

Prospects and Compromise Points of the Arab Spring

Impact on Energy Security in the Asia-Pacific Region



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Prospects and Compromise Points of the Arab Spring
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FOREWORD

During the 11th APEC Energy Ministers Meeting (EMM11) held in Beijing, China on 2nd September 2014, the Ministers issued instructions to the Energy Working Group (EWG). This includes an instruction to Asia Pacific Energy Research Centre (APERC) to continue its cooperation on emergency response so as to improve the capacity building in oil and gas emergency response in APEC region.

Following this instruction, APERC has started implementing the Oil and Gas Security Initiative (OGSI) in November 2014. One of the three overarching pillars of the OGSI is the publication of the Oil and Gas Security Studies (OGSS).

The OGSS serves as a useful publication to APEC economies by having access to developments and issues on oil and gas security, and information on individual economies' policies related to oil and gas security including responses to emergency situation. The research studies included in OGSS will help encourage the APEC economies to review and revisit their respective policies, plans, programmes and measures on oil and gas security, and may probably help them adopt appropriate approaches to handling possible supply shortage or supply emergencies in the future.

I would like to thank the contributors to the OGSS for the time they have spent doing research works. May I however highlight that the independent research project contents herein reflect only the respective authors' view and not necessarily APERC's and might change in the future depending on unexpected external events or changes in the oil and gas and policy agendas of particular economies or countries.

I do hope that the OGSS will serve its purpose especially to the policy makers in APEC in addressing the oil and gas security issues in the region.

Takato OJIMI

President

Asia Pacific Energy Research Centre



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Executive Summary

This research project is intended to evaluate the impact of the socio-political popular movement since 2011, or the so-called "Arab Spring," on major oil and gas producers in the Middle East region, which hold undeniable and irreplaceable share in the Asia and Pacific energy market.

Main Argument

In recent years, as a reality, considerable number of Asia-Pacific region countries has been increasing their dependence on the Middle East and Persian Gulf countries as suppliers for hydrocarbon resources. Thus, any political, economic, and social disturbance in the region could potentially result in security problems for the resource-consuming countries in Asia. At the same time, it is also a phenomenon that the resources-exporting countries, which belong to the APEC member economies, cannot overlook when considering its impact on trends in the international energy market.

So far, events have proved that the only significant decline in oil or gas production, as well as exports, occurred in Libya, but not anywhere else, especially among the Persian Gulf littoral states that the Asia-Pacific region is heavily dependent on its energy imports. Yet, each producer/exporter faces its own set of challenges at home, and abroad, and is surrounded by broader condition of instability throughout the region that may one day threaten the structure of the current ruling elites. Thus, the downside of the "Arab Spring" is greater than its initial benefit that succeeded in ousting authoritarian political leaders in countries like Tunisia and Egypt.

With the growing trend of US disassociation from the developments in the Middle East, frequently attributed to its recovery of energy independence, self-acclaimed regional powers have shown their resolve by utilizing diplomatic, and sometimes military, capabilities in shaping the regional issues. This condition is exacerbated by the use of Sunni and Shiite sectarianism, as a tool in garnering support by one camp while ostracizing the opposing sect, often resulting in violence. The rise of ISIS/ISIL in Syria and Iraq, and beyond, has capitalized on the power vacuum created by such violence and civil wars.

One should expect the next round of popular uprising in the region to be suppressed by authorities, due to the misguided lessons that the initial 'Arab Spring' has taught the leaders to remain vigilant, if not ruthless. The other geopolitical outcome of the 'Arab Spring' was the structural alternation of strategic partnerships between regional states and external actors which again has contributed to the deterioration of the traditional relationship in the region. Assertiveness of GCC states, the Kingdom of Saudi Arabia and the U.A.E. in particular, are visible in their military operation against Yemen and elsewhere, while the Islamic Republic of Iran's success in negotiating a nuclear deal with world powers, including US and Russia, has provided a window of opportunity for Tehran to seek greater say in regional politics.

General Notice for the Future

Asia and Pacific economies need to be mindful of likelihood that the recurrence of popular movements such as the 'Arab Spring' in the Middle East will result in clashes and invite violent responses, which would eventually worsen the instable environment surrounding oil and gas producers. This may be regarded as additional geopolitical risks in terms of supplies.

