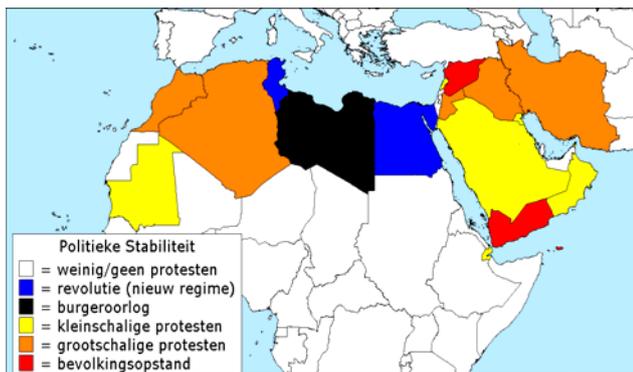


Focus

The Arab Spring

It is a compelling tale: young insurgents demand more democracy and dictators are ousted. With wave after wave of protests sweeping through country after country, the Middle East and North Africa (MENA) finally appear ready for a democratic, peaceful future. The truth is – obviously – more complicated. From an economic perspective the key issues are the effects on energy supply security and geopolitical change in the region.

Figure 1: From revolt to revolution



Source: Rabobank

Tunisia lets the genie out of the bottle

On 17 December 2010, a man in Tunisia set himself on fire to protest the lack of economic opportunity. His tragic cry did not go unheard. It sparked large-scale protests that ultimately led to the departure of President Ben Ali. The genie was out of the bottle following the triumphant revolution in Tunisia. In many Arab countries, protests and demonstrations soon

followed. It seems the fear of reprisals has dissipated and the protesters finally have the courage to shake off decades of oppression. After having been sidelined for many years, primarily young people are taking destiny into their own hands out of frustration over the lack of economic opportunities.

The largest protests were first seen in Algeria, Jordan, Egypt and Yemen, with mixed results. In Egypt, the continuing demonstrations led to the departure of President Hosni Mubarak. President Saleh of Yemen is still refusing to leave the country. In Algeria, the state of emergency was finally lifted after nineteen years and in Jordan a new cabinet has taken up office while the position of the King remains unchanged. In a second wave, the protests spread to Libya, Bahrain and Syria as well. The outcomes of the large-scale protests there are still unclear. In Syria, the government brutally and successfully suppressed the protests. This also appears to be the case in Bahrain, where the government, aided by the Gulf Cooperation Council (GCC, an organisation of six Gulf states including Saudi Arabia), remains in firm control of the situation. In Libya the protests soon led to civil war. Although the opposition is supported by NATO troops and air forces, a swift end to the struggle between colonel Gaddafi and the opposition is nowhere in sight.

Despite a number of shared causes, the type and character of the protests differ from country to country. For example, protests led to civil war in Libya, but remained very peaceful in Oman. And while President Mubarak's departure was demanded in Egypt, the kings of Morocco and Jordan, for example, have remained popular. This makes it impossible to give one single interpretation of the Arab Spring.

Focus

The assumption that the revolts have been fuelled by social media does not match the reality. The fact is that the role of social media varies hugely from country to country. While the Arab Spring revolutions are often called Facebook revolutions, the reality is that in countries such as Syria only 0.1% of the population have access to the internet.

Where to go from here?

“You can put the president on a plane, but you can’t do the same with unemployment.” This statement by Tunisian Sami Anis (*NRC* newspaper, 2011) encapsulates the key issue. Because even though the revolts and revolutions in the Middle East and North Africa are rocking the Arab world, it is very doubtful whether these popular uprisings will produce genuine change. In both Tunisia and Egypt the young generation of protesters, now dubbed the Tahir generation, has proven incapable of taking over the reins after ousting their presidents. In Tunisia the 78-year old Mebaaza has assumed control, while in Egypt power has passed to the army.

The incapacity of the younger generations to overthrow the established gerontocracies is partly attributable to internal divisions. There is no united opposition with a single, clear agenda. The revolution in Egypt is a prime example. For the eighteen days of protest, the protesters were united behind a common cause: ousting Mubarak. But as soon as this was achieved, ethnic and religious rifts re-emerged to take the upper hand. In some cases groups that fought shoulder to shoulder for more influence and economic opportunities are now diametrically opposed. Because while the Western press is fond of presenting the revolt as a desperate call for more democracy, this plea came mainly from the students. At the same time the Muslim Brotherhood, one of the more vociferous organisations during the protests, is demanding the introduction of Sharia law. This internal divisiveness is also apparent elsewhere. For instance, in Libya the end of Gaddafi’s rule will not necessarily herald the end of the civil war.

Table 1: Young population (figures)

MENA	A Prosperity		B Formal labour participation		Corruption
	GDP per capita (PPP, 2009)	Real GDP growth, 2009	% pop under 25 years	Unemployment (2007/2009)	100 = most corrupt
Algeria	6,895	0.7	47.5	13.8	38
Bahrain	27,214	2.4	43.9	4.0	65
Egypt	6,114	5.1	52.3	9.4	41
Israel	28,800	0.8	n.a.	6.8	5
Iraq	4,030	4.2	60.0	n.a.	75
Jordan	5,548	2.3	n.a.	12.9	64
Kuwait	37,849	5.2	37.7	1.7	69
Lebanon	14,268	9.5	42.7	9.1	23
Libya	13,599	2.3	47.4	.	14
Morocco	4,597	4.9	47.7	9.1	51
Oman	25,635	1.1	51.5	.	70
Qatar	79,260	9.6	34.8	.	92
Saudi Arabia	23,272	6	50.8	10.5	63
Syria	4,730	6	55.3	.	17
Tunisia	9,154	3.1	42.1	14.7	58
UAE	36,843	3.2	31.0	4.0	81
Yemen	2,900	3.9	65.4	.	15

Source: EIU, IMF, World Bank, VAO, VN, S&P

Focus

Another obstacle is the lack of political experience among the young generations. Given the absence of a democratic tradition in the MENA countries, this generation never had the chance to operate in the political arena. Consequently,

it is still the old elite that rises up after the protests to govern the country.

Finally, whether real change will emerge also depends on governments' ability to suppress their people on a lasting basis.

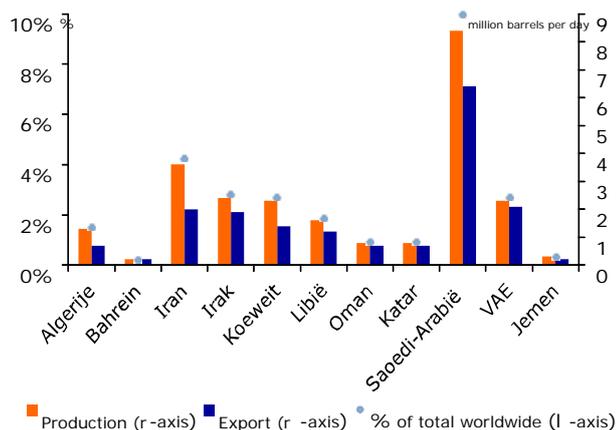
As stated above, a change of power in a number of countries, including Saudi Arabia, Syria and Bahrain, seems to be an illusion. At least without help from outside. The governments in these countries are simply too strong. Nonetheless even they, as do the new governments in Tunisia and Egypt, need to effectively address the underlying social issues. As Table 1 shows, the percentage of people aged 26 and younger exceeds 50% in most Arab countries.

Many of these young people are unemployed.

To prevent this young population from taking to the streets again, as is already happening in

Tunisia and Egypt, the governments will have to formulate a clear solution for the high unemployment and lack of economic opportunities. Because even if political freedom remains limited, economic freedom will have to be expanded.

Figure 2: Oil production



Source: IMF

Consequences for fuel production and prices

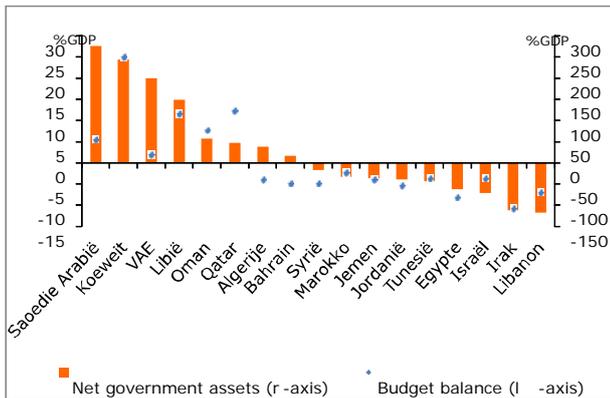
As stated earlier, the unrest in the MENA countries also affects oil and gas markets. The MENA countries hold 60% of the world's oil reserves and account for almost 35% of its oil production. It is important to examine the consequences of the current instability on the price and production of both oil and gas. Simply put, oil prices depend on current and expected oil demand and supply. Given the enormous share of the MENA countries in the global oil market, it is not surprising to see that political unrest (entailing the risk of reduced future production) has driven up oil prices. Between December 2010, when the revolts started, and May 2011 the oil price rose from \$ 89 a barrel to \$ 125 a barrel (Brent Crude). Only part of the price increase is attributable to stronger demand in the wake of the global economic recovery and greater interest in fossil fuels following the tsunami in Japan.

Oil production in most MENA countries continued despite the political unrest. Only the civil war in Libya has a major impact on oil production. Energy giant ENI estimates that Libya's total production per day has fallen by 1.2 million barrels. In the meantime other OPEC members – Saudi Arabia and Kuwait – have

Focus

stated they will make up for at least part of the shortfall. Saudi Arabia already upped its oil production by 44,000 barrels per day in April. Nonetheless, global oil production fell by 700,000 barrels per day in that same month. Moreover, not

Figure 3: Public finances



Source: IMF

all Saudi Arabian oil is of the same quality as that from Libya and it will therefore not serve as a perfect substitute. This in turn presents problems for refineries. If the civil war in Libya continues, a better alternative will have to be sought, such as Nigerian oil. But this gives rise to a different risk: Nigeria is also politically unstable.

In addition, the public finances of the MENA countries are important for long-term oil prices. The rapid spread of the Arab Spring has induced many governments to come up with packages of social measures to appease their populations. While the costs of these measures vary, they can be as high as 16% of

GDP. In some cases the measures are temporary, such as one-off contributions or a temporary subsidy on food prices. But in many cases these are also long-term measures. Especially in countries where oil is the main source of revenue, governments will be eager to finance the higher spending from (artificially) increased oil revenues. To achieve this, governments (and the OPEC as a whole) will seek a profit-maximising balance of price and supply.

Geopolitical consequences: energy supply security and Israel

Western support for numerous dictatorial regimes in the MENA countries has once again come under scrutiny in recent weeks. The chief reason for supporting these dictators was that they could ensure stability in the region. This offered two major advantages. The first was energy supply security; the risk that oil supplies in the MENA countries would be used to pressure the West was sharply diminished. The second was that the befriended regimes could protect Israel against anti-Israeli sentiment among the Arab population.

A first geopolitical effect of the Arab Spring is that – currently still – small players in the oil market have become highly important. In its continuing efforts to safeguard energy supply security the West will be forced to improve its relations with Nigeria, for example, as Nigerian oil is a better substitute for Libyan oil than oil from the Arabian Peninsula. But not just Nigeria stands to benefit. Countries such as Chad and Venezuela will likewise grow in importance. The authoritarian regimes in those countries will be able to count – for the duration support

Focus

from energy-importing countries. So energy supplies to the West do not appear to be in danger for the time being. The main energy resources in the Gulf States are still held by nations friendly with the West. The governments in the Gulf States have joined forces to tackle the unrest.

Iran's role in the Middle East has in the meantime become more important. There are indications that the Iranian regime is supporting insurgents in the Middle East. As a result, old tensions between Iran and the Arabian Peninsula are flaring up again.

Changes of power within MENA countries would also affect Israel's position. The old regimes in Israel's neighbouring countries (with the exception of Syria) broadly supported the West's policy in the past decades. For instance, Egypt repeatedly closed its borders with the Palestinian territories when requested to do so.

But despite possible shifts in power, it remains to be seen whether the upheavals in the region will lead to a completely different attitude towards Israel. In terms of military force, no MENA country can match Israel, certainly not in view of the military support it can expect from the West. The first few years will moreover be dominated to a greater extent by the need to address the internal problems – unemployment and discord among political leaders – than by fighting an external enemy. Despite the revival of Iran's importance, Israel does not appear to have much to fear directly from the consequences of the Arab Spring in the near future.

When will summer arrive?

We think the region may skip summer and move straight into a long autumn. In particular, the internal political and social battles to be fought in the countries experiencing real change mean that the search for a genuine democratic movement in the region cannot be expected to commence in the near future. For the local economies, the severity of the economic consequences of the unrest will depend on their growth drivers. Oil-producing countries have built up enough reserves to absorb setbacks. Net importers of energy will by contrast experience economic problems.

The geopolitical consequences are fairly limited in the near term as a result of the internal quest for political stability. The global economic effects of the unrest in the region are, by contrast, significantly clearer. The rising price of a barrel of oil in the past few months is (partly) an evident consequence of the unrest in the MENA countries. The strategic choice made by governments in the region – to appease the population financially – will lead to permanently higher price levels. The region will hopefully not throw sand rather than oil into the global economic machine.

Anouk Ruhaak
A.N.Ruhaak@rn.rabobank.nl

Jeroen van IJzerloo
J.IJzerloo@rn.rabobank.nl