1103qus_china.pdf)

5 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>

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



distributed, operationally resilient, and politically sustainable.”<sup>7</sup> This massive deployment is also enhanced 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” Chinese superiority with tighter links with the US. Virtually every country in Northeast and Southeast Asia has been publicly or privately supportive of the US’ “rebalance” to Asia, in the hope that Washington will sustain its role as balancer and counterweight to the growing Chinese power.<sup>8</sup> This increased desire for US military, economic, and diplomatic involvement in the region is however combined with a periodical uncertainty about the credibility and constancy of the US commitment. States in the region are in fact worried that a potential involvement of the US in a crisis somewhere else, would leave them heavily exposed to Chinese pressure and coercion. This concern became evident when, in October 2013, President Obama was forced to cancel his scheduled visit to South East Asia because of the budget standoff in Washington: the cancellation left Southeast Asia in a state of anxiety, with the media portraying the absence of the US President as a big victory for China.<sup>9</sup> The majority of ASEAN countries, however, do not want to align firmly neither with Washington nor with Beijing, but prefer to nurture good relations with both as they fear the consequences of the US-China rivalry in their backyard. This is particularly the case of Myanmar, which has chosen to adopt an “hedging posture:” while the Burmese government does not openly confront the PRC, it has nonetheless pursued multidirectional connections with several other poles of the system (USA, Japan, India, Russia), so as to maximize its bargaining power *vis-à-vis* Beijing.<sup>10</sup>

Although the US’ “rebalancing” encountered widespread domestic resistance due to its costs, it is likely to be maintained in the long run, in order to strengthen Washington’s ties with Asia-Pacific and make China “feel the pressure.” Nonetheless, while the US prepares to discourage any effort to dismantle the present global order by the use of force or intimidation, its preference remains the development of more stable forms of cooperation with China, and a wider integration of Beijing in that order.

### Japan and the revival of nationalism

The volume of trade among the three big powers of Northeast Asia—the PRC, Japan, and South Korea—grew from US\$ 130 billion in 1999 to over US\$ 690 billion in 2011: this figure clearly shows that these countries are economically interconnected. The seemingly robust and durable economic partnership among these three actors, however, has started to show deep cracks, being undermined by growing nationalistic sentiments that have sometimes exploded in open antagonism, resentment, and mistrust. The development of modern nationalism in East Asia is closely connected with the processes of modernization that has been taking place in the region since the 19th century. In the case of China and Korea, it is rooted in the resistance to Western and other colonial powers, while in Japan it dates back to the imperialistic expansion into the region.

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

8 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

9 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>

10 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)

In particular, since Abe Shinzo has regained the responsibility to govern Japan, nationalistic sentiments have strongly reemerged across Northeast Asia. During his electoral campaign, Abe's message was articulated around two main lines: the reactivation of the long-stagnated Japanese economy and the restoration of the national pride and strength. On one hand, "Abenomics"<sup>11</sup> has brought signs of growth and earned praise, but on the other, "Abegeopolitics"<sup>12</sup> has created some apprehensions among Japan's neighbors.

One of the things that Japan's neighbors are most afraid of, is Abe's stated intention to modify the Constitution and amend its Article 9, the famous and controversial "peace clause" that defines Japan's restrictive security arrangements. Through Art. 9, in fact, Japan not only self-limits the country's Self Defence Forces (SDF—which over time have become one of the most modern armies in the world) to literally defensive purposes, but it also renounces the nation's right to resort to war. Abe stated in fact, that he would like to transform the SDF into a full-fledged military. Furthermore, a constitutional revision would also allow Japan to contribute to international security, allowing Tokyo to use its armed strength to defend an ally under attack, even if Japan itself has not been directly hit. A constitutional reform of this kind however, is perceived by South Korea and China as a return to Japan's "militarism," and as a result Abe's proposal has accelerated tensions in the region—the opposite outcome desired by Washington.

Seoul and Beijing's indignation and resentment towards Tokyo has grown disproportionately after Abe's visit, on the 26<sup>th</sup> December 2013, to Yasukuni Jinja, a Shinto shrine where Japan's war dead, including 14 Class-A criminals, are memorialized. The visit also prompted a statement from the US Embassy in Tokyo, which expressed disappointment with "an action that will exacerbate tensions with Japan's neighbors." The statement further expressed the US's desire that Japan could find constructive ways to address sensitive history issues, and improve relations with China and South Korea. Nonetheless, despite the palpable disappointment and apprehension originated from Abe's visit to Yasukuni, and from his revisionist policy tone, in Washington's eyes the alliance with Japan remains a crucial piece of the "rebalancing."

Abe's renewed nationalistic approach has worsened the relations with Seoul and Beijing. South Korean President Park decided not to have any formal meeting with the Japanese Premier, demanding more appropriate attitudes for historical responsibility for war, particularly after Abe's remarks in a Diet session in April 2013 that the precise definition of "aggression" had yet to be established. Furthermore, Seoul found outrageous Abe's cabinet announcement regarding a possible review of the evidence that led to the 1993 Kono Statement—a declaration acknowledging the role of the Japanese military in recruiting Korean and other Asian women to serve in brothels known as "comfort 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 probable. Similarly, the Chinese leadership has deferred any possible meetings with Abe until both parties agree that the issue of territorial sovereignty over the Senkaku/Diaoyu Islands is suspended.

On the other hand, while 90 per cent of the Chinese people and 77 per cent of South Koreans see Japanese policies in a negative light,<sup>13</sup> Abe enjoys a strong support from the Japanese public, de-

11 Abe's economic strategy, characterized by fiscal stimulus, monetary easing and an outline for a "growth strategy."

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

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/>

spite his visit to Yasukuni. There is the risk, however, that Abe could confuse this popular support with a free hand on the crucial themes mentioned above. This would be unacceptable for Japan's neighbors, and detrimental to the stability of the region, with further economic consequences that are already visible in the decline of trade between these countries. To the contrary, a more favorable environment is needed for the development and livability of Northeast Asia.

In the Southeast of the continent, however, Abe is pursuing an aggressive diplomacy, characterized in the media as "Japan's pivot."<sup>14</sup> During his first year in office, in fact, 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 at a stalemate. This course of action, however, could turn Southeast Asia into a new arena for diplomatic competition with China.

### **Troubled waters, busy skies**

Maritime disputes represent a crucial source of strategic instability in the Asia Pacific region. The majority of them 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 often contributed to the crystallization and aggravation of such disputes, and to the apparent impossibility of a negotiated solution. The entitlement to make claims to maritime space originates from its material importance, including fishery and natural resources (oil, gas and minerals).

In recent years maritime incidents and diplomatic tensions have become more frequent and intense, posing a pressing challenge for the stability of the region, and for the smooth development of the US "rebalancing." Washington, in fact, has never taken position on specific territorial disputes, but it has treaty obligation with Japan and the Philippines—both active players in these contentions—as well as 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 the Pacific Oceans—is highly problematic for the presence of six separate claimants (Brunei, China, Indonesia, Malaysia, Taiwan, and Vietnam), each holding competing claims over hundreds of small islands, shoals and reefs—that while inhabitable are potentially rich in energy resources.<sup>15</sup> China has repeatedly asserted "indisputable sovereignty" over the whole SCS, but while Beijing has been able to take advantage of the resources around its coastal waters, it has not been equally successful in the rest of the SCS. The Chinese stance is known as the "nine-dash line" and encompasses the entirety

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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](http://www.eia.gov/countries/analysisbriefs/South_China_Sea/south_china_sea.pdf))

of SCS, including the areas claimed by the other states involved.<sup>16</sup> The line is based on Chinese historical presence, but it does not comply with the dictates of international law. Seeking to maintain maximum leverage over individual claimants, China has always poorly tolerated US statements that articulate American interests in the SCS, including referrals to freedom of navigation and respect for international law.<sup>17</sup> According to Beijing, in fact, the US renewed commitment to Asia is destabilizing the regional *equilibrium*, since Washington actively pressures and encourages countries to challenge China, “sensationalizing” and “internationalizing” highly divisive issues like the SCS.<sup>18</sup>

The ECS is the arena of the triangular dispute between China, Taiwan and Japan over the Diaoyu / Diaoyutai / Senkaku islands. While the nature of the opposing claims is merely historical,<sup>19</sup> the importance of these territories lays in their alleged richness in natural resources,<sup>20</sup> as well as in their value for military power projection. Since Japan and China are the two largest energy consumers in Asia, not surprisingly they 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. On the other hand, the US does not regard the ECS as strategically significant as the SCS. While Washington has acknowledged that the Senkaku Islands are under Tokyo’s administration, it remains uncertain whether the US would assist Japan if China were to attack the islands. Nonetheless, due to the US-Japan alliance, a China-Japan conflict over the Senkaku / Diaoyu could realistically trigger the American involvement.

China’s approach to the SCS and ECS is similar: it pursues a strategy of gradual expansion through the use of limited force (including navy combat drills), and 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 interests and to advance China’s territorial and maritime claims.<sup>21</sup>

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 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 Km) from a country’s shores where 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 also and 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 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 China and Taiwan assert that the islands were part of their maritime territory since the Ming Dynasty (1368-1644); Japan, on the other hand, maintains that the Senkaku were annexed by Imperial Ordinance in January 1895, and at that time those territories were “terra nullius.”

20 The US EIA estimates that 60-100 million barrels of oil in proven and probable reserves are located in the ECS. The EIA estimates that the ECS also contains 1-2 Tcf of natural gas while the Chinese estimate 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](http://www.eia.gov/countries/analysisbriefs/east_china_sea/east_china_sea.pdf)))

21 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](http://csis.org/files/attachments/ts140114_glaser.pdf)

The other disputed maritime area is around the Liancourt Rocks (Dokdo in Korean; Takeshima in Japanese), claimed by both Tokyo and Seoul, but administered by South Korea. Dormant tensions over these islets in the Sea of Japan were revamped by the visit, in August 2012, of the former South Korean President Lee Myung-bak—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 no territorial dispute exist. Once again, this dispute is significantly influenced by domestic politics on both sides, and the defense of territorial claims is seen as a matter of national pride. In Korea, particularly, Dokdo is seen as a symbol of independence, since the sovereignty upon the islets was claimed 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.

Finally, territorial claims are also at the heart of the dispute surrounding competing “air defense identification zones” (ADIZs) in East Asia.<sup>22</sup> On 23 November 2013, Beijing unilaterally announced the creation of its East China Sea ADIZ, requiring all aircrafts (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 sovereignty claims.<sup>23</sup> China’s new ADIZ has sparked vibrant protests from both Tokyo and Seoul, because it overlaps with Japan’s ADIZ (in the skies above the Senkaku/Diaoyu Islands), and the South Korean one (over the Jeodo/Suyan Rocks). The ADIZ announcement was presumably intended to further increase pressure on Japan and compel Tokyo to officially acknowledge the existence of a territorial dispute with Beijing. Japan, however, 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 to protect civilians from any possible risk. At the same time, however, 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—an action to which the PLA Air Force did not respond.<sup>24</sup> The implementation of the Chinese ADIZ also triggered a “domino” effect: the South Koreans immediately widened their own ADIZ (the KADIZ), while the Taiwanese leadership declared that actions of that kind contribute to the deterioration of the relationships between the two sides of the Strait. Probably the most unexpected consequence of China’s ADIZ policy has been the push for a stronger cooperation in military training between Seoul and Tokyo, especially in the area supposedly subject to Beijing’s control. This launches a clear message to Beijing: even though on other important issues Seoul and Tokyo are far from agreeing, they are nonetheless capable of finding a way to join forces to resist China’s assertiveness.

In the future, however, this issue could become a major disruptor for regional stability: if Beijing is successful in making its ADIZ respected, China could use the experience as a “dress rehearsal” to impose an ADIZ over the SCS, likely causing a significant incident in the area, where Vietnam and the Philippines would certainly respond.

22 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](http://csis.org/files/publication/1303qjapan_korea.pdf)

23 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

24 Antonio Fiori, “Ora le Potenze si Misurano nei Mari d’Asia”, *ISPI Commentary*, 20 December 2013, [http://www.ispionline.it/sites/default/files/pubblicazioni/commentary\\_fiori\\_20.12.2013\\_0.pdf](http://www.ispionline.it/sites/default/files/pubblicazioni/commentary_fiori_20.12.2013_0.pdf)



## 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. Today, it appears that the young leader has consolidated his position at the top 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" were established in the *hermit kingdom*: Kim not only allowed the penetration of Western influences in the country, but he also decided to present himself in a more informal way, often appearing in public flanked by his wife Ri Sol-ju—something unimaginable during his father's era. Imported luxury goods are now available in the country, and a consumer culture is rapidly spreading. In addition, access to mobile phones is increasing, even though these devices cannot be used for international calls.<sup>25</sup> In the domestic political sphere, Kim Jong-un has tried to distance himself from his father's approach: the appointments made by the new leader, and the emphasis on the Central Military Commission and the Politburo, seem to confirm that the regime is slowly moving away from the power concentration in the National Defense Commission established by Kim Jong-il, and returning to a Party-centric order—as it was the case under Kim Il-sung. Together with the rising power of the party, a group of technocrats and economic experts appears to be increasingly influential: the leader of this group is Park Pong-ju, who was reappointed as premier in 2013, and who is believed to have a reformist approach to the economy. At the same time, the purge of a large number of powerful actors belonging to Kim Jong-il's inner circle, should probably be seen as a way to get rid of any factionalism, and consolidate his rule by concentrating power in his hands. Therefore, against the auspices of many commentators, Kim Jong-un has provided several reasons to believe his inclination is to keep the dictatorship intact, rather than implementing an array of significant reforms.