Spread of civil wars and emergence of failed states are not only additional factors that constitute geopolitical risks, but could exacerbate the existing tension and animosity that divides the sectarian lines. The declining interest and role of the US in the region has acted as a catalyst in moving regional powers to become assertive than previous decades.

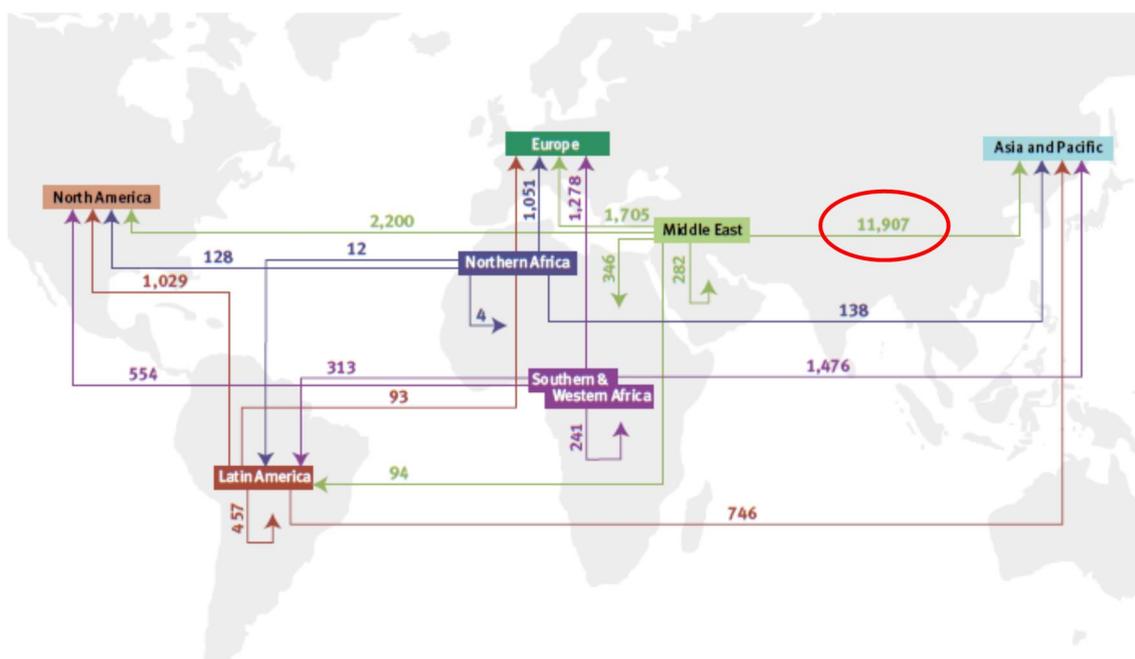
Higher oil prices that lasted until the first half of 2014 has enabled traditional and non-traditional oil suppliers to substitute for Libya. But, lingering uncertainties, especially civil wars and rise of ISIS/ISIL, associated with decline of oil prices, could hamper investment and reinvestment in upstream development. Asia-Pacific region needs to acknowledge that the risks and uncertainties originating in the region are on the rise.

Introduction

Already a full four years have passed since the political and social movement acclaimed as the "Arab Spring" swept through the Middle East and North Africa (MENA) region. Among the countries and people involved, some voices expressed discomfort regarding and criticism of this name, which was given to the movement after the "Prague Spring" that had earlier blossomed and then was extinguished in Eastern Europe, from the very beginning. In particular, the natural phenomenon said to be a seasonal sight in MENA following on after the spring is the khamsin (sandy winds), so concerns existed from early on with respect to the future prospects at the stage when that phenomenon had come round again. As if unintentionally embodying that phenomenon, MENA has yet to regain any calm; and even now in spring 2015, disquieting news that has the world riveted continues to come out of the region daily.

On the other hand, in recent years a considerable number of Asia-Pacific region countries have been increasing their dependence on the Middle East and Gulf countries as suppliers for hydrocarbon resources. This too is reality. The "Arab Spring" and the subsequent destabilization of various political systems which occurred in this context could result in security problems for the resource-consuming countries in Asia. At the same time, it is also a phenomenon that the resources-exporting countries, which belong to the APEC member economies, cannot overlook when considering its impact on trends in the international energy market.

Figure 1: World crude oil trading trends



Source: OPEC Annual Statistical Bulletin 2014

Put another way, surveying the impact that the repercussions of the Arab Spring is having on the energy market, from the perspective of the Asia-Pacific region countries, is nothing other than necessary and essential work, so much so that there are a series of studies pursuing the essential nature of the Arab Spring at once.

Of course, a perfect match between the unfolding of the various movements in the Arab Spring which occurred in multiple MENA region countries cannot be seen, besides the common denominator of overthrowing long-term autocratic regimes. Furthermore, the processes of regime transition seen afterward were not uniform. Nonetheless, in most of the countries involved, it is impossible to conceal the instability of the current situation when compared to the way things were before. This unfortunate reality must surely be contrary to the intentions of those involved who committed themselves to the movement. First, we cannot avoid the fact that understanding how to comprehend this reality is an important point of contention when discussing the Arab Spring. The phenomenon, acclaimed in the West as a democratization movement, in actuality not only invited instability, but moreover in some cases, through regime transition processes watched over by the international community, has caused the restoration of authoritarian systems, seemingly going back to the old ways of doing things. For the citizens of the countries that at that time strengthened their opposition to the long-term autocratic systems and participated in the movement, a situation that can only be described as ironic is spreading before their eyes.

Moreover, naturally we should examine the impact that the tortuous power transfer process is having on the stability of regimes and systems. In addition, the consuming countries are in a position where they must also maintain sensitivity in monitoring the impact on the energy development policies of the countries with resources. This is obvious if the political situation in the MENA countries, where instability and uncertainty are continuing to increase, is taken into consideration.

To summarize, we recognize the value of performing analyses and studies regarding the impact that the Arab Spring phenomenon in the Middle East and the Gulf countries is having on the APEC member economies, which have become more sensitive to conditions in the Middle East and Gulf region, and their energy security.

Chapter 1: The “Arab Spring”: Reality Four Years Later

It was early 2011 when the grassroots movement, with beginnings in Tunisia, broke out in Egypt as well in a flash. Looking back on it now, “Arab Spring”¹ functioned like a buzzword that evoked the image that hope was expanding, as seen by citizens of Arab countries only until about this time. This is because the following grassroots movement developed into riots in the blink of an eye, and violent acts by both authorities and demonstrators became widespread. Before long the situation evolved into civil wars, and the situations in each country divulged, becoming completely dissimilar. Regarding this point, the “Arab Spring” as a grassroots movement that did not depend on military force was unexpectedly short-lived in the end.

Nonetheless, even after that, the image of the movement painted mainly through Western media was of armed militias challenging oppressive regimes and systems with liberalism, always aiming for “democratization” as the subsequent goal. It hardly needs to be pointed out again that this is already completely different from the examples of Tunisia, which experienced the pure “Arab Spring,” and Egypt in 2011.

1-1 The Essence of the “Arab Spring”

The various factors which caused the “Arab Spring” were not necessarily new, and in a sense included long-standing issues for which a quick response was required, such as unemployment, inflation, poverty, improvement of the working environment, redistribution of wealth, bribery and corruption, discrimination, and disparities. Middle East researchers in countries around the world had thought from about 20 years ago that it was inevitable that these kinds of economic and political distortions faced by the MENA countries would eventually shake the conservative authoritarian systems there. They just were not able to predict when, in what countries, and in what form it would take. It is perhaps acceptable to conclude that this was basically the same for the common people, who had built up a variety of grievances over time and were the parties to the movements.

It is said that what likely functioned as the catalyst was the widespread adoption of IT tools, such as Twitter and Facebook, by young people in the era of social media. However, IT communications as infrastructure only functioned in a limited environment and under limited conditions, and its role was not necessarily ubiquitous; furthermore it

¹ In the countries which experienced the movements, these kinds of descriptions, including “Jasmine Revolution,” were not used as the names of the movements; and were often described as “revolutions of dignity.” This paper uses “Arab Spring” for convenience as it is already nomenclature.

must be recognized that the use of social media was not as universal as publicized.² On the contrary, we should not underestimate the fact that when the movement started to take off, it was the Arab satellite broadcasting channels possessing distinctive values, namely Al-Jazeera and Al-Arabiya, which contributed to communicating the success in overthrowing authoritarian systems to each of the MENA countries.

Moreover, interpreting the grassroots movement that spread in this way to each of the countries and not controlled by anyone as exclusively devoted to a "movement for democratization" severely impedes understanding of the "Arab Spring." As stated above, that can make light of the diverse and multifaceted values and goals presented by the grassroots movements in each country, and the unruly behavior and unscrupulousness also demonstrated by the movements in some cases.

The crowds driven by diverse interests and goals understood the long-term autocratic regimes, which had clothed themselves as external republican institutions, to be the source of various problems, and succeeded in obtaining a large number of supporters by focusing all their energy on overthrowing those regimes. Those participating in the movements included the young and old, men and women, wide ranges of society, producers and consumers, urban and rural, secularists and Islamists, Muslims and followers of other religions, groups indifferent to ethnicity and the tribe to which people belong, and more. We may conclude that it succeeded extremely well as a model of mass mobilization. At any rate, organizations behind the scenes were not involved and ideologues and leaders clearly did not exist. Thus, when the regimes took strong-arm measures they were forced to carry out an endless response. That was precisely the strength of the movements. Nonetheless, upon reflection such a structure lacked mutually-shared values, and in some cases could not avoid causing conflicts of interest. From the beginning it presented the limits to repeatedly self-propagating, naturally-occurring crowds.

This is why from the instant that the political leaders were banished, and the success of the revolution was proclaimed, the diverse demands of the common people transformed and began to act in the direction of impeding the formation of a consensus. Beginning with deciding the order of priorities, the region ended up in a situation where approaches to formulating problem resolution measures were fundamentally different. It does not take long for this kind of environment among groups to evolve from mutual criticism to rivalry. Unfortunately, the "Arab Spring" also had the kind of character that could not avoid falling into this trap.

² The movements were even acclaimed as the "Twitter revolution" and the "Facebook revolution." However the role of these services was generally overestimated, and it is appropriate to conclude that they only ever played a supporting role.

1-2 Trial and Error, Setbacks, and Failure

After accomplishing the initial objective of regime overthrow, the grassroots revolution entered its second stage in which the next issue was holding democratic, universal, and free elections. Already, Tunisia is the only country where the transfer of power accompanying this process has continuously and effectively existed up until 2014. Incidentally, Egypt was temporarily derailed by the 2013 coup d'état, and at present is in the process of a course-correction. However, we believe that summarizing their two cases is beneficial for learning about the political history experience and lessons traversed by the Arab Spring.

In the elections held in accordance with the regime transition process which set a goal of completion in two to two and a half years after the revolution, the rise of Islamist political parties was conspicuous from the beginning. This was in the context of a grassroots movement that had descended into chaos, and resulted from the fact that their experience of the dark days until the time of the revolution, when they were outlawed but nonetheless had quietly built an organization nationwide for some time and had aimed to run a regime based on a shared philosophy among the members of their parties, had borne fruit. Only the Islamist political parties presented a plausible alternative to the citizens. This is why Ennahda and the Muslim Brotherhood, respectively, became the number one parties in the parliaments of Tunisia and Egypt; and in the presidential elections as well their party members and sympathizing candidates were able to overwhelm other candidates.

Even though they achieved victory in the elections, the time was not ripe for either Ennahda or the Brotherhood. First, it cannot be denied that because they were outlawed, they lacked experience in not only in the state apparatus but also in administration, including at the regional level. This brought about stagnation that was difficult to tolerate for a society already facing chaos due to the revolution. Furthermore, many problems existed for which there were no answers, no matter what approach was taken. In particular, the economic problems that were one of the grievances of the common people is a field in which there are hurdles caused by the various deep underlying social requirements and resistance and interference from vested interests and others. Therefore there is a fairly high degree of certainty that no matter who tackled the problems, it was almost assured things would not go well. Amidst the enthusiasm of the revolution, surely no one imagined that the ammunition for overthrowing the authoritarian systems would eventually boomerang back to hurt them.

Moreover, a secularist orientation was half-forced on people under the authoritarian systems, and that a repulsion to Islamic political parties and Islamism existed, also imposed an even harsher environment on the Brotherhood and others who could not deliver results. Originally, one of the intrinsic motivations that ensured the survival of

authoritarian systