

## spotlight europe

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# The Middle East as a Region of Opportunity

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The Middle East is more than a hotbed of conflict, war and terror. It is time the EU woke up to the opportunities this region has to offer. The four Es – economy, energy, environment and education–suggest numerous areas of cooperation in which Europe can become profitably involved. Furthermore, the six GCC states ought to play a greater role in the resolution of regional conflicts.

The European Union's southern neighbourhood consists of a crescent which includes Turkey (77 million inhabitants), Israel (7), Iran (67), North Africa (164), the Arab mashreq states (45) and the six states of the Gulf Cooperation Council (41).

In almost all Muslim countries population growth rate is currently about 2 percent. By 2020 50 million jobs will have to be created in the Arab world. Many Arabs are migrants who live and work in Europe (around 6 million) and the rich Gulf states (2.2 million).

From a European point of view this region possesses both opportunities and risks, and these have a noticeable influence on the external relations of the European Union and on societal developments

within Europe. European interests pertain to issues such as energy security, climate change, migration management, export markets, and peace and security.

### Opportunities in a Region of Conflict?

There are seven areas of conflict on the risk map which stretches from the southern Mediterranean via the Middle East to the Gulf region.

1) The territorial conflicts ranging from West Sahara via the Arab-Israeli conflict to the Kurdish question.

2) The fight for important resources such as oil, natural gas, water and agricultural land.

3) The social question, which is the result of the poverty gap between resource-rich and resource-poor countries in the Middle East and between the rich upper class and poor middle and lower classes. On top of this there are the demographic developments. Both contribute to the migratory pressure on Europe.

4) The various kinds of conflict which emanate from political transformation and questions relating to the identity and ideology of the various nations and states of the region. The issues include political legitimacy, good and bad governance, the disputes between secularism and religion, between the Sunna and Shia denominations of Islam, and between the Jewish, Muslim and Christian faiths and traditions. There is also the question of how one should deal with religiously motivated violence.

5) There are problematical issues such as the Iranian missile and nuclear programmes,

6) the uncertain future of Iraq, and

7) the effect of fragile statehood in Yemen, Somalia, Sudan, Afghanistan and Pakistan, and these adversely affect the development of the greater Middle East in Europe's immediate vicinity.

On the other hand, there are opportunities emanating from the rapid economic development of Turkey, of Israel (a top IT industry location), and in particular of the six states of the Gulf Cooperation Council (GCC).

On the Gulf the fabulous revenues from oil and natural gas have given many Middle East societies the opportunity to promote a dynamic social and economic modernization process. Many of them are investing this wealth in a gradual

transformation of economic, social and even political life.

The main pillar of economic modernization in the Arab world is a new and pro-active middle class. It has global networks based on family structures and thus construes itself as a part of the globalization process. It also has the power to enforce political participation and thus to alter the various political orders. In particular the new Arab middle class is trying to change the way in which Islam is understood on the lines of the Turkish model.

What it is trying to do is to combine Islam and the modern world. The dynamic involvement of middle-class women as entrepreneurs, journalists and advocates of civil society is especially noteworthy. Many members of the new Arab middle class were guest workers who helped to initiate modernization and pluralization in the GCC countries, and the experience continues to motivate them after they have returned to Syria, Jordan and Morocco, to name but three examples.

Europe needs to do more to reach out to the new middle class and to persuade it to be a partner in the adoption of a common policy on conflict resolution, the rule of law and a just kind of social and economic development.

## II

### The Four Es

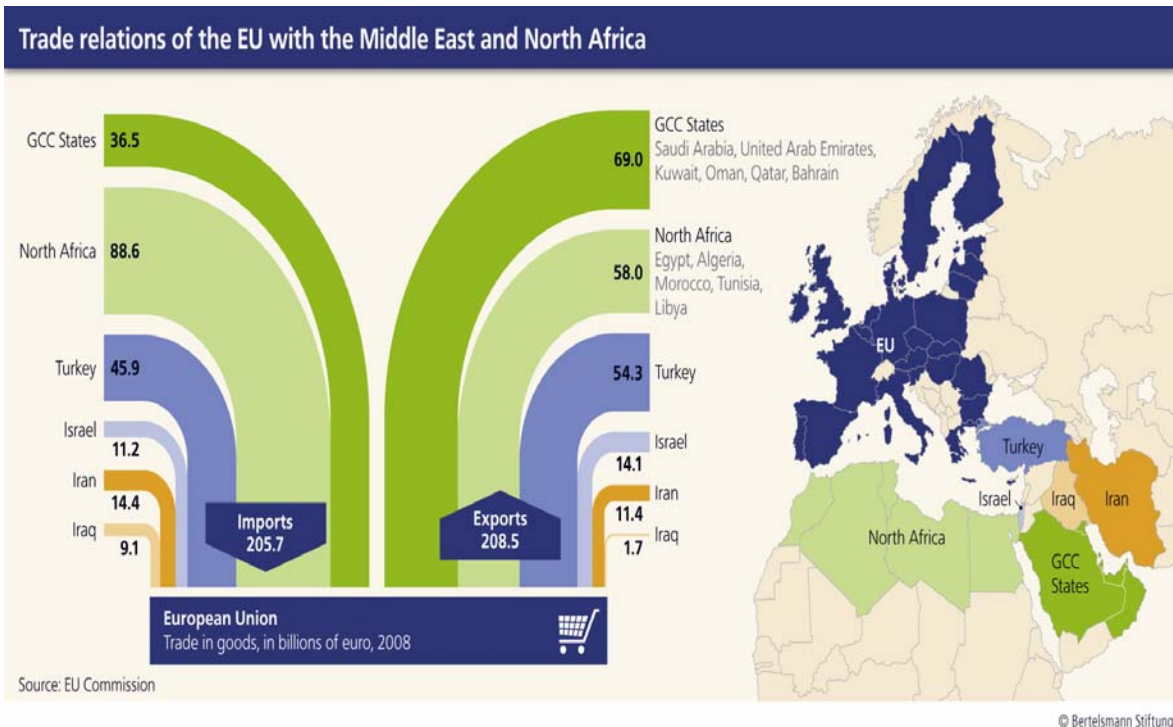
Europe's economy needs energy, capital/investment, sales markets and intelligent minds. This is where the up-and-coming Gulf region and the resource-rich and consumer-oriented Arab countries Algeria, Libya and Iraq come in. They are increasingly becoming lucrative EU trading partners. These countries are in need of Western skills, so that the subject of education is mushrooming into a large new area of cooperation.

The data relating to current EU trade relations with Turkey, Israel, Iran, North Africa and the GCC countries reveal that Turkey is becoming more important as a trading partner and that Israel's IT sector is of potential importance for Europe's economy; that Europe's balance of trade with North Africa is negative on account of the large imports of Algerian gas and Libyan oil; that trade with Iran continues

### III

## Good Investments and High Export Levels

Despite the economic and financial crisis, the Economist Intelligence Unit expects an increase of 8 percent to about €260 billion in goods imported in 2010 by the GCC



to decline on account of the political crisis, and that at the same time trade with Iraq is on the increase.

EU exports to GCC countries are twice as high as imports of oil and gas. With its energy wealth and investment capital for European companies, the GCC is the most interesting sub-region in EU's southern neighbourhood. The GCC is the only functioning sub-regional integration project in the Arab world. Its six member states are trying to establish a free trade zone with Europe, and a partnership in the political and cultural spheres.

countries. The predictions are that this year their gross domestic product will increase by almost 4 percent. In the Emirate of Qatar, the richest state in the world, it may even increase by 23 percent as a result of liquid gas production, which is expected to double.

The reigning dynasties and governments of the six GCC countries have set up sovereign wealth funds in order to invest the surplus revenues from the sale of natural resources so that they will have an income when the oil and gas boom comes to an end. These GCC sovereign wealth funds have an estimated investment volume of €1.1 billion. The assets under management could amount to more than the stock price value of all the Dax corporations put together.

The GCC countries have changed their strategy as a result of their experiences and the losses sustained during the 2009 financial crisis. They are now looking for new and safe investment opportunities, and turning away from investment pure and simple in order to invest in traditional companies with future-oriented products. The investments are being diversified as far as possible, and in Europe are no longer restricted to British companies. Since the sovereign wealth funds like to steer clear of corporate management issues, they tend to purchase a small share of the equity capital. Recently the Qatar Investment Authority bought 17

percent of Volkswagen and Abu Dhabi's Aabar Fund 9.1 percent of Daimler.

Despite all the euphoria it needs to be borne in mind that in the case of Arab investment funds, state and dynastic ownership rights tend to mingle, so that there is often a lack of transparency. That was one of the reasons for the Dubai liquidity crisis at the end of 2009.

Furthermore, Arab capital on the Gulf is trying to lure investors and businesses to come to their countries. On the Gulf people increasingly perceive themselves as a kind of pivot for trade between Europe, Africa and Asia.

For this purpose the countries of the region are working on gigantic infrastructure projects. Currently the new middle classes in India, Pakistan and Central Asia in particular are using the GCC states as a hub. An Indian businessman, for example, has bought the most famous global address, the 100th storey of Burj Khalifa, the highest sky-scraper in the world.

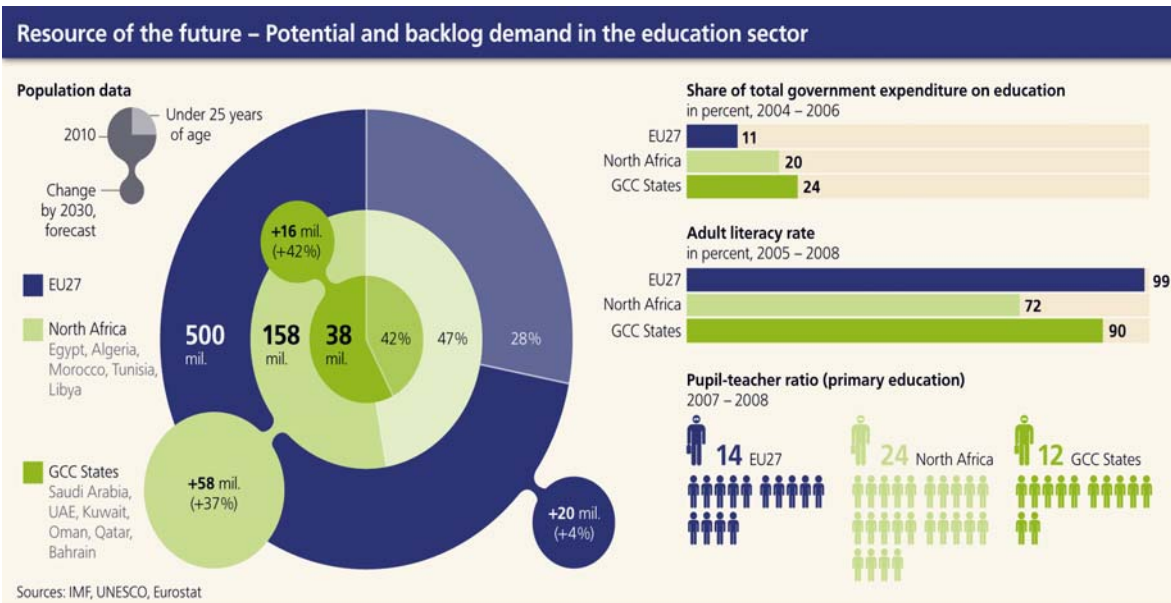
The GCC strategy for the ongoing development and diversification of the local economies includes the policy of broadening their range of business partners by turning away from American and British companies and advisors to their Korean, Indian and Chinese counterparts. The rise of the new mobile Arab middle class has also led to an increase in the volume of GCC trade and investment with its Arab neighbours on the Mediterranean. For



example, half of Saudi Arabia's foreign investments go to the Arab world.

Thus GCC's investment clout and market opportunities are coming closer to the EU in geographical terms. Although the EU

generated will, it is hoped, reach 15 percent. There is talk of an investment volume of €400 billion. The first electricity generated in this way will probably become available in 15 years' time.



now has more opportunities, it also has more competitors. The Europeans are not only competing head on with Asian companies, but also with each other. As a result the EU member states do not approach their southern neighbours as a monolithic and united European Union, but as individuals acting in their national economic interests. All EU 27 states are aware of their common interests and opportunities, but have not as yet got round to developing them together.

#### IV

### Desert Electricity Creates Jobs and Saves CO<sub>2</sub>

But in the case of one grand project in particular European companies have quite sensibly decided to work together. Thus 12 companies want to generate climate-friendly energy in Europe, North Africa and the Gulf region with the largest ever private eco-electricity initiative. The project is called DESERTEC 2050. By the year 2050 the share of CO<sub>2</sub>-free energy

When we look across the Mediterranean solar and wind power are the main kinds of alternative energy. Desert power creates work for the youthful populations of Arab countries and sales markets for European technologies. Both regions will be getting clean energy. And the Arab countries are also beginning to consume more electricity. Morocco is the first North African country to draw up a solar plan. By 2020 it hopes to have installed 2,000 solar megawatts. In this way Morocco will become the first DESERTEC partner in the Arab world.

When it comes to importing oil and natural gas, Europe is currently most dependent on Russia (32% of European oil and 41% of gas imports), Norway (14% oil, and 27% gas), Algeria (3% and 17%) and Libya (10% and 0%). A European diversification strategy would mean that alternative energy and the GCC states would begin to play a more important role.

The Gulf region is making a contribution to the development of environment-friendly technologies. The construction of

the first CO<sub>2</sub>-free city, Masdar City (a suburb of Abu Dhabi), has led to a joint venture between Masdar and German energy giant e.on. Qatar Solar Technologies has concluded a similar agreement with Solarworld, another German company.

## V

### Taking Erasmus to KAUST

The pro-active GCC economic and finance policy is not only making provision for the time when the oil and gas reserves slowly begin to peter out. The investments must create jobs to the tune of two million over the next twenty years.

Thus in Saudi Arabia the population is increasing annually by 2 percent. Accommodation will have to be provided for all these young people (two million apartments alone by 2015), and educational establishments. A total of 1,200 schools and universities will have to be constructed in a very short space of time. That is a gigantic task for the urban planners, and for those who are responsible for educational policy. There are not enough teachers and curriculums for the subjects of the future, science and engineering.

In order to attain such quantities and to improve the quality of teaching, it would seem to make sense to cooperate with European educational establishments. A start has been made by American and British universities, which, in particular in Dubai, are providing tertiary education on a fee-paying basis. The GCC governments are now following suit, and are building state universities and research establishments. Examples of such cooperation are, for example, SciencesPo Paris and Kuwait University, and RWTH Aachen and Muscat University.

The Western input is speeding up the pressure for reform which is being exerted on the educational sector of the GCC

states. Young women, for example, are now able to obtain better educational opportunities. This has reached a point in Saudi Arabia at KAUST (King Abdullah University of Science and Technology) in Jeddah where students of both genders can now study together.

The slow increase in cooperation between European universities and their Arab counterparts on the Gulf also makes it possible to institute student exchange programmes. Gulf Arabs should be integrated more firmly into the European Erasmus programme. Conversely, GCC states should set up scholarship programmes for European students.

The need and the craving for more education and knowledge is demonstrated by the establishment of Knowledge Village in Dubai, and Education Cities in Doha and Manama, which also cater for vocational further education and research. Here in the positive sense of the word the educational market is teeming with opportunities. There are some significant obstacles. A quick reform of the school system is urgently needed in order to prepare schoolchildren better for the new standards of their universities. It would be a good idea to change the mentality of graduates so that they do not see a degree primarily as a guarantee of obtaining a job with the government. European universities on the Continent should simplify the bureaucratic hurdles facing guest students from the Gulf, and cooperation agreements concluded with universities in the GCC countries.

Cooperation in the educational sector between Europe and resource-rich Arab countries is simplified by the budget surpluses which exist in these countries. But cooperation is also a compelling necessity in resource-poor Arab countries in order to improve their educational levels. There may well be a whole generation without a future if millions of jobs are not created annually. Not everyone will be able to find work on the

Gulf or in Europe. However, Europe and the Gulf can help people to acquire a better education, which in turn will enable them to start small businesses or to work on projects such as DESERTEC.

## VI

### The Modest Success of Europe's Southern Policy

In Europe's southern neighbourhood there is a seemingly contradictory balance between the potential for conflict, war and terror on the one hand, and the potential for socio-economic opportunity and development on the other.

The treaties and agreements between Europe and the individual states and sub-regions in the south are rather varied. The EU and Turkey share a customs union, and there is a negotiation process on EU membership. The Mediterranean area (Euro-Mediterranean Partnership in the Barcelona Process) has been politically upgraded and is now a "Union for the Mediterranean."

In addition to this there are the bilateral arrangements of the European Neighbourhood Policy. Within this framework the EU has concluded a special bilateral cooperation agreement with Israel relating to the technological, science and research sectors. As the biggest donor Europe is financially involved in the Arab-Israeli conflict, and participates politically within the framework of the Middle East Quartet of mediators. In the Gulf region the EU has relations with the Gulf Cooperation Council (GCC) and bilateral relations with Iraq and Iran, though these have turned out to be rather problematical.

These treaties and agreements would actually function more smoothly and lead to faster results if the EU did not appear to be disunited. The 27 are united with regard to grand strategy, but divided when it comes to practical politics. The most

glaring example is the conflict between the pro-Israeli and pro-Arab groups within the EU. Progress also tends to be held up by the conflicts between advocates and opponents of Turkish EU membership, between the champions of human rights and civil society and those who favour closer cooperation with authoritarian governments, and between policymaking based on grand designs and policymaking based on small projects.

Furthermore, the EU's ability to resolve conflicts continues to be rather limited. In 2002 the EU was not even able to defuse the minor territorial conflict between Spain and Morocco about the uninhabited Isla de Perejil (Parsley Island) near Ceuta, and the US was forced to intervene in order to prevent things getting out of hand in the Straits of Gibraltar.

Thus despite all the good intentions of the European family, the results of bilateral and multilateral diplomatic and political activity are unfortunately very modest.

## VII

### Greater GCC Involvement

In contrast to this the smaller (though richer) GCC sub-region has in the recent past become involved in political and diplomatic endeavours of its own in order to resolve regional conflicts. Its guiding principle has been to build a consensus among the conflicting parties. The most outstanding examples have been Saudi Arabia's efforts to form a Palestinian unity government consisting of Fatah and Hamas, and Qatar's successful prevention of a renewed civil war in Lebanon. More of the same is in the pipeline. Thus Saudi Arabia plays a key role in the implementation of the Arab League plan for peace with Israel; and the GCC has enough political capital at its disposal to help with the stabilization of Iraq and to contribute to changing the behaviour of the Iranian regime.

For this reason it would be advisable for the European Union to recognize its limits, to grasp opportunities when they become apparent, and to pursue a generally more modest approach.

The EU should concentrate more on the new middle class and the GCC states as partners in the south and together to make the most of the opportunities inherent in the economic, environmental, energy and educational sectors. All this will create

mutual trust. This is the kind of trust which can promote societal change on the Gulf and encourage the local governments to participate in the resolution of the political conflicts in the Middle East. Since the six GCC countries will not be able to do this on their own in each and every conflict, the West should co-opt the GCC from the very beginning as a partner in its conflict management and conflict resolution strategies.

#### For Further Reading:

Michael Bauer, Christian-Peter Hanelt: Europe and the Gulf Region – Towards a New Horizon, Discussion Paper for the 12<sup>th</sup> Kronbert Talks, Riyadh, May 2009

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International Labour Office: International labour migration and employment in the Arab region: Origins, consequences and the way forward, Thematic Paper, Arab Employment Forum Beirut, October 2009

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