Despite the transition, North Korea remains a persisting threat to the stability of Northeast Asia. Since he took office in 2008, South Korean President Lee Myung-bak put an end to the "*engagist*" policy implemented by the previous progressive administrations, indicating that a preemptive denuclearization of the North was the condition to reignite constructive relations on the peninsula. Tensions rose considerably after December 2012, when North Korea initiated a string of provocations that silenced any hopes that the new young leader, educated in the West, would lead the country in a new direction. Prospects for further negotiations, jeopardized by a rocket launch that successfully put a satellite into orbit in December 2012, became highly unlikely after a third nuclear test was carried out in February 2013. North Korean authorities proclaimed that the test used a "miniaturized and lighter nuclear device with a greater explosive force than previously,"<sup>26</sup> and even though experts could not determine whether uranium or plutonium was used, it seems that Pyongyang is advancing its nuclear and ballistic capabilities. 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 already happened with the ones performed in 2006 and 2009, the 2013 North Korean nuclear test was sanctioned by the United Nations Security Council (UNSC), which passed a resolution (UNSCR-2094) that condemned the test and imposed a new round of sanctions on North Korea. It is worth to note that Beijing concurred with the new sanctions. At the same time, while the statements of the new Chinese leadership signaled a growing displeasure for North Korean military

25 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

26 Korean Central News Agency (KCNA), "KCNA Report on Successful 3rd Underground Nuclear Test," 12 February 2013, <http://www.kcna.co.jp/index-e.htm>

threats, the nature of the relationship between Beijing and Pyongyang is not expected to change in the near future. Despite North Korea's posture poses a direct challenge to China's core objectives of denuclearization, stability, and multilateral dialogue, Beijing's pragmatic cooperation with Pyongyang 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.<sup>27</sup>

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, in a propaganda video, it threatened to launch a preemptive nuclear attack indicating potential targets in the United States. At the same time, Kim Jong-un inspected military units and ordered to transfer missile units to the eastern coast, with orders to keep the aim at Guam. The tension became palpable when the United States and South Korea decided to carry out some previously scheduled joint military exercises, further angering Pyongyang, which tends to see them as an invasion "rehearsals." The United States' decision to deploy a B-2 stealth bomber, as well as B-52 bombers and F-22 fighters, on a practice *sortie* over South Korea, carries a twofold meaning: first, it reconfirms Washington's commitment to protect South Korea, and second it demonstrates to Pyongyang that it would be ready to retaliate to any attack from the North.

This state of things, however, brought immediate negative consequences: not only is North Korea expected to restart its plutonium production reactor at the Yongbyon complex, but it also closed the 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 signaled not only another 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 weeks after the closure, however, tensions gradually softened—possibly as a result of China's pressure on Pyongyang—and during the summer many started to call for a negotiated solution. After a long and tortuous series of meetings between the two countries, Pyongyang accepted an 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 further development of *Trustpolitik*, an approach advocated by Park Geun-hye, the current South Korean President. According to Park, Seoul should in fact "assume a tough line against North Korea sometimes and a flexible policy open to negotiations other times."<sup>28</sup> This strategy is based on three main pillars: first, a trust-building process on the Korean peninsula, that combines instruments of both dialogue and pressure; second, the proclamation of the "Northeast Asian Peace and Co-operation Initiative:" a roadmap for the implementation of *Trustpolitik* at the regional level, based on the development of a habit of cooperation among regional players on soft issues; and third, 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. Furthermore, it does not seem immune from criticism: it appears, in fact, that North Korea is still portrayed more as a target than as a partner with which "negotiating" change.

27 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

28 Geun-hye Park, "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>

## Conclusion

Asia is becoming the center of gravity of the 21<sup>st</sup> Century, and if the current trends continue, the next few years will reinforce this state of affairs. China's rapid rise in terms of economic growth and military modernization has the greatest long-term significance for the Asian continent, and the world as a whole. In this sense, understanding the challenge posed by China's rise is essential in order to comprehend and manage an increasingly uncertain future. How will China seek to use its growing power in Asia-Pacific, and more broadly, at the global level? Will China pursue a 'peaceful development towards a harmonious world'—as Beijing declares—or will it rather attempt to end the US strategic primacy in the Western Pacific, and pursue a "China Century"? Will these two powers engage in intense strategic competition within a complex and unpredictable multipolar international order, or will competition be eschewed in favor of greater international cooperation?

Despite emphasizing the importance of ensuring a "peaceful development towards a harmonious world order," China's military expenditure has grown 170 percent since 2004. China's assertiveness in regional disputes is clear and is ringing alarm bells in the capitals across Asia: the perception that Beijing's pursuit of "core interests" could cause one of Asia's many territorial flashpoints to escalate, is tangible. In the South China Sea, Beijing disregards both international maritime law and the interests of neighboring states. Claiming sovereignty upon the entire Sea, including and resource-rich exclusive economic zones within it, China can realistically provoke a military conflict, with the Philippines and Vietnam in particular. In the East China Sea, China and Japan seem locked in an ever-lasting dispute over the Senkaku/Daiyu Islands driven by nationalistic sentiments, as well as the appetite for local natural resources. Around both the South and the East China Seas, states are re-assessing their own military requirements and investing in new military capabilities to deter China, while at the same time seeking closer relations with the United States in order to counter-balance Beijing's assertiveness.

China's rise does not occur in a strategic *vacuum*, and other states in Asia-Pacific will respond to Beijing's strategic decisions with political, economic and military policy choices. On the other hand, the American "rebalancing" to Asia is observed with concern by strategic thinkers in Beijing. The "rebalancing" does not necessarily imply a "containment" of China, especially given the country's integration within the global economy and its interdependence with the US economic system. While Washington has signaled its readiness to hedge the risk posed by a rising China, it also maintains the preference for diplomatic engagements. As this '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—until the emergence of a new sustainable *equilibrium*.

China looks set to become, at the very least, a regional superpower that could potentially choose to challenge the 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.

# ASIA-PACIFIC WORKING GROUP

## REPORT

*Federico Casprini*

Asia-Pacific is for NATO a very peculiar region: in terms of geographical distance, it is the furthest from NATO's area of primary responsibility – the Euro-Atlantic zone – and yet the Alliance has had a Pacific flank since its creation, by virtue of the west coasts of its north American members. Together with this feature, the spectacular economic growth experienced by most of the countries in Asia-Pacific in the last decades has made the region, at the very least, a *basin of consequence* for the Alliance. Hence, the first Working Group was devoted to the analysis of its regional trends and dynamics, the variables that affect them, as well as the potential implications – both in terms of challenges and opportunities – for NATO.

The first acknowledgement made by the participants to the Working Group regarding Asia-Pacific was that the region could not be considered a homogeneous one – neither in terms of political characteristics, economic structure nor security strategy. Nevertheless, all these indicators point at the region's increasing salience in world affairs; and while it was argued that the out-of-scale growth registered in the last decade cannot be expected to last for much longer, the consequential changes that are likely to develop because of this, make the area worthy of particular attention. In this regard, one of the participants metaphorically described Asia-Pacific as an “elephant.” The size of it, in terms of population, territory and economy, make the region *big* in scale. It is thus simply not a wise option to exclude it from strategic conversations: just like an elephant entering a room, Asia-Pacific will occupy a considerable space in the global arena.

Another disclaimer made early in the discussion was the necessity to study the region with appropriate cultural sensitivity and historical perspective. It was noted, for example, that the rise of countries in East Asia is in fact deeply felt by many within the region as a *re-emergence*, allowing them to re-gain their *rightful* place in the world. Regardless of the accuracy of such interpretations, one of the participants cautioned on the use of catchy expressions such as “the Asian Century” that while useful to summarize peculiarities of the current days, they may prove double-hedged and hold back the development of a dialogue with regional actors.

### Trends

The debate of the Working Group on regional trends provided a wealth of contributions that I take the liberty of grouping into four larger sets. *Ca va sans dire* that it is somewhat a

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rhetorical exercise to single them out in this way, and each trend should also be considered in its constant interplay with the others.

### *National Trends*

Two major trends seem to have an impact on the region at large while maintaining peculiar features at the national level. First and foremost, the group acknowledged that the “demographic dividend” that favored the growth in Asia-Pacific is likely to have exhausted its trajectory. While the overall population in Asia will keep on growing through the first half of the century, the troublesome aspect of regional demographics is the expected plateauing of the working-age share of the population. For instance, the percentage of seniors in China will surpass that of Japan around 2030: the struggles Tokyo has been facing in dealing with what is commonly referred to as an “aging population” exemplify the challenges of adapting to changing demographics. While the participants concurred on the salience of this trend, it was duly noted that it will not have a homogeneous impact in the region, as most of the Southeast Asian countries are expected to be less affected by it than their northern neighbors.

The second trend identified by the group was the momentous rise of the middle class in Asia-Pacific. The region is in fact expected to become the biggest economic zone, and host the majority of the world’s middle class. The group acknowledged the positive effects of this trend in reducing the existing internal inequities, but also identified a potential risk in the form of the “middle-income trap.” In basic terms, this particular economic development describes a situation where a country gets stuck at the attained income level, because of the incoming competition from lower-costs producers and the inability to catch up with advanced economies in higher-value productions.

### *Environmental trends*

The economic growth in Asia-Pacific has come at a price, putting in question the environmental sustainability of existing development models in the region. Climate change, it was noted, is already particularly impacting in the area, while most national governments haven’t yet acknowledged the seriousness of the threat – let alone instituted policies to counteract. The group also pointed out that in the coming years the region will experience a greater competition for natural resources, further complicating environmental constraints.

### *Intra-regional trends*

The increasing competition for natural resources is also identified as one of three trends at the intra-regional level. The concern regarding a steady availability of resources is likely to be shared by the large majority of the countries in Asia-Pacific, creating the opportunity for both cooperative and competitive policies.

The second trend concerns the interdependent nature of the economic growth in Asia-Pacific. No development in the world takes place in a vacuum, and the prominence of global integration processes were recognized – notably, China’s 2001 accession to the World Trade Organization (WTO). Nonetheless, the group argued on the importance of regional efforts, such as the Asia-Pacific Economic Cooperation (APEC) or the ASEAN Free-Trade Agreement (AFTA). The latter in particular, originally born to support local manufacturing, paved the way to a wave of similar arrangements. The salience of this trend, confirmed by subsequent similar agreement and ongoing negotiations, is exemplified by the ASEAN-China Free Trade Agreement that created in 2010 the largest free-trade area in terms of population and third largest in terms of nominal GDP.



The third trend identified during the discussion was inter-state confrontation. A large number of countries in the region are involved – around different geometries – in territorial disputes over the sovereignty of several rocks, islands and remote archipelagos. These confrontations, often exacerbated by reciprocal historical accusations, extend beyond a single area and they are a common feature of the strategic environment of both northeast and southeast Asia. Among many others, the group found of particular significance the dispute in the East China Sea over the Senkaku/Diaoyu islands. The quarrel opposes Japan to China – respectively the third and the second world economies, and both aspiring regional leaders – and, it was argued, it has the potential to trigger a confrontation that extends beyond the region. The 2013 ADIZ “incident,” despite its largely symbolic nature, shows the far-reaching potential of these regional skirmishes.

In this regard, a brief but necessary mention must also be made regarding the Korean peninsula. The group acknowledged the seriousness of the confrontation with Pyongyang, but nonetheless concurred that the peculiarities of the situation make the Korean case a *unique* one – thus not a trend to be further analyzed for the purposes of this specific Working Group.

### *Inter-regional trends*

By virtue of widening the discussion on the abovementioned regional confrontations, the group identified two trends with direct implications that extend beyond Asia-Pacific. The first one, more exogenous in nature, is the increased interest of external actors in the strategic balance of the region. The *Rebalancing* strategy launched by the US under President Obama in 2012 is possibly the most notorious instance of this trend. The group argued that the US *Rebalancing* by itself is hardly a revolutionary policy, as it is for the most part a structured continuation of activities undertaken under previous administrations. Yet, it brings the Asia-Pacific at the forefront of the international political agenda, not only of the US, but also by extension of many other NATO (and non-NATO) members. As for the regional countries, the *Rebalancing* – and alike strategies – imposes that they adjust to this foreign presence, that in some cases is seen as benign and sought after, and in others it is feared it may collide with legitimate national interests.

In line with that is the second of these trends, which pertains the evolution of the defence and security strategies of the major actors of the region. Economic development, the group concurred, brings along renewed international ambitions, especially in the case of larger countries such as China and Japan. China’s increased assertiveness in international affairs is a direct function of years of economic accomplishments – of which the nation is really proud. As a result, the Chinese government seems no longer afraid to be confrontational especially on those issues it considers “core interests.” As one participant put it, Beijing is not looking for conflict, but it wants to build a new type of relationship between major powers – one where China feels it is not treated as the junior partner. Japan on the other hand has historically shied away from an active international role – at least on the military side. Over the past decade, the group noted, the Japanese Self Defence Forces (SDF) have nonetheless developed into a mighty military force, although maintaining a hybrid-status consistent with the Article 9 of the country’s Constitution. The return to power of now Prime Minister Abe, according to some in the Working Group, has the potential to finally pull Japan through a constitutional reform that would allow the SDF to become a full-fledged military. Other participants argued instead that Mr. Abe is mainly “preaching to the converted,” and that the many existing barriers to constitutional changes, as well as resistance from the public opinion, will prevent dramatic modifications to the country’s strategy. Either way, the group seemed to convene on the seriousness of Japan’s stated goal of proactively contributing to peace – which can be translated into more contribution in the alliance with the United States.

## Variables

The trends presented above describe a very interconnected region. The group concurred nonetheless that, historically speaking, neither interconnectedness nor economic interdependence by themselves are a sufficient incentive to deter conflict and violent confrontations. The group identified a set of variables that are expected to affect the trajectory of these trends and the impact they will have on the stability of Asia-Pacific.

### *Economic Growth*

The group concurred with existing forecasts that see a continued growth in Asia-Pacific in the coming decades. At the same time, it was argued that in many regards the current economic development is following a far-from-sustainable path. Both nationally and at a regional level, many participants expressed concerns for existing inequities – described as imbalanced initial conditions. At the regional level, it was suggested that some form of coordination would be helpful to avoid the mentioned middle-income trap. At the national level, a progressive reduction of social inequalities was deemed all the more important given that economic growth is one of the major components of the legitimacy of the central governments. Many in the group expressed the view that at this point in their development, many countries in the region should start putting less emphasis on basic GDP growth, and more attention toward policies that progress it more inclusive – thus nations more stable.

### *Nationalism*

Nationalism was regarded as a common feature within many countries of Asia-Pacific. Whether it is born out of old independence and anticolonial sentiments (e.g. Vietnam, Indonesia), a homogeneous population (e.g. Japan), or a combination of both (e.g. China, South Korea) – nationalism has been a recurring factor impacting the region. It has contributed majorly to the legitimacy of central governments, thus enhancing national stability, but at the same time it exacerbates inter-state confrontation. Territorial disputes worsened by historical accusation are at times elevated to “core interests” – almost unintentionally, it seems – thus cornering governments to take hard stances and leaving little room for bilateral negotiation. According to the group, the rise of a new generation of “Asian modernizing nationalists,” such as Xi Jinping in China or Joko Widodo in Indonesia, makes the ability of national capital to keep a tight hold on nationalist sentiments of particular importance for the stability of the region.

### *International Organizations*

With the notable exemption of North Korea, all countries in Asia-Pacific take part in a wide variety of international organizations – both at the global and the regional level. While the participants concurred on the positive impact brought by the access to organizations such as the WTO, they argued that most nations have not really bought into western governance institutions. Both in economic and security terms, many Asia-Pacific countries have been in fact repeatedly labeled as *free-riders*. The increasing weight of the region in world affairs however, is likely to change that, and the group argued that these nations will have to decide how to contribute to the existing system, and whether to shape its future developments in a cooperative or more confrontational manner. Furthermore, it was noted that at the regional level Asia-Pacific is home to a multitude of organizations, and yet none of them seems to be capable of addressing the issue of territorial disputes. While the merits of organizations such as ASEAN should not be underestimated, their inability to play a role in security matters leaves the region without of a *forum* for much needed *trust-building* processes.

## Implications for NATO

The complexity of the security environment in Asia-Pacific, as well as the acknowledgment that any development in the region will have significant effects on the Euro-Atlantic area, were recognized by the participants. The group however was far from reaching a consensus over what role this situation opens for NATO – as most of the trends and variables identified do not pertain to domains where NATO is or can be an actor.

The Alliance, in part because of operational needs of the past decade, has already developed partnerships in the region, but not all regional actors would welcome a growth of this effort. China in particular, appears concerned about the presence of external actors in her *neighborhood*, a tendency – it was argued – that has intensified since the *Rebalancing* was launched. Hence, it is likely that single partnership agreements between NATO and regional actors will look suspicious to Beijing. On the other hand, the participants agreed that a direct engagement with China would be a risky move. The Alliance has not committed to become a security actor in the region – a development the Chinese government most likely would not welcome – thus holding little leverage *vis a vis* Beijing. Furthermore, it would not be viewed with favor by neither current partners – to whom China's regional aspirations are concerning – nor smaller countries – that would find the hedging strategy they seem to be currently pursuing, more difficult.

Regional partners, and Japan in particular, looked at the crisis in Ukraine with particular concern as it may be interpreted as a precedent that could encourage some countries to actively pursue changes to the current *status quo* in Asia-Pacific. Some of the participants argued that this concern potentially opens an opportunity for NATO. The lack of measures for confidence-building among regional actors on security issues, reinforce the possibility of an “accidental” conflict. The Alliance on the other hand has extensive practice in this regard, and some participants argued that it could offer its experience to externally facilitate an effective dialogue. In this way NATO would have the chance to present itself as *different* from the US – a development that would take some pressure off of Washington, and would likely find a more fertile ground in Beijing. Only if its role in the region is clear and recognized, will the Alliance be able to push safely on deeper partnership initiatives – such as maritime cooperation, enhanced interoperability or BMD.

In order to pursue such a role, it was argued that NATO would need to develop a reassuring narrative of interdependence that defines incentives for interaction, and puts a *premium* on long-term relationships. As one participant put it, coherence, truthfulness and consistency would be the three essential characteristics of this narrative.

Conflict prevention is not a fourth strategic goal for the Alliance – which therefore does not necessarily have to engage in any challenging zone outside of its area of responsibility. Nonetheless, given the strategic relevance of Asia-Pacific, NATO has everything to gain from providing its contribution to the enhancement of channels of negotiation that keep the region in balance.

FOCUS AREA II

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GREATER MIDDLE EAST  
AND NORTH AFRICA







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

*Memduh Karakullukçu*

## **Identifying the structural core of the social expectations gap**

Although it is difficult to disentangle the various social dynamics that triggered the revolts in some MENA countries with precision, public disillusionment with economic governance is considered to be a key component of those dynamics.<sup>1</sup> No doubt, each MENA country's current condition has its distinct social, political, cultural, historical underpinnings. This paper does not pretend to explain the overwhelming complexity of these societies but merely attempts to identify and explain common threads of failures and gridlocks in their economic structures.

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.

However, as close observers of these societies note<sup>2</sup>, 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 adults who are in active employment, is around 43% in MENA compared to the world average of 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 these 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.

1 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

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

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**Table 1: MENA Countries GDP growth rates**

	2000-2007	2008	2009	2010	2011	2012	Projection	
							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	6.4	104.5	-5.1	25.5
Oman	4.0	13.2	3.3	5.6	6.5	5.0	5.1	3.4
Qatar	12.0	17.7	12.0	16.7	6.6	6.2	5.1	5.0
Saudi Arabia	4.7	8.4	1.8	7.4	6.7	5.1	3.6	4.4
UAE	6.6	3.2	-4.8	1.7	6.8	4.4	4.0	3.9
Yemen	4.2	3.6	3.9	7.7	6.9	2.4	6.0	3.4

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

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.<sup>3</sup>

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 interrelated but distinct 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.

### *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%<sup>4</sup>, indicating the relatively high wage levels, and thus the appeal, of these jobs.

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

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

**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
<b>Unemployment Rates (%)</b>							
	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
<b>Employment-to-Population Ratios (%)</b>							
	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

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

**Table 3: Youth unemployment**

	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
<b>Unemployment Rates (%)</b>							
	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	26.6	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

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

These widely coveted job opportunities are mainly reserved for university graduates. Therefore, there is broad demand for tertiary education among the aspiring youth to meet the criteria for state employment. 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 global economy. Hence, MENA education systems are perceived to provide “credentialist” training that fulfills state sector admission criteria but not market relevant skills.<sup>5</sup>

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.<sup>6</sup> Given that social returns to primary education are likely to be higher<sup>7</sup> and that primary education is critical in fighting poverty, this bias is a large-scale structural distortion with deeply adverse social 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 as well as the resentments of most segments in 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 both resentful and disappointed.

Among the disillusioned groups, there is also the often-overlooked group of secondary school graduates who are denied admission to higher education and cannot even join the group of hopefuls for prestigious state jobs. This is especially important because of perceptions of inequity in admission to 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 is reserved for a seemingly more privileged minority.<sup>8</sup>

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.

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

6 *Ibidem*

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

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

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 countries<sup>9</sup>. Instead, these countries have 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 mostly explain 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 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.<sup>10</sup>

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 provide 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, it is worth noting that there are broader constraints in these societies, which structurally burden state finances and narrow their room for maneuver in tackling the corrosive employment disequilibria.

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



First, 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<sup>11</sup>. Subsidies constitute a socially ingrained and costly legacy of the MENA economic governance paradigm that burdens the states' budgets.

An equally important structural dynamic in these societies is rapid urbanization and the resulting failures in urban services that range from inadequate quality housing to sewage and garbage-collection services. This presents another immediate demand on state resources.

A third contextual constraint is the shortage of water in this geography and the resulting food insecurity concerns in these societies. To the extent that the governments maintain their sensitivity regarding food independence, support for unsustainable agriculture will impose yet another structural burden which limits the state's fiscal ability.

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 be effectively managed. The 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).

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 continues, especially the oil-importing countries in the region may face a tipping point<sup>12</sup> where turmoil in the currency markets or concerns around sovereign risk could further aggravate the difficulty of tackling structural challenges.

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.

11 Magdi Amin, Ragui Assaad [et al.], *After the Spring: Economic Transitions In the Arab World*, cit, p. 87

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

**Table 4: MENA Countries' overall fiscal balance (%)**

	2000-2007	2008	2009	2010	2011	2012	Projection	
							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	9.4	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

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

**Table 5: MENA Countries' current account balance (%)**

	2000-2007	2008	2009	2010	2011	2012	Projection	
							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

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

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 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.<sup>13</sup> The IMF has approved a total of only \$10bn in financial support to the region, specifically to Jordan, Morocco, and Tunisia.<sup>14</sup>

As the fiscal and external balance erosion continues in the oil-importing MENA nations, the need for sustained external funds will persist. Therefore, the oil-importing nations are facing the looming vicious cycle. Their finances do not allow for continued state expenditures in supporting

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

14 Ibid. p. 8

**Table 4: MENA Countries' current account balance (% of GDP)**

	2006-2010	2011	2012	Projection	
				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

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

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.

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

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 2013.<sup>15</sup> 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.<sup>16</sup> GCC has provided financial support to the region but the sustainability of this mechanism needs to be assessed carefully.

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 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.

Furthermore, the GCC economies also face structural difficulties and vulnerabilities themselves. 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.

<sup>15</sup> 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](http://www.worldbank.org/content/dam/Worldbank/GEP/GEP2014a/GEP2014a_MENA.pdf)

<sup>16</sup> *Ibidem*

Finally, the GCC nations' fiscal 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.<sup>17</sup> Their long-term vulnerability to oil prices is a stark reality.

### **Narrowing the expectations gap: long-term visions and the missing axes of trust**

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 in the context of a higher level of skepticism and resistance among various stakeholders.

#### *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**

As noted by observers of economic growth, sustained rates of high growth for long periods of time are typically associated with a strategy of economic integration with the world.<sup>18</sup> 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

<sup>17</sup> 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

<sup>18</sup> Jean-Pierre Chauffour, *From Political to Economic Awakening in the Arab World, The Path of Economic Integration*, cit., p.1

levels.<sup>19</sup> Bolstering regional trade is a possible alternative strategy but the trade links among these economies has been traditionally weak. The main reason for weak regional trade is weak complementarities among MENA countries, so it is hard to envision thriving regional trade as the early locomotive of economic activity. Gradually expanding regional trade may eventually attract FDIs 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, 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 surprisingly, focusing as much on European access to MENA markets as facilitation in the other direction.<sup>20</sup> 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, adopted 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 GVCs does not appear to be an easy option.

Given the 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 IFIs, 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 required 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 supply challenges 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 benefits<sup>21</sup> and

19 Ibid. p.51

20 See Jean-Pierre Chauffour, *From Political to Economic Awakening in the Arab World: The Path of Economic Integration*, Chapter 3, for a lengthy discussion on the expectations from MENA countries as part of the Deauville partnership process

21 Jean-Pierre Chauffour, *From Political to Economic Awakening in the Arab World, The Path of Economic*

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 IFIs, the ruling class and certain favored domestic business groups.<sup>22</sup> 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 launched. 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 enterprises.<sup>23</sup> 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.

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 that 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 IFIs or ruling classes, between some political groups in the oil-importing countries and GCC governments, and between 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<sup>24 25</sup>. They would employ the nationals of these countries and export

*Integration, cit., p. 34*

22 Magdi Amin, Ragui Assaad [et al.], *After the Spring, Economic Transitions In the Arab World, cit.*, p. 6

23 Magdi Amin, Ragui Assaad [et al.], *After the Spring, Economic Transitions In the Arab World, cit.*, p. 6

24 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, cit.*, p. 121

25 The author 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



their products to the world markets. This is a halfway solution where the public would not be facing society-wide reforms at the behest of IFIs 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 halfway 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, which would be agreeable to all stakeholders and would not require long-term trust. Such measures could include practical steps like investing in trade infrastructure (air, sea and land), improving logistics services and efficiency of border measures, expanding trade finance and eliminating transaction costs on remittances.<sup>26</sup> These steps do not constitute a strategic pathway but nevertheless serve the ultimate goal of connectivity. More ambitious but isolated cross-border projects like harnessing the solar energy capacity of North Africa,<sup>27 28</sup> and linking it to the European power network could also contribute to the overall strategy.

The drawback of piecemeal, practical steps and halfway 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 politicians to develop the convincing narrative to inform and anchor the electorate's expectations.

### *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. 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 levels.<sup>29</sup> The current intra-Arab migration is reported at 4.5 million immigrants.<sup>30</sup> Similarly, the ageing trends in Europe create a natural complementarity between the young MENA populations and the demand for labor in Europe.<sup>31</sup> 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,

26 Jean-Pierre Chauffour, *From Political to Economic Awakening in the Arab World: The Path of Economic Integration*

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

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

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

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

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

Libya, Morocco and Tunisia reached \$20bn in 2010. The remittances constitute a key source of foreign exchange and were equal to 16%, 9.5% and 5% of the GDP in Jordan, Morocco and Tunisia, respectively.<sup>32</sup>

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.

- Missing Axes of Trust

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 Jordan.<sup>33</sup> 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.<sup>34</sup> 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.

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.<sup>35</sup> Parallel to these efforts, immigration options beyond GCC and 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.

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

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

34 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

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

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 IFIs 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 IFIs competence in helping inclusive growth.<sup>36</sup>

## 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 who need to take active role in these efforts ranging from facilitating market access to providing FDIs, 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 they 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.

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

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

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 international political resolve and intellectual focus to bring these societies back to the peaceful, smooth transition path. The region or the globe at large cannot afford any other trajectory.

# STRATEGIC TRENDS IN THE MIDDLE EAST AND NORTH AFRICA

*Tewfik Aclimandos*

**I**n 2011-2012, democratization and democratic transition were the key words in the Arab World, the mothers of all issues. This is no longer true: nowadays the roles of “Confessional Feud”, “Security” and the “State” have found themselves at the top of the agenda.

## 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 Tunisia<sup>1</sup> – admittedly not the most crucial country in the region.

While the forces unleashed may quiet down, they will not disappear. The main drivers of “change” - be it a revolution or a transition - were two. On the one hand, young educated people, increasingly separating themselves from the State for their earnings, no longer relying on it for their basic and not basic needs, and very angry against it. On the other hand, Islamist militants. Both of them are here to remain.

This chapter does not dwell on whether things could have been different. It rather tries to suggest some causes of this democratization failure, which is probably temporary in some places and lasting in others, as they will continue to influence events in the region.

First, despite some postmodern revisionism, democratization presupposes a *demos*. Country inhabitants who agree that they are “one people”, that their allegiance to this “people” is the key one, who agree on “who constitutes the people”, and who view themselves as significantly distinct from their neighbors. This consensus might be old or might be very recent. This prerequisite is not met in all the states of the region.

Second, transition studies have proved that democratization is most difficult when more than 40% of the population is young. Rather, democracy has better chances of anchoring itself in ageing countries. In the MENA case, youth is associated with radicalism, revolutionary trends and a crisis of the notion and practice of political representation. Severe tensions between generations are a constant of this area’s history, which can be explained by socioeconomic factors and the pace of modernization, and are worsening. Egypt, a crucial country, will remain young for some twenty years, as the demographic progression continues to be catastrophic.<sup>2</sup>

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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.

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Third, revolutionary processes and democratic transitions do not follow the same logics. For instance, revolution excludes old regime members while democracy includes them. Democracy is about people's *representation*, revolution is about people *being present, in the streets*. Democracy is about "pluralism" and "power rotation", while revolution is about "the people" versus the "bad guys" in a fierce and Manichean struggle. Revolution prefers big cities and active political minorities capable of mobilizing urban crowds; on the other hand, democracy is neutral but has a soft spot for the countryside. Revolution is about destroying institutions, at least in the beginning, when democracy needs sound institutions. Hence, democracy and revolution cannot easily go hand in hand. *It should also 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.*

Forth, "Political Islam" - which is 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", that is the Muslim Brotherhood, as well as for many trends of the Salafism. This is a multifaceted problem. Firstly, it would serve to remember that the Brotherhood has effectively been 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 – but Arab elites and counter elites do not. Secondly, the Brotherhood's pan Islamic and transnational ideology and practices were seen, rightly (as I believe) or wrongly, by an increasing number of segments and classes as a very serious threat to existing Nations or Nations "under construction". Egyptians, who belong to a very old Nation, felt their Nation, identity, way of life, social cohesion and 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, being 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 uses and misuses of religion and tradition, and do not want to be lectured on religious issues by those who consider them to be bad Muslims. Thirdly, evidence strongly suggests that Islamist ideologies exacerbate confessional strife (and in some cases civil war) almost everywhere. Fourthly, the Egyptian Brothers' alleged commitment to democracy<sup>3</sup> 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 the judiciary, exclusionary practices, attempts to seize total control of state institutions, of religious ones, of labor unions, efforts to create new and obedient institutions, electoral frauds, etc. Fifthly, those who thought Muslim Brothers to be a moderate force, with a distinct ideology, which would fight and beat the multiple Salafists and the Jihadists, who were construed as the *really* bad guys, were proved wrong. In fact, the main difference between the two groups is about pace and gradualism, not about the end of the road – a modern theocracy<sup>4</sup>. Moreover, the Muslim

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.



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. 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, while they rejected working with the democratic, leftist, conservative and liberal forces – forces admittedly divided, unbearable and difficult to handle. Egypt's constitution was thus 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 presidency. Sixthly, this ominous choice worsened the polarization between Islamist and non-Islamist actors almost everywhere, and the latter proved more resilient than expected. When the main players do not agree on the rules of the game, and when the differences are unbridgeable, democracy finds itself threatened. Seventhly, 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 not to impose their agenda on their respective societies – it seems that the Tunisian Al Nahda has finally understood this, at least for now. Eighthly, 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 Egyptian 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 advocates of a strong State. Ninthly, the Salafists are an understudied political actor – although things do quickly change. This is a plural actors, with many trains of thought, schools, ideologies, but a typology can be constructed including three groups: political/legalist salafism, jihadi and violent salafism, and apolitical salafism. The first type proved to be a quick learner and more capable than the Brotherhood at the art of compromise with other forces. It converted to gradualism. But it is very unlikely it will change its stance on women, shiism and non-Muslim minorities. The second type is a very serious challenge to political orders almost everywhere in the region and especially in Iraq and Yemen. To sum up, the Brotherhood faces an unprecedented crisis – at least in Egypt: it lost both its political appeal (this has happened before) and religious credentials (a new situation). There is a very serious rift between the Brotherhood and both the State and a majority of the public opinion. Its internal divisions between radicals who want a fight to the end and reformists, who want to draw the lessons of the past and to restructure the organization, plus the undecided side, seem to prevent bold moves toward a negotiated solution. At the same time, the other side is not willing to help, as the popular pressure on current state's ruling elites is too great<sup>5</sup>. This crisis does not mean political Islam is dead – it means it will change.

Finally, 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 funding – mainly Arab and Turkish - for political players is not well studied, but all pundits took notice of its importance in Egypt, Lebanon, Syria, Iraq, Tunisia, Libya, and maybe Palestine. Furthermore, when credible the “you are a stooge” argument, , is dangerous for democracy.

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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 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.

## Reconsidering the Arab State and the security challenges

The whole area and each country 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 countries in North Africa and the Middle East, security, not democracy, is now on the top of the public's concerns<sup>6</sup>.

*The crucial point is 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 here*<sup>7</sup>. Patriarchy and traditional patriarchal relations are undergoing a severe, and possibly mortal, crisis. Arab youth massively reject them in many countries. That means years of generalized instability.

The main plague threatening Arab societies is civil war. 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 has led many people to plead for a strong State and to call for new missions for the Arab State. This is not only true for the police and the military to ensure security, the same goes for welfare efforts to "buy" social peace. On the welfare issue, this represents a reversal of previous tendencies. The last three decades represented the "disengagement years", with an ominous result: the Islamist movements (and churches) replaced the State in many poor areas and neighborhoods as source of welfare services. A huge and unanswered question is whether the State will have the resources and the know-how that will enable it to succeed in the task to return a provider of welfare – a task that is crucial for security. Until now, the different States, , have proven 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, like Egypt, that are vital to their security. But Egypt, Yemen, and other countries are so populous to require a huge amount of economic resources to improve welfare conditions. Those in Saudi Arabia who argue the money would better be spent in the poor areas of the Kingdom rather than abroad have a point, although the issue is more complex. From a general perspective, the regional integration faces a serious obstacle: the rich countries are much less populous than the poor ones, while this was not the case in Europe.

Of course, there are different types of Arab regimes: authoritarian republics, more or less authoritarian monarchies, semi-liberal ones and Emirates. None of them can be considered a functioning representative democracy. The States' size, resources, role, ideologies, relations with society and vocation vary greatly<sup>8</sup> - and the fact that societies differ is of course relevant. 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", all having a serious legitimacy problem. Legitimacy is always crucial, but all the more difficult if and when control is impossible.

Some States collapsed: Somalia, Libya. Many others are in serious danger, for instance Iraq and Syria. Almost all are facing 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 Algeria. But it should be pointed out that some States have today an

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 Nazih Ayubi, "*Over-Stating the Arab state: Politics and society in the Middle East*," Tauris, 1995.

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.

In this context, some security challenges should be considered. First, the whole region is facing severe water shortages, which will be a serious cause of conflict. While not an urgent priority - with Egypt, Jordan and Yemen as exceptions - this problem and the need for public works, rationing, powerful armies, may support those who want a very strong State. It remains to be seen whether such a State is possible.

Second, there are some failed states in the region, and many others are unable to control their territory. This creates vast holes in the regional security system, as 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 in Syria. This is a strategic nightmare. A future of long, even perpetual, low-level wars can be plausibly envisioned, and it is no longer a worst-case scenario. The situation in Iraq and Syria is critical and the partition of both countries is a serious possibility. In Egypt, some 10.000 Jihadists, many of them foreigners, are concentrated in the Sinai. Yemen is also a huge challenge, and security experts believe 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 rapid intervention forces to deal with these groups. Other regional and international powers try to support the local armies and to improve their capacities. But other entities are happy to get rid of the "troublesome" elements and let their jihadists go to the "grey zones". However, the task to secure these grey zones may prove impossible, whereby 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 be used later on elsewhere and for other purposes.

Third, 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 or heavy guns in the hands of families, groups, tribes in Egypt and Libya. Segments of the Egyptian and Libyan societies now are better armed than the police. Organized crime and thugs have a wealth of time and can organize daring operations. The Egyptian government has 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 the 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.

Forth, 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 play the same move. Libya could face such a future. These armies are funded by States willing to meddle, to 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<sup>9</sup>.

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.

Fifth, Algeria, Libya, Sudan, Lebanon, Iraq, Syria, Oman and Yemen have known civil wars. Some of them were purely internal affairs. Others were also and still are “proxy wars”. When a civil war is also a religious or a confessional one, it drags foreign groups or foreigners willing to take sides. Lebanese, Iranian Iraqi shiites, 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. Moreover, civil wars mean millions of people are displaced and cause a frightening humanitarian disaster. Millions of Syrians are leaving their country, and shifting the burden unto Lebanon, Turkey and Jordan. Their impact on internal security is substantial and negative.

Sixth, the Gulf countries host millions of immigrants – many of them coming from other Arab states. This phenomenon has a lot of implications for internal and regional security, some of them quite surprising. It gives the Gulf monarchies considerable leverage on countries that export labor forces and thus rely on their remittances as a source of foreign currencies. For instance, 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 that thousands of Egyptians converted to shiism in the Gulf. Capitalists and middle classes in the concerned countries – mainly Egypt, the Gulf - increasingly share common values, interests and represent powerful lobbies for closer cooperation.

### **Regional challenges**

The debate regarding America’s declining influence in the Middle East, or its impending “disengagement”, is beyond the scope of this paper. As long as emerging powers like China are unable or unwilling to project military forces in the MENA region, the US, even if it opts to adopt a “retreat and see” attitude, will remain the ultimate power – and this will last for sometime. This is underlined by the American naval superiority, needed for the security of crucial sea lines of communication.

Having said that, the MENA region can be described as multi-polar or as a-polar. The main powers are Turkey, Israel, Saudi Arabia, Egypt and Iran. 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, Egypt’s best allies are Saudi Arabia and the Emirates. But the Saudi ruling family is the most powerful foe of the Muslim Brotherhood. Thus a Cairo regime ruled by the Brotherhood will most likely find itself on bad terms with Riyadh, Dubai and Abu Dhabi. Turkey and Iran are the most serious candidates for a kind of 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, Iraq, Syria, Yemen 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, all while ruling Sudan. Cairo, Ankara and Teheran were discreetly cooperating on some issues, while disagreeing on others - namely Syria and maybe Bahrain. 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 have failed: Ankara's relations with all its neighbors and with the key players are tense, with the relative exception of Teheran. Saudi Arabia has gained the upper hand: it uses its financial clout and its networks to define a different defense system against Iran, relying on the Gulf Monarchies, Egypt, Pakistan, Jordan and Algeria. Riyadh says it no longer trusts Washington, but it is too early to know whether this is temporary because due to Obama administration's regional policies<sup>10</sup> - or not. At the same time, Saudi Arabia defense budget has seen substantial increases in recent years. It remains the US defense industry's main customer, but it also tries to diversify its suppliers of weapons systems. Saudi Arabia has bought Chinese missiles and has vested interests in Pakistan's nuclear industry, Pakistan being its most important ally and Nawwaz Sharif allegedly very close to the Saudi establishment. Riyadh also funds Egypt's military procurement in Russia. Egypt is currently planning to buy dozens of fighter aircraft by Moscow - Mig 35 - and uses Russian satellites to monitor Sinai. Egypt's army also participated in joint military exercises with Gulf armies, and many Egyptian officers are now advisors of 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, and Saudi Arabia is not pleased with Kuwait's stance on its dispute with Qatar. The Gulf States did not adopt the same attitude towards the Muslim Brotherhood (Bahrain and Kuwait being significantly more cautious than the others) or towards Iran. The small Gulf States are ambivalent toward Saudi Arabia's hegemony. Israel's attitude towards this new "Holy alliance" is also ambivalent. Its government was relieved to see the end of the Muslim Brothers' regime in Egypt. It has proved to be a staunch supporter of Cairo's new rulers and it has fiercely lobbied to support them in Western capitals. Its relations with Riyadh are discreet, but not hostile. Yet Israel is wary when it sees Arab countries gaining military clout.

One of the main questions is whether Arab countries are really improving their military capabilities. The answer should be nuanced. Of course things are improving, but these countries are no military powerhouses and the threats are daunting. For example Egypt, which has the best army of this area, faces a lot of challenges at its frontiers. It can be argued that it is surrounded by unfriendly, or even hostile, neighbors: Libya, Gaza, Sudan – not to mention Ethiopia and its hydraulic threats. Moreover, Egypt faces a formidable challenge in Sinai. On February 2014 the situation was really dangerous, but according to the latest reports it has improved in the following months as the Egyptian army has succeeded in beheading the jihadists' commanding structure. The army has also a lot of other missions within the Egypt territorial borders. Jihadists are now better warriors than their predecessors, as they have more sophisticated weapons, good intelligence and good logistics, probably provided by the Brotherhood. At the same time, the Saudi Arabia troops did not impress foreign observers when they clashed with Houthi rebels. According to these observers, the Saudi army has yet to become a strong player. It seems quite clear that these countries still badly need America's umbrella.

For the Gulf countries, Iran and Yemen probably 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. On the other hand, 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. Syria is also daunting, and the situation can develop towards very diverging directions. At

<sup>10</sup> 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.

least three different scenarios are possible: an endless war, a political transition with Syria remaining a unified State, and a partition. The only certitude is that this regime cannot stay, because its responsibility in the bloodshed is so overwhelming that it will not be able to rule again. Political transition remains a distant prospect. The fact that jihadists account for 40% of the rebel troops is of no help.

Overall, the situation in the whole region is bleak. But it is also an historic opportunity for those who want or dream an Arab integration. Never have the Gulf and Egypt been so united since 1973, sharing a sense of danger and trying to stand up. Increasing military cooperation was already mentioned. The economic support the Gulf monarchies are providing to their neighbors has never been so great. The intelligence agencies and the leadership closely cooperate together. The business communities are strictly intertwined. There is an Arab Academic champ, 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 has 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.

Finally, the Israeli/Palestinian conflict for now is sleeping. The ruling coalition in Israel quietly and efficiently sabotaged US 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, Israel does not negotiate because it does not feel the need to do so. On the contrary, it consistently gains new ground, builds new colonies and new settlements. An American diplomat said things would not change unless a third intifada flared up.



# GREATER MIDDLE EAST AND NORTH AFRICA

## WORKING GROUP

### REPORT

*Alessandro Marrone*

#### Trends

Countries do vary a lot across the MENA region and it is difficult to generalize. However, the WG has pointed out 4 relevant trends, which are largely shared by countries in the region.

First, the socio-economic conditions which fuelled the revolts in 2011 are there to stay, at least in the medium term: a job market and an education system in many MENA distorted by the prominence of public sector, and by the weakness of the private sector. This generates social inequality, and particularly creates cohorts of young, educated, unemployed, frustrated, people, which are therefore best suited to engage politically, and also through ideologically motivated violence. There is, and there will continue to be, a gap between expectation by people in MENA countries and what can be delivered by states – regardless they are ruled by old or new elites. In order to narrow this gap sufficient time and economic resources are needed, but both are in shortage.

A second important trend is that the conditions for the existence of previous authoritarian regimes are not there anymore. At the same time, the conditions for functioning democracies are not there neither, or at least not yet. Therefore you have a situation that shifts back and forth between revolution and democratic transition: a trend that is likely to continue. Democratic transition is about people being represented at the political level, and it is about managing pluralism – including the presence in the political domain of elites from the *ancien regime*. Revolution is about people being directly present at political level, namely the small percentage of population able to rally in the streets of the country's main cities, and it is about good guys – the revolutionary movements – expelling the bad guys - the former elites – from the political domains.

A third trend is the weakness of the states in the region, *vis a vis* empowered groups. Large sectors of societies and public opinion got used to participate in the public domain, to challenge established authorities, to claim rights and power, through some sort of elections, street demonstration, and even violence driven by political, ideological and religious motivations.

A fourth related trend is about the fact that state weaknesses, state failure, widespread violence, areas uncontrolled by state authorities where criminals and terrorist can act freely, and last but

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not least present and possible civil wars, lead a substantial part of public opinion and society in MENA region to consider security on top of the agenda, with respect for example to economics, and even to desire a strong state able to guarantee citizens security.

### Variables

Against this background, we discussed three elements that may be considered relevant variables.

A first variable is about borders: what do they mean in the current MENA context, and how this variable can evolve. Firstly, there are states more and more unable to control their borders, Egypt for example, and states heavily investing in borders control, such as Jordan and Israel. Secondly, there may happen, de facto, the creation of economic zones that strictly connect some areas of MENA, as happening with Turkey, Iraqi Kurdistan and Northern Syria. We may have informal, or illegal economic flows crossing borders and connecting areas of MENA region. Thirdly, new borders may be created as a result of civil wars and state failure, on the model of Somalia: at the end of the day, in Syria we have different actors which control different portions of the national territory. Something that is similar to the current situation in Ukraine. Last but not least, there will continue to be sectarian affiliation which cross national borders and connect zones inhabited by certain groups with foreign countries: the well known Shia crescent linking Hezbollah to groups in Syria and Iraq up to Iran is a case in point.

A second variable is about resources. Problems related to water scarcity and food sufficiency in the region are well known, in particular with the former being linked to state subsidies, a burden for many states in MENA region which is difficult to get rid considering popular discontent. The new development in this regard is that there may be a peak of commodity prices because of the crisis in Ukraine, as for example Egypt relies on food import by Ukraine, and this may exacerbate the aforementioned trends. Furthermore, there may happen rapprochement among MENA countries driven by the discovery of new resources, such as the gas in the eastern Mediterranean Sea that led Turkey and Israeli to less tense relations. Moreover, regional economic development may be driven by exploitation of new resources, such as for example solar energy.

A third variable is about governance and identity. In many states in the MENA region there's been a political change with new elites in power. But what has happened the day after the "Bastille" has been taken by the revolutionary movements? On the social and economic level, very little. No radical changes occurred regarding the redistribution of wealth, the reduction of inequality, and so on and so forth. The big question is what will happen with such political mobilization which has not achieved tangible results: this is a key variable, which may lean towards further waves of revolutionary and counter-revolutionary movements, or towards something else.

There also been a growing emphasis on civil and social rights, a greater awareness that states and governments have to deliver with respect to citizens' demands. This is to say a stronger identity in terms of citizenship somehow developed. Nevertheless, at the same time, there has been a polarization within the societies across religious, sectarian and other cleavages. Moreover, it is still in place the interplay between national identities and pans- identities: pan-Arabism, pan-Islamism, etc. The question regarding this variable is which identities will prevail. Again, this is something that resembles the situation in Ukraine, where the identity and loyalty of Russian-speaking population in Ukraine is neither clear nor stable.

## Implication for NATO

When the Working Group discussed the implications for NATO, the starting point was the awareness that the situation in MENA region is in flux, complicated, plenty of actors with different agendas, and plague by various level of violence (from criminality to civil wars) and various kind of conflicts.

In light of this evaluation, NATO has to carefully and cautiously frame its role, taking into account that it is not welcome in the region, that many challenges are not about hard security – for instance the aforementioned youth unemployment, that many challenges about hard security are beyond NATO's reach, and that when you have a such a difficult, complicated and delicate situation it is better first of all to not do harm.

Second, there are only few NATO activities which should continue “business as usual,” like the antipiracy operation in the Gulf of Aden in order to avoid that insecurity of maritime routes and energy supplies by sea will add to the number of security challenges already present in the MENA region. All the rest of possible NATO activities have to be reviewed, because the entire region is flux.

Third, a tailored approach is crucial to shape the features and level of NATO engagement with countries in the region. With countries like Jordan and Morocco, which did not experience revolution but rather an evolution, all the NATO toolbox of security sector reform, capacity building, military-to-military cooperation, should be used to support such evolution. With countries like Libya, where the state collapsed and the Alliance has some responsibilities in this regard, institution building is a priority for European countries and NATO can play a useful role together with EU.

This is linked to a forth implication for NATO. It is widely recognized that NATO has to work with partners on security challenges. In the working group it has been stressed that in the MENA region working with EU, UN, African Union, Arab League, is crucial to achieve greater results, and avoid to be backfired as NATO is seen as a war alliance led by the US and this image is not liked by local public opinion.

Finally, different views have been put forward within the WG on the very same nature of NATO role in the MENA region. Some participants suggested that NATO may act only as a technical agency for operational cooperation and assistance, and only after a political deal has been reached by other international organizations – and/or Western countries at government level - with local authorities. Others pointed out that NATO can be effective only if member states agree on the course of action to undertake, and since Allies have different views on what to do in MENA region it is better to not put at risk NATO credibility and cohesion by expanding its role there.

Several participants shared the view that any military and/or technical cooperation is political by nature: it is not possible to de-couple the operational and political levels, even for small, practical, non-sensitive cooperation, because in any case the Alliance is interacting with local actors and altering the local equilibrium – for the better or the worse.

Therefore, any NATO action, even at low operative level, should be linked to a strategic assessment of the situation and a political dialogue with local authorities and stakeholders. Capacity building is a case in point: if you build capacity you should take into account which elite will use these capacities, for which goals and in what manners, and the fact that ruling elites do changes unpredictably in many MENA region.

In this context, it has been suggested NATO as a whole can act as strategic enabler: that means it can activate its tools in terms of military planning, intelligence, training expertise, assets such as strategic transport, but also diplomatic tools such as the Mediterranean Dialogue and the Istanbul Cooperation Initiative, in cooperation with other actors which will have a more visible role, such as the EU. Given the understanding of the aforementioned trends and variables in the region, and given the limits of NATO role in Middle East and North Africa, this can be a flexible framework to act beyond borders in order to enhance cooperative security.





FOCUS AREA III

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SUB-SAHARAN AFRICA







# ECONOMIC AND SOCIAL TRENDS IN SUB-SAHARAN AFRICA

*Giovanni M. Carbone*

## Introduction

Sub-Saharan Africa is arguably the fastest-changing region in the world. It is a composite area, with a land mass larger than China, the US and the European Union combined. It comprises over 900 million people fragmented in 49 nation states and several hundred ethnic groups. Africa hosts the poorest populations in the world alongside South Africa, an economy with some highly-advanced sectors where heart transplants were pioneered some fifty years ago.

As diverse as the region is, its economies and societies feature also 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. It concludes that the fast transformations the region is undergoing raise several challenges that are of inescapable concern for the international community as well as actors specifically involved with the area.

## Africa's new economic season

At less than \$2,700 per capita income (PPP), Africa<sup>1</sup> 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<sup>2</sup>. 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

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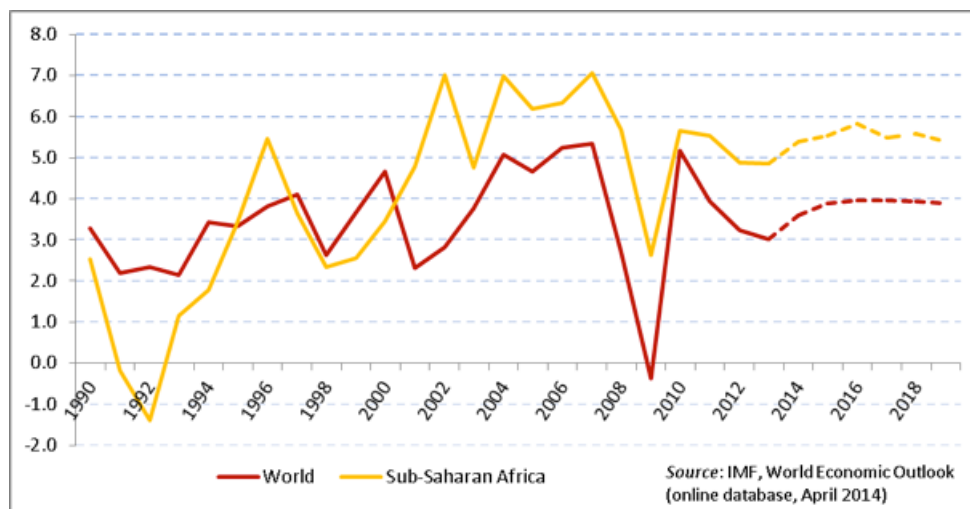
1 Unless otherwise specified, the paper uses the term "Africa" interchangeably with "sub-Saharan Africa"  
2 World Bank online databank, *World Development Indicators*, April 2014.

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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.<sup>3</sup> The size of Africa's markets and middle classes has expanded significantly.

**Figure 1: Real GDP growth (% change), 1990-2019**



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%.<sup>4</sup> 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.

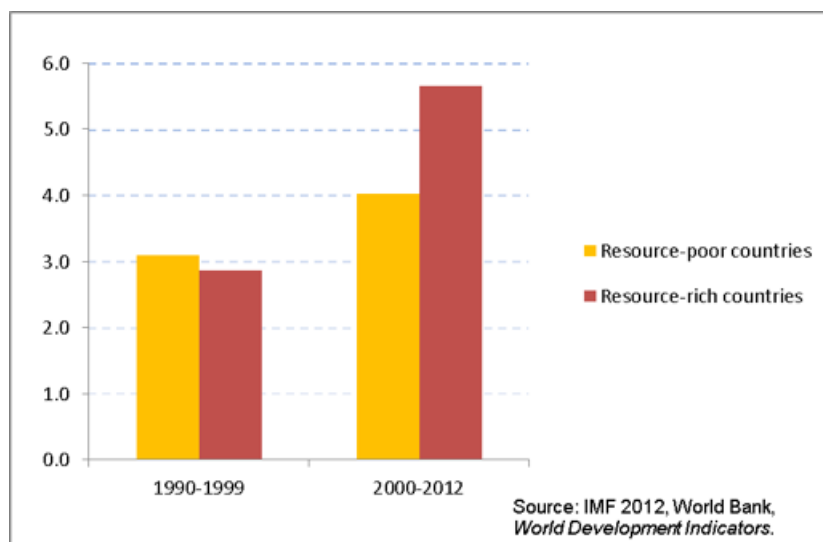
Contrary to a commonly-held opinion, however, growth has not been limited to countries rich in natural resources (Figure 2). Resource-poor countries not only marginally outperformed resource-rich countries during the early phases of economic renaissance (3.1% as against 2.9% annual average growth during 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.<sup>5</sup>

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

<sup>4</sup> Ernst & Young, "Africa attractiveness survey 2013," 2013, p.17

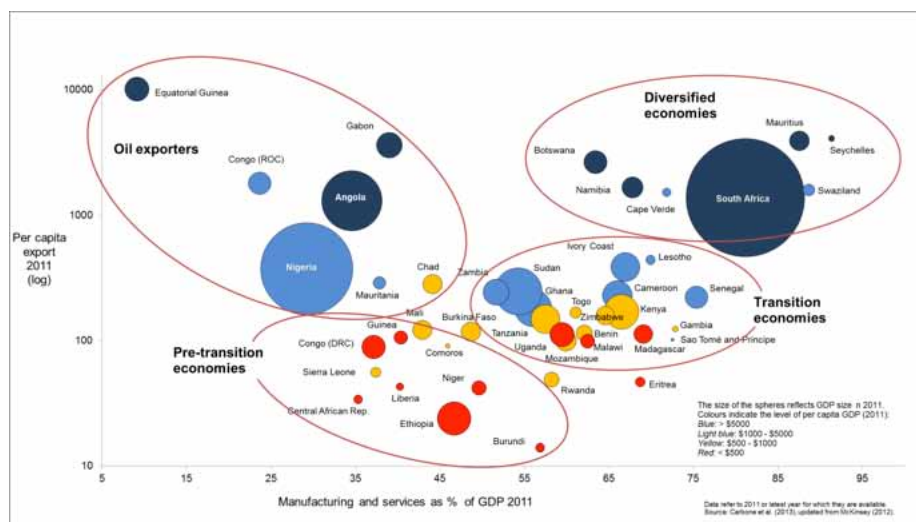
<sup>5</sup> International Monetary Fund, "Regional Economic Outlook. Sub-Saharan Africa: keeping the pace," Washington, 2013, p.31; and The Economist, "No need to dig", 2 November 2013

**Figure 2: Growth and natural resources (average annual % change of GDP), 1990-1999 and 2000-2012**



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 (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).

**Figure 3: Structure of the economy and development trajectories, 2011**

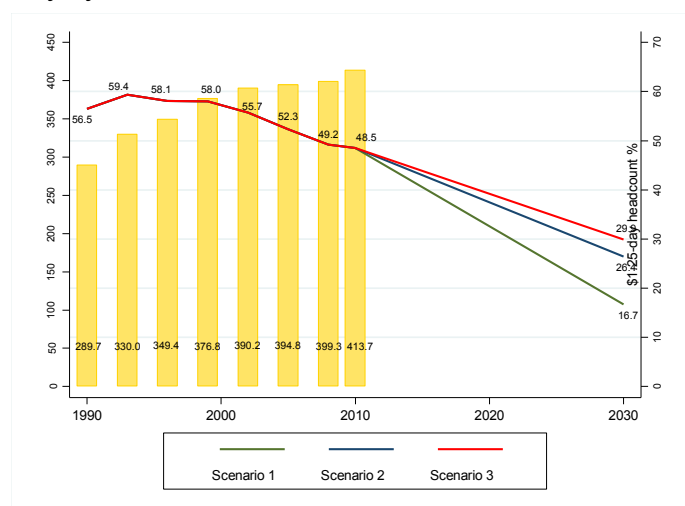


While structural transformations remain limited, the recent positive economic trend brought about significant poverty alleviation. As the share of people living with less than \$1.25 a day at PPP, absolute poverty south of the Sahara declined from 58.0% in 1999 to 48.5% in 2010 (Figure 4),

with further decreases projected over the years to come, a noteworthy change from the 1980s and early 1990s.<sup>6</sup> 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.<sup>7</sup>

According to some estimates, inequality in Africa has also been declining since the 1990s, reversing the increases of the 1970s and 1980s.<sup>8</sup> 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<sup>9</sup>. 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.

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



Source: World Bank, Africa’s pulse. An analysis of issues shaping Africa’s economic future, Vol. 8, Washington, October 2013, p. 17

6 World Bank, Africa’s pulse. An analysis of issues shaping Africa’s economic future, Vol. 8, Washington, October 2013, p. 14

7 Ibid., pp.14-15

8 Maxim Pinkovskiy and Xavier Sala-i-Martin, “African poverty is falling ... much faster than you think!,” NBER Working Paper 15775, National Bureau of Economic Research, Cambridge (MA), 2010

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).

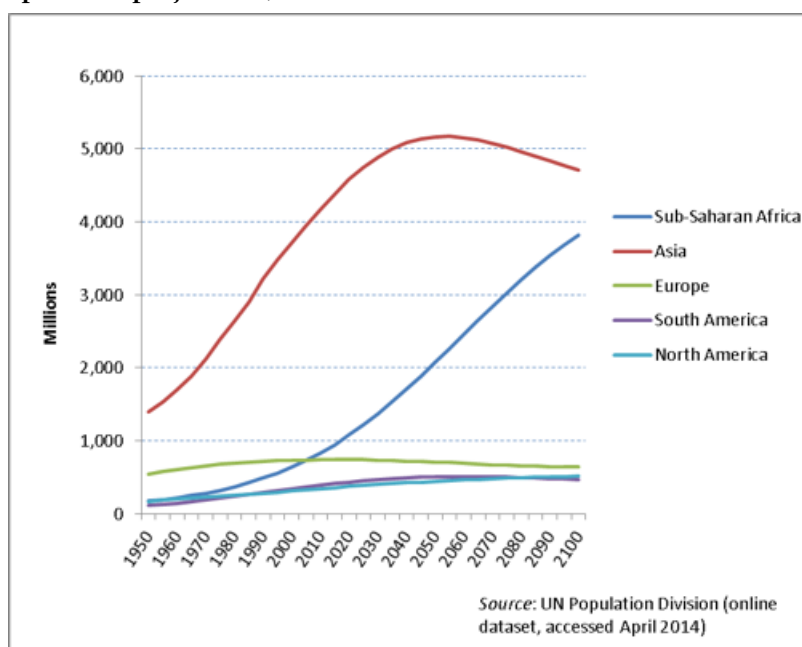
## Demographic changes and related challenges

### 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<sup>10</sup>. In fact, it is Africa's further, dramatic population increases that will drive the world's population growth dynamics over the current century<sup>11</sup>. 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 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.

Figure 5 : Population projections, 1950-2100



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

<sup>10</sup> Data in this paragraph are from the UN Population Division online database (accessed April 2014).

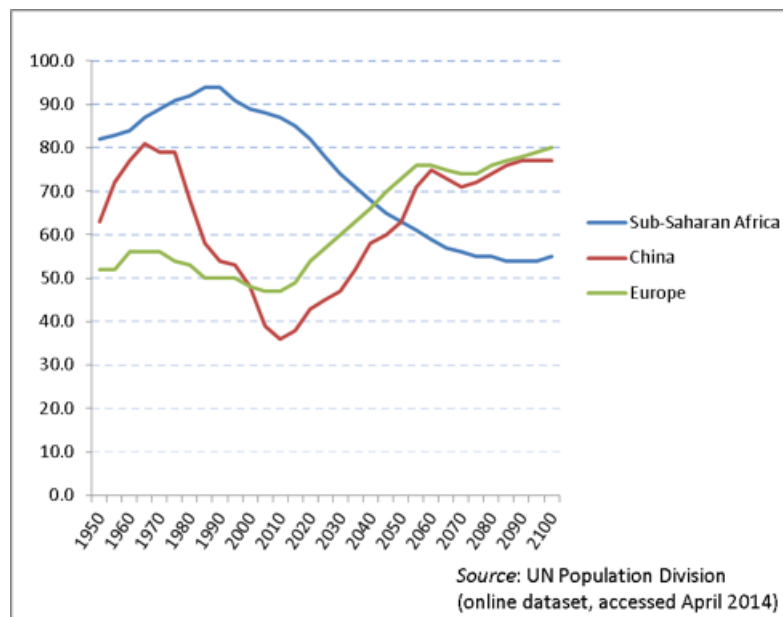
<sup>11</sup> Max Fisher, "The amazing, surprising, Africa-driven demographic future of the earth, in 9 charts", *The Washington Post*, 16 July 2013.



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 (May 2014).

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.

**Figure 6: Dependency ratios, 1950-2100**



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 this latter's relations with outside states. Sub-Saharan governments will have to manage massive and fast-growing young generations 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.<sup>12</sup> 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. Concentrations of population and mobilization 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)<sup>13</sup> 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.<sup>14</sup> 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.<sup>15</sup>

## *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 –

12 World Development Indicators, online database, April 2014.

13 World Bank, *Securing Africa's land for shared prosperity*, Washington, World Bank, 2013, p. xv. Cf. McKinsey Global Institute, 2010, p.59.

14 United Nations Convention to Combat Desertification, "Desertification. The invisible frontline," UNCCD, 2014

15 Kai M. Thaler, "Large-scale land acquisitions and social conflict in Africa: analysis and issues with cross-national land grab data," Department of Government, Harvard University, April 2014 (working paper)

such as the 2012 crisis in the Sahel. The continent has received food aid since the 1950s, and food emergencies tripled in the 1980s.<sup>16</sup> 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.<sup>17</sup> 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.

### *Migration*

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 intra-continental 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<sup>18</sup>. 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.

### **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.<sup>19</sup>

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 infra-

16 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. MDG Report 2013. Food security in Africa: Issues, challenges and lessons," 2013, pp. 101ff.

17 United Nations Convention to Combat Desertification, "Desertification. The invisible frontline," UNCCD, 2014

18 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 (World Bank 2011, p.20). There is a more recent report (2013): still the same results?

19 Pankaj Ghemawat, Steven Altman, "DHL Global Connectedness Index 2012. Analyzing global flows and their power to increase prosperity," 2012, p. 37

structures as well as of their own conscious attempt to stay as far away as possible from the reach of weak but predatory states. 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 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. As expressed by *The Economist* in May 2000, the continent was perceived and famously portrayed as “hopeless.”

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.<sup>20</sup>

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<sup>21</sup>. 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.”<sup>22</sup>

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. Once again, the social and economic potential of digital connections in sectors such as health, education, banking, etc. in Africa is very high.<sup>23</sup> 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.

Economic growth with an expanding population also generated new resources and stronger in-

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20 African Development Bank, OECD, UNDP, ECA, “African Economic Outlook 2010. Public resource mobilization and aid,” OECD Publishing, Paris, 2010

21 World Development Indicators online database, April 2014

22 Jenny Aker, Isaac M. Mbiti, “Mobile Phones and Economic Development in Africa,” *Journal of Economic Perspectives*, 24 (3), 2010, p. 207

23 McKinsey Global Institute, “Lions go digital: the internet’s transformative potential in Africa,” McKinsey & Company, 2013

centives 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.

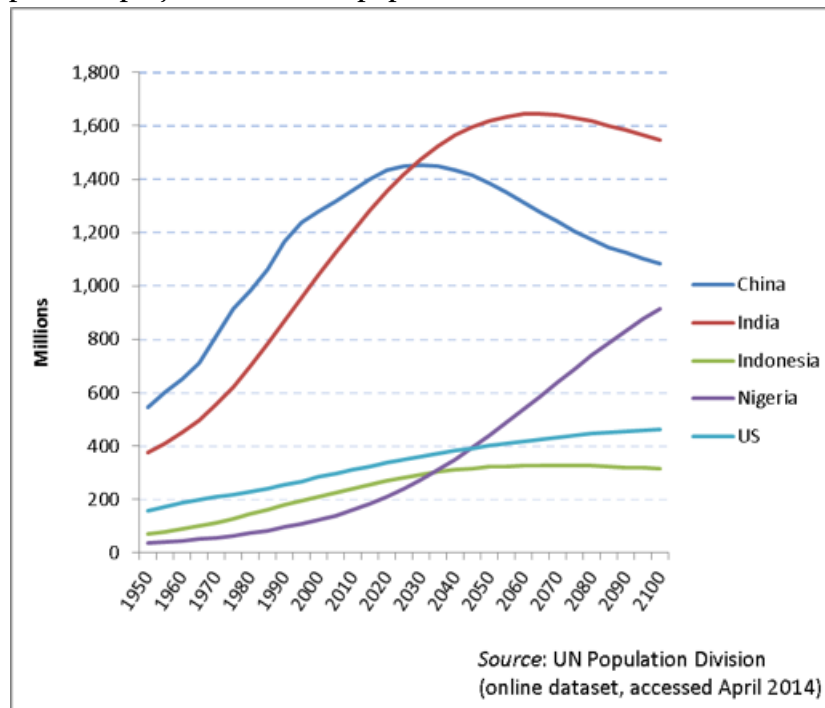
Finally, Africa saw an exponential surge of external interest in its mineral and agricultural resources and expanding domestic markets. This contributed to the rapid forging of new international economic and political relationships. While China's distinct return to the continent dates back to the mid-1990s, 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 hydrocarbons.

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. Overcoming Indonesia and the US between 2035 and 2045, 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 at the end of the century (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.

Figure 7: Population projections (5 most populous countries), 1950-2100



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), an 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."<sup>24</sup>

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.<sup>25</sup> But the recent estimates catapult Nigeria in a significantly higher position in international rankings, making it the world's 24<sup>th</sup> 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* (National Planning Commission 2009). And the world is taking notice. The country entered Goldman Sachs' so-called "Next-11" group of emerging economies as well as Jim O'Neill's

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

25 Africa Confidential, "Buying when there is blood on the streets," 55, 8, 18 April 2014, [www.africa-confidential.com/article/id/5583/Buying\\_while\\_there\\_is\\_blood\\_on\\_the\\_streets](http://www.africa-confidential.com/article/id/5583/Buying_while_there_is_blood_on_the_streets)

“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.

## Conclusions

Sub-Saharan Africa is undergoing fast economic and social changes that will likely continue over the years to come. These processes are potential harbingers of crucial opportunities, but also raise several challenges of inescapable concern for the international community as well as for any actors specifically involved in the area.

The nexus between the region’s massive demographic expansion and its recent, rapid economic growth is and will be crucial. In principle, the region might be able to take advantage of a “demographic dividend”, i.e. the combination of a growing workforce with diminishing dependency ratios. But much of this will depend on Africans’ actual capacity to transform what has so far largely been jobless growth into more inclusive growth. To the extent that economies on the continent will succeed, they will make emerging Africa an area of growing economic relevance, prosperity and stability. To the extent that they will not, pressures will become increasingly difficult to manage. External migration flows towards advanced economies, for example, may rise further, with all their related implications. Domestically, on the other hand, a fast-expanding unemployed youth would be more readily available for electoral mobilization and violence, as already occurred in such places as Ivory Coast or Liberia. The demographic, economic and political trajectory of Nigeria – which has become an economic powerhouse on the continent and is bound to become the third most populous country in the world around 2035-2045 – will have increasing repercussions for the surrounding region.

Economic expansion also led Africa towards closer economic, political and diplomatic ties with a growing number of external actors. Such relationships represent new opportunities – as they increase the alternatives available to, and thus the potential autonomy of, Africa’s own fragile governments – but they also constitute new interests at play on the continent, many of them competing for resources in the area (minerals and land, in particular) and directly interested at interfering with Africa’s governments. Land, for example, has increasingly been the object of disputes between local populations and foreign interests. Islamic extremism in the Sahel and in northern Nigeria, on the other hand, spurred the response of Western powers that are keen to promote stability in areas of increasing relevance.

Finally, economic growth will likely have crucial political implications. To the extent that new wealth is created and available, African states will have more fiscal resources that will help them reduce their chronic fragility. This, in turn, may favour a more complete stabilization of the region. We also know from global evidence that higher levels of development – with populations that are better educated and increasingly able to satisfy their primary needs – will likely foster further democratic progress. In the process, however, African countries will need to be able to govern the many transformations they are undergoing – demographic expansion, rapid urbanization, expansion of education, agrarian adjustment, enlargement of services and manufacturing, etc. – in such a way that such deep changes and transitions do not overly translate into social tensions and political instability.

# AN OVERVIEW OF WEST AFRICA'S SECURITY SITUATION

*Lydia M. Amedzrator & Emmanuel Kwesi Aning*

## Introduction

Currently, West Africa and its general political and security situation can be characterized as showing a combination of promise, opportunities and challenges. Current trends are characterized by multiple contradictory developments with some offering cause for optimism and the prospects of hope, and others that instead we argue deserve careful evaluation and response.

For example, there is a decrease in the number of intra-state election-related crises in the Mano River Union (MRU) area. As a result, this geographical space does not continue to be the epicenter of the region's election-related conflicts system<sup>1</sup>. The major challenge, however, is how to build and sustain peace, and undertake post-war reconstruction. This entails revamping the existing infrastructure and building new ones; working towards economic recovery; carrying out security sector reforms, judicial reforms and other reforms as part of the overall renovation of governance processes. Reconciling West African societies that have experienced violent conflict – Liberia, Sierra Leone, La Cote d'Ivoire, Guinea, Mali and parts of Northern Nigeria and maintaining a sense of national balance is critical to this.

While these developments suggest a peaceful West Africa, there is need for a cautionary note that not all is well in the area. There are still low intensity conflicts in northern Ghana, Cassamance in Senegal, the Niger Delta debacle, and now the further challenge of widening domestic and transnational terrorism. Several of these challenges will be discussed in some detail.

## What is West Africa's current security situation?

Several challenges to security in West Africa could be mentioned. Here we have selected seven of them: state fragility, narcotics trafficking; Islamic radicalism; the Increasing alliance between illicit trafficking activities and Islamist terrorism; the implications of the Libyan crisis; maritime insecurity and oil discoveries; the so called youth bulge; and food insecurity. Let us touch on each of them at the time.

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1 The authors are grateful to Dr. Thomas Jaye, for his support in identifying some of these issues

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## State fragility in West Africa: the case of Mali

Plagued by weak state institutions, vulnerable political environments, violent conflicts, socio-economic inequalities, transnational crime, religious extremism and food insecurity, most West African states are fragile and barely have the capacity to protect their territorial borders and provide public goods and basic services for citizens. Additionally, due to the regional conflict complexes that abound in the region, crisis in one state quickly leads to a domino effect due to the porous nature of borders in the region. These factors contribute to the precarious nature of most of West African states, with the 2012 Mali crisis being a case in point.

A series of interrelated events contributed to and perhaps highlighted the contested nature of state authority in the country. First, a renewed Tuareg rebellion started with the return of migrants fleeing Libya after the overthrow of the late Colonel Muammar Gaddafi. Mixed with these migrants were mercenaries hired by Gaddafi to fight his cause during the Libya crisis. With the proliferation of arms in Mali and general support in the North, these formed the National Movement for the Liberation of the Azawad (MNLA) and joined forces with other Islamist militant groups to challenge and defeat the military in the north. This opportunistic alliance of militant and other groups contributed to their success in temporarily capturing the northern territories and some southern cities.

Besides, there are several contested underlying issues which fuelled Tuareg rebellions against the state. In the first place, there are ideological differences concerning 'spatiality' between the nomad and sedentary populations, which is a major source of tension in the country especially in the north. In sedentary communities in Mali, social positions are regulated through the 'appropriation of space' and therefore one's identity is determined in part by land tenure. Land ownership has remained an issue of bitter dispute: the government of President Moussa Traore (1968-1991) felt that land belonged to those who tilled it. However, nomads - especially the Tuaregs - challenge these views because mobility allows them to avoid the risks associated with climate variability. They survive droughts and gain access to green pastures for their livestock by changing locations seasonally. These differences continue to create tension due to food security challenges in the Sahel.

Furthermore, the Malian state has been characterized by widespread corruption in the country and the possibility of state involvement in criminal activities. Perhaps this situation has paved the way for the increasing crime rate and the proliferation of criminal groups in the North that are gaining territory and, in some instances, popular legitimacy.<sup>2</sup> A confluence of interests among criminal groups have established local ties along religious, economic and ethnic lines but also established support networks within the state.<sup>3</sup> Power struggles among these groups have exacerbated tensions in the country and contributed to the ongoing precarious nature of the Mali state.

### The dilemmas and challenges of narcotics trafficking

Due to the increasing occurrence of cross border and structural threats to West African states, narcotics trafficking continues to pose challenges to states to the point that the whole continent is now perceived as "*NarcoTrAfrica*." Emerging trends point to the fact that traffickers use aviation infrastructure to enhance their businesses, and this has been characterized as the most significant development in the criminal exploitation of aircrafts since 9/11. This reflects

2 Susanna D. Wing. "Mali: Politics of a Crisis," *African Affairs*, Vol. 112, No. 448 (2013) p. 476-485

3 Ibid.

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 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 location for the narcotics trade.<sup>4</sup> 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.<sup>5</sup> These trafficking networks are facilitated by a range of actors, including businessmen, politicians, state officials, traditional leaders and youth. Particularly, there is a disturbing opportunistic partnership between criminals and aspects of state apparatuses. Also, the formal security apparatus provides cover for traffickers. 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.<sup>6</sup> Meanwhile in other cases, a symbiotic relationship is developed where state actors become the initiators of investment in or relationships with this criminal enterprise instead of being bribed, persuaded or threatened by criminal groups to allow their activities.<sup>7</sup>

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. 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 the strong intervention of law enforcement agencies. 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 ensures reciprocity; and (b) the same capital also enhances mutual 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. Largely, two systems are operational in the region: the "official" (modern) and the "unofficial" (traditional/cultural). The official system refers to a parliamentary and judicial/legal system together with all its accouterments 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. Having various sanctions and systems of institutional support, the traditional system of governance together with its traditional laws often in the form of taboos operates beneath the surface. Due to this

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

5 Ibid.

6 Ibid.

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

duality, West Africans are used to shift 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 people in West Africa, especially the economically marginalized communities.<sup>8</sup> Trafficking networks provide welfare services for marginalized populations who rely on these criminal networks to fulfill their economic and social needs. In that regard, especially in rural areas drug barons are protected by the community – including the police – because from the perspective of the local communities, they bring much needed money, and they perform valuable services to the community, of which they are upstanding members. Another factor relates to the interlocking networks that West African transnational organized criminal networks have with others outside the region – rest of Africa, South America, Europe and Asia. Drug barons form opportunistic alliances with these associates only where necessary and generally on *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.

Indisputably, narcotics trafficking has a differentiated impacts on public, private sector and community institutions in the region. In the public sector, drug traffickers have infiltrated public institutions and bought friends in high official positions straddling commerce, politics, law enforcement, the judiciary and traditional institutions. As there is no established fund for political campaigns, most political activities in the region are financed by money of dubious sources. As a result, narcotic traffickers are able to influence political parties and perhaps parliaments and the executive branches of governments in West Africa. This has contributed to the increase in crime, political corruption and the destabilization of political institutions and their functioning. In the private sector as well, the drug trade has impacted on the economies 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 displace any 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 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 government is conspicuously absent, criminals take up the role of government and provide welfare services to the communities especially in politically vulnerable environments. In those instances, criminal elements play on societal divisions and facilitate violence in order to stimulate vulnerable conditions which will advance their economic gains. A typical recent example is the 2012 Malian crisis.

### **Militancy and Islamic radicalism**

Rising Islamic radicalism is causing concern in the region. It has taken root in Nigeria, with a population of about 150 million people. Recently, Boko Haram has claimed responsibility for several attacks in Nigeria, representing a definitive shift in the tactics and operational capabilities of the group. But, what are the root-causes of the Boko Haram menace? First of all, Boko Haram is a symptom of the wider corruption, mismanagement and unresponsiveness of diverse

<sup>8</sup> 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/>

governments. 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 northern 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 Northwest and Northeast 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.<sup>9</sup> 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 of the political elites account for this economic injustice and underdevelopment. They attribute this political canker to the influence of modernization and 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 establish an Islamic state governed by the Sharia Law.

Another major factor fuelling violence is the indiscriminate imprisonments and arbitrary killings of Boko Haram members by the police and military and the failure of the Nigerian government to prosecute security officers implicated in 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 Boko Haram leader, Mohammed Yusuf, who died in police custody, and the other unlawful killings reported by groups such as Amnesty International and Human Right Watch. In reaction to the so called injustice method by the state, members of the Islamic sect have vowed to revenge the killing of their members, especially Mohammed Yusuf, which they now seem to be honoring with the increasingly lethal attacks on security forces and government authorities.

### **Increasing alliance 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 global security in general. Narco-traffickers are forging alliances with terrorist and radical groups, and providing new sources of financing for terrorism.<sup>10</sup> These criminal actors exploit state vulnerabilities in order to advance their economic and political gains. 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 Western citizens. For example, in 2009, Oumar Issa, Harouna Touré, and Idriss Abelrahman—who attempted to transport cocaine through West and North Africa—were charged by the U.S. Attorney

<sup>9</sup> Nigerian Bureau of Statistics, "2010 National Manpower Stock and Employment Generation Survey (Household and Micro Enterprise)," July 2010

<sup>10</sup> Rachel Locke, "Organised Crime, Conflict, and Fragility: A New Approach," New York, International Peace Institute, July 2012

for the South District of New York with conspiracy of narco-terrorism, and conspiracy to provide material support to Al-Qaeda, AQIM, and the Revolutionary Armed Forces of Colombia (FARC).<sup>11</sup>

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 increase 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 cocaine from South America.<sup>12</sup> In addition to this, there are deepening and widening operational relationships between terrorist and militant groups which involve the exchange of intelligence, resources, 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 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. 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.<sup>13</sup> The leaders of these militias also negotiate the release of hostages and collaborate with AQIM in other joint illicit trafficking operations. These intermediaries take a significant slice of the ransom payments and probably 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; the presence of tourists; the activities of soldiers or security officials; safe houses; guide traffickers across the desert; to provide fuelling facilities and, in some instances, to connive with law enforcement agencies. This mutually reciprocal relationship has facilitated AQIM's adaptability and prevented it from being disrupted by national and international actors.

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 impacts 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 North Atlantic Treaty Organization (NATO) circles, this has serious security implications for West Africa. Given the porous borders of

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11 Peter Pham, "Emerging West Africa Terror- Drug Nexus Poses Major Security Threats", 28 January 2010, <http://worlddefenseview.com/pham012810.shtml>

12 Ricardo Rene Laremont, "Al-Qaeda in the Islamic Maghreb: Terrorism and Counterterrorism in the Sahel," *African Security*, 4, 2011; pp. 242–268

13 Andre Le Sage, "The evolving threat of Al Qaeda in the Maghreb," Strategic Forum, Center for Strategic Research, July 2011

the country and 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 destabilization, 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 to carry out criminal activities, and its income from such activities are reinvested to facilitate revolts. The net effects of the security implications of returnee migrants, Tuareg mercenaries and the flow of arms from Gaddafi's weapon caches have (as seen above) contributed to the deteriorating situation in the region. Since the beginning of the 'Arab Spring' and fall of Mu'amar Gaddafi, Boko Haram has intensified its attacks as a consequence of the spread of arms in the region. 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 organized crimes.

### **Maritime insecurity and oil discoveries in West Africa**

Fifth 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 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 with this maritime challenge 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; it could be a curse.

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 the interaction of a complex web of ships, structures, installations and people. 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."<sup>14</sup> 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.

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14 Martin Tsamenyi, "The Ghana Maritime Authority Positioned to Play a crucial role in developing Ghana's offshore Oil and Gas." Retrieved March 19, 2014, from [www.ghanamaritime.org](http://www.ghanamaritime.org): <http://www.ghanamaritime.org/en/media-centre/downloads/presentations.php>

## The “youth bulge” problematic

In East Asia, the large population of young people has provided a demographic dividend to this region’s economies. They are deployed as productive forces in labor markets, and as consumers. In West Africa, however, the large numbers of young people combined with their poor education, limited job opportunities and lack of legitimate sources of livelihood contribute to the potential recruitment, indoctrination, outbreak, intensity and sustenance of conflicts.<sup>15</sup> Youths in the region have sometimes become active participants in rebellions, protests and insurgencies to express their ‘needs’. First, conflict situations afford some young people the opportunity to act as a revolutionary group in order to break established 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 in which disaffected groups including young people 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 people’s desire to ‘control’ resources. They present opportunities and incentives for the daring ones to support themselves by looting, robbing and exploiting available natural resources.<sup>16</sup>

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, the lack of education (especially high education), and demographic trends, which increase the propensity for youth violence. Under such circumstances, their energy, vulnerability and utility are exploited to serve self interested political, social and economic ends.

## Food insecurity

An overlooked potential factor that can contribute to and worsen West Africa’s security dilemmas relates to climate variability, desertification, land degradation, failing water supplies, deforestation, fisheries and ozone depletion, which continues to represent some of the environmental drivers of conflicts in the region.<sup>17</sup> This is so because such factors continue to threaten water and food security, which in turn are likely to increase forced migration, raise tensions and trigger conflicts.<sup>18</sup> For instance, the sequential droughts in the 1960s, 1970s and 1980s created a temporary crisis in local food and animal production systems, especially those based on both farming and pastoralism in the Sahel. Consequently, many young men in the Sahel had to migrate to neighboring countries in the Maghreb, especially to Algeria and Libya, where they were exposed to revolutionary discourses and this contributed to the recent 2012 Tuareg rebellion in Mali.

Particularly, in the Sahel, a majority of the population is directly dependent on natural resources for its livelihood such as farming, fishing and herding (United Nations Environment Programme, 2011). Therefore recurrent droughts, rainfall patterns, frequent floods and the 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 aggra-

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15 Kwesi Aning and Andrew Atta-Asamoah, “Demography, Environment and Conflict in West Africa,” KAIPTC Occasional Paper No. 34, April 2011

16 Ibid.

17 Oli Brown, Anne Hammill and Robert McLeman, “Climate change as the ‘new’ security threat: implications for Africa,” 2007, [http://www.iisd.org/pdf/2007/climate\\_security\\_threat\\_africa.pdf](http://www.iisd.org/pdf/2007/climate_security_threat_africa.pdf)

18 Ibid.



vated the food security situation in Mali and 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.<sup>19</sup>

## Conclusions

Multiple security dilemmas continue to pose challenging difficulties for several West African states. In this paper, we discussed some of the most difficult issues facing several of these states and examined some key concerns that have the potential to destabilize the sub-region. First, we discussed the continuing and persistent threats posed by narcotics to West African states and their impact on different institutions. Secondly, we focused on the increasing correlation between terrorism and narcotics availability. This deals with the role of Al-Qaeda in the Islamic Maghreb (AQIM) and their purchase of narcotics, among other commercial ventures, to fund their activities, and how such diversification of income and funding sources has the potential to deepen the specter for and the growth of narco-terrorism in West Africa. Thirdly, we analyzed food security challenges in the region especially in the Sahel and how they have contributed to and exacerbated the recent Sahel crisis. Finally, we 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 has the potential to generate considerable incomes for Ghana, the excessive optimistic rhetoric from official sources does not reflect the realities of the economic situation of the regions where the oil and gas discoveries have been made. For example, a recent study assessing human security and developmental needs of oil communities in West Africa painted a dire picture of poverty, environmental degradation, unemployment and armed violence.

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<sup>19</sup> Al Jazeera, "UN says millions at risk in Sahel food crisis," 4 February 2014, <http://www.aljazeera.com/news/africa/2014/02/millions-at-risk-sahel-food-crisis-20142455448969400.html>

# SUB-SAHARAN AFRICA WORKING GROUP

## REPORT

*Bastian Giegerich*

Working Group 3 analyzed regional trends and security challenges in Sub-Sahara Africa and explored their implications for NATO. The presentations and discussion addressed the sectors of the economy, demography, politics, technology, and the environment. Sub-Sahara Africa is a region that is changing fast and continues to be characterized by high levels of diversity. Therefore, the general observations outlined below will in many cases need to be contextualized if applied to a specific country or actor. A table at the end of this report provides an overview of the key findings of this group.

### Economy

Sub-Sahara Africa has experienced more than a decade of strong economic growth. Between the years 2000 and 2013, regional growth averaged 5.4% of GDP annually (after inflation). According to IMF projections, this trend is expected to last until the end of this decade. Drivers of this period of economic expansion were favorable commodity prices, progress on economic and political reform in the region, as well as external support (aid and investment). Economic growth led to increasingly complex trade links with actors outside the region. It has also spurred embryonic forms of a regional economic architecture with several sub-regional markets seen as possible building blocks of an eventual common market.

In contrast to international perceptions, the period of economic boom is not exclusively resource driven. In fact, resource poor countries have performed strongly as well. Nevertheless, the countries in the Sub-Sahara region continue to follow four different development-trajectories with the following characteristics:

- Diversified economies: high share of manufacturing and services as % of GDP and high per capita exports.
- Oil exporters: low share of manufacturing and services as % of GDP, but high per capita exports.
- Transition economies: high share of manufacturing and services as % of GDP, but low per capita exports.

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- Pre-transition economies: low share of manufacturing and services as % of GDP and low per capita exports.

Sustained economic growth is beginning to have a positive social impact with poverty rates declining and inequality going down as well. However, this progress is relative – in absolute terms, poverty and inequality indicators are still high.

On the individual country-level, Nigeria is emerging as Africa's rising power challenging South Africa for economic primacy. Nigeria's challenge in this regard will be to become "more than an oil enclave" and diversify its economy beyond hydrocarbons.

The Gulf of Guinea has gained importance in terms of economic activity (energy), but has also become an arena of maritime security challenges. Piracy is increasing and blending with maritime robbery as examples of kidnappings for cash and hijackings/theft of oil and other cargo underline. These developments have already driven up insurance costs for maritime trade and comprehensive response mechanisms akin to those adopted in the Horn of Africa continue to be absent. In addition, illegal fishing activities by external actors have begun to pose a threat to the livelihood of local fishermen, driving them into the narcotics trade using their vessels to move drugs.

## **Demography**

Sub-Sahara Africa will witness a massive demographic expansion in the decades to come. UN population projections suggest that its population will continue to rise quickly for the remainder of this century. Of course such long-term projections may well turn out to be wrong given that both events and political decisions can reinforce or reverse trends and assumptions behind those projections. The assumptions behind current projects suggest that life expectancy will go up and fertility rates will decline slowly. A crucial question for the region will in any case be whether its societies will be able to reap the benefits of the so-called demographic dividend, in which a declining dependency ratio should in theory fuel further economic growth.

The demographic trends will make it difficult – some might say impossible – for the region to deliver sustainable development. Many countries with an increasingly young workforce will need to create enough jobs to enable inclusive growth or risk rising inequality and extreme youth unemployment. Rapid urbanization in the region will strain the infrastructure of its cities and threatens to overwhelm them. Access to arable land and food could become a growing source of political and violent conflict. Migration patterns, which up to now show that migrants mostly move within Africa, could change and flows could increasingly focus on advanced economies outside the region.

## **Politics**

While many countries in the region have made progress on their political reform agenda – including formal features of democracy – and the level of violent conflict has declined compared to its peak in the mid-1990s, governments have failed to deliver social benefits and welfare to large parts of their respective populations. As a result, loyalty to the central government remains low, particularly in West Africa. At the same time, some participants in the working group felt that democratization steps initiated in the 1990s had reduced the appetite for the type of public uprisings

that have characterized North Africa in recent years. During the group's discussions, it emerged that election related crises look like they might be receding, the conflicts that do persist are showing an increasing religious dimension and radicalization.

The governance gap is gradually being filled by criminal gangs which have begun to penetrate the public sector in several countries and have seen their levels of public acceptance and influence soar as a result. In some cases, campaigns by local security forces to fight back were characterized by brutality and lack of accountability, thus producing even higher levels of sympathy for illegitimate actors among the population.

Overall, these developments have helped create and strengthen the nexus between two dangerous sets of groups: narcotics traffickers and terrorists. The group Boko Haram was singled out during the discussion as being most worrying because of its brutality, increasingly diverse funding base and growing international links, which suggest there is an increasing danger of spillover of its violent activities across borders. In general, it was suggested the Sahel could be seen as a hub for illicit activity and also as an area that provides strategic depth to some of the groups involved in these activities.

The youth bulge adds another layer of complexity to the security situation, because large numbers of unemployed youths have served in the past as a recruitment pool for criminal actors. Activities carried out by such recruits range from election related violence and unrest, to information gathering on the behalf of traffickers, kidnappings and direct attacks on local security forces.

In terms of the capacity of local security forces to deal with the security challenges in the region, several participants suggested, African states are slowly moving into a position where they are beginning to have the resources to address them. There was agreement in the group, however, that, for the time being, these resources will remain insufficient to generate persisting stability and security.

### **Technology**

The economic revival, growing levels of urbanization and ICT diffusion, and a more visible role for civil society enabled by participatory politics have boosted the level of connectedness across the region. All important indicators, such as mobile phone penetration, infrastructure development, and surging external relationships, show that a new quality has been reached. In many cases, this higher level of connectedness has in turn become a source of economic growth. On the other hand, it does also enable coordination among transnational networks of criminal actors.

### **Environment**

Both the economic and the demographic trajectories for Sub-Sahara Africa point to the increasing stress the environment will experience. Already, the region witnesses resource competition, in some cases fuelled by external actors mostly interested in extracting resources from the region rather than a sustainable two-way economic relationship. This dynamic can contribute to food insecurity, land grabbing and periodic droughts and is thus of relevance to security. Overall, the group's discussion suggests that fair access and distribution of limited resources will become a crucial security question for the region.

## Key takeaways for NATO and its role in Sub-Sahara Africa

Multiple security challenges persist in the region. However, most participants in working group 3 were of the opinion that NATO's role in Sub-Saharan Africa will and should continue to be limited. Support within NATO member states and among actors in the region for an expanded role was assessed to be weak. Furthermore, most of the tools needed to address the challenges (and exploit the opportunities) in Sub-Sahara Africa are likely to be provided by other actors (including the EU). Of course, this judgment might have to be revisited in case of dramatic events.

NATO should show awareness that the dynamic between external and local actors is changing. Increasingly, Africans want to take care of their own security and are building the tools to do so. External actors, including NATO, should therefore adopt a mindset that is focused on empowering local actors rather than doing a particular job for them. Providing enablers (such as *Joint Intelligence, Surveillance and Reconnaissance* - JISR; lift) could be seen as corresponding to this agenda, given that such capabilities will remain out of reach of local actors for quite some time.

In Sub-Sahara Africa, there is a clear need for assistance and capacity building for local security forces, but also for closer coordination on the regional level among those forces. NATO might be able to transfer its experience from its partnership programs in Central and Eastern Europe to this region, even though such a role would be more limited in scope and will need to take account of the specific setting in the region.

NATO will likely be able and required to play a role in the security of the global commons through maritime security operations. In the Gulf of Guinea this could well take the form of a supporting role to EU activities. While this development might not sit well with NATO's institutional DNA, the Horn of Africa experience does suggest that the more comprehensive tool-set offered by the EU develops more impact over time in counter-piracy situations. The security challenges in the region will also generate a demand for capabilities relating to Humanitarian Assistance and Disaster Relief (HADR). These types of operations are not exactly popular among many military commanders in NATO member states as they are seen as a distraction from the core business of armed forces. However, situations where the need for them does arise are very likely to occur in Sub-Saharan Africa.

As NATO analyses this region, the organization should remain sensitive to the vast differences lurking behind the aggregated data, in particular in the field of economics and demographics. What the dynamics actually imply for Europe and North-America will often only be revealed if the analysis is fine-tuned and eventual responses are designed on the basis of such deeper analysis. On a high level of abstraction, the discussion in working group 3 did point to the nexus between security and development, with socio-economic grievances pointed out by several participants as both root causes and amplifiers of security challenges.

The same goes for engagement with actors in the region. Their number is multiplying and their interests are diversifying. NATO will find it challenging to adjust its approach and message to this situation. Nevertheless, the working group's discussion suggest that some important choices merit closer attention. For example, if the security challenge posed by Sub-Saharan is embedded in a narrative that treats the region as an arc of instability, then NATO should address regional actors. If the available resources allow for a more nuanced understanding and responses that can address the specificities on the ground, other engagement levels should be

pursued. During the sessions of working group 3, Nigeria has emerged as a crucial country in terms of its economic and demographic importance, but also as a source of insecurity (see Boko Haram). Some members of the group therefore suggested to treat Nigeria (and the Gulf of Guinea) as a center of gravity with measures applied here supposedly having the greatest impact for the region as a whole.



# APPENDIX

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## THE BLACK SEA REGION







# THE BLACK SEA REGION AND EURO-ATLANTIC SECURITY ROUND TABLE REPORT

*Federico Catapano*

In the last decade the eastern flank of NATO seemed to be a forgotten dimension, until a few months ago. The crisis in Ukraine has brought back to the front both the concept of collective security and the focus on the Black Sea region. This is the reason why this conclusive roundtable aims to express analysis about one of the key scenarios of the next years.

## **The Black Sea region**

As it was the case with geographical determinants in the Working Groups, the panel cautioned that great attention should be paid in defining the “Black Sea Region,” as there aren’t clear criteria to set the boundaries of the area. Accepting however the Black Sea basin as its center, it is possible to identify a few features that describe the countries in the region. Most of the states were part of the Soviet Union – or once gravitated towards Moscow. Geographically speaking, six are littoral countries with access to the Black Sea: Bulgaria, Georgia, Romania, Russia, Turkey, and Ukraine. First, the panel recalled both the continuity and the disruptions within the region, based on historical analysis. Specifically, Ukraine has developed over time an hybrid identity, often blurred with the Russian one, a fact which should warn about clear-cut cultural or linguistic divides. The role of Russia within the Black Sea region is central. Before the end of the Cold War Russia was clearly the main power of the area. After the fall of Russian power in the 1990s, Russia has reduced its influence, also due to the integration of both Bulgaria and Romania in NATO and the EU. Nevertheless, both military intervention in Georgia and the Ukraine illustrates a permanent interest about the area. Certainly, the strong warning coming from Russia-Georgia war in 2008 has not been fully taken into account in the West if we consider the Ukrainian scenario today.

As proven beyond any doubt by the Ukrainian crisis, Russia is *de facto* still involved in the internal dynamics of several countries in the area. Furthermore, the region is highly dependent on Russian supplies of oil and/or gas, and pipelines running through these countries have significant economic impact.

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\* *Federico Catapano is a Lieutenant Colonel of the Italian Air Force*

### **“Ukraine never misses an opportunity to miss an opportunity”**

As far as Ukraine is concerned, the panel recalled that identity is a rather complex question. For a long time, Kyiv was part of the Polish-Lithuanian commonwealth while southern Ukraine was part of the Ottoman Empire, and subsequently the country became part of the Soviet Union. These experiences led to the developments of different identities within the same state, making Ukraine a complex geopolitical environment.

After the fall of the Berlin wall, Ukraine succeeded in gaining independence, but the country's development hit a few bumps on its way. As just but one example, despite Ukraine's economic and natural endowment, its GDP remains in 2014 that of 1993. Great responsibility for this, the panel argued, should be attributed on the country's government and elites.

Similarly, the Ukrainian military's capability was weakened and even “cannibalized” – mainly for personal profit's reasons – with the result that when the situation heated up in Crimea, the country had no contingency plans ready. As a consequence, the country found itself in a security vacuum. Furthermore, the abandon of nuclear capabilities by Ukrainian forces, guaranteed by an international treaty signed in 1994 by Russia, US and UK, which should have protected its frontiers, has further weakened the security of the country.

### **Russia and cooperation the Black Sea region**

Already in 2008, at the NATO Summit in Bucharest, Russian president Putin stated Moscow's interests and concerns regarding Crimea; nonetheless, the annexation of the peninsula caught many by surprise. More importantly, the panel argued, the annexation will have long-term destabilizing effects in the entire Black Sea region. Security cooperation among all the nations bordering the Black Sea is decisive for the fight against terrorism, smuggling, arms and drug trafficking, as well as for the prevention of environmental and other disasters. Such cooperation is the results of years of efforts, and whether or not it will continue is largely dependent on the crisis in Ukraine. *In nuce*, if the lesson learned from Crimea is that unilateralism and disregard of international law pay off, further cooperation will prove unfeasible, and an even larger security vacuum would emerge in this region.

Moscow's actions can be seen as the latest attempt by Russia to regain the *status* of global power, and reshape an international order that it currently does not see fit for its interests.

While politically the challenge posed by Moscow through the Ukrainian crisis hits the core of NATO's values, military-wise it does not seem to pose a direct threat – given the Alliance's existing capabilities. At local level, the Russian Black Sea Fleet stationed in Crimea stands at 18000/20000 personnel, making for an asset that undeniably gave Russia the advantage. At the same time, the panelists cautioned, the Russian Navy in the area is a modest force if compared to NATO's might, still under modernization. A significant part of this modernization plan, however, is based on the acquisition of two French-made Mistral-class assault ships. Some panelist were worried by the military investments and modernization made by the Russian Federation. Broadly speaking, NATO still has enough critical mass in terms of military forces and technologies to prevail in the case of a conflict with Russia. Nevertheless, the question of future capabilities and technological dissuasion is open considering the lowering of military investment in the West vis-à-vis the Russia increasing military budget, a double trend that affects the credibility of NATO deterrent.

## NATO and the Black Sea region

According to the panel, the West has the capacity to support Ukraine, but what Kyiv primarily needs are not only funds. If the United States and European countries are serious about their stance against Moscow's strategy, they have the responsibility to provide aid in the form of political, financial, and military advice and support, in order to improve military and civilian institutions in the country. Furthermore, exchange of intelligence data would be of paramount importance for Ukraine to be able to protect itself, and repel the threat in its Eastern provinces.

Comprehensibly, many NATO members are looking at Crimea with caution and concern. As a consequence, NATO and national officials have repeatedly confirmed the Alliance's commitment to collective defence, embodied by the Article 5 of the Washington Treaty. In order to deter Russia and reassure allies, since the Ukrainian crisis, NATO has increased the number and size of its exercises, and has beefed up the Baltic air-policing mission.

With the emergence of new threats at the turn of the Century, the Eastern flank ceased to be NATO's priority area, and security in the Black Sea region became a "dormant issue." As a result, when the crisis in Ukraine erupted, NATO found itself out of a strategy. In retrospective, it became apparent that further NATO development signals such as Romania's participation in the development of the European component of the Ballistic Missile Defense architecture of NATO or NATO's further enlargement projects constituted a challenge to Russia that increased tensions in the region.

According to the panel, in today's scenario, we should also recall that another NATO member has a potential important role in the region: Turkey. Geographically it occupies the southern shore of the Black Sea, and the country's development gives Ankara the potential to somehow counter-balance Moscow's influence in the neighborhood. In particular, and despite unresolved historic legacies, some panelists argued that Turkey would prove crucial if NATO is to avoid the mistakes made in Georgia in 2008, especially around the Caspian Sea.

At the same time, however, it was argued that today Turkey's foreign policy might not be in complete unison with its Western allies. Ankara's decision to purchase Chinese technology for its BMD, for instance, raised concerns in both Washington and Brussels.

The ongoing crisis in the Black Sea region brings NATO collective security in Europe on the forefront, a maybe surprising event that needs to be taken into consideration and further analyzed.





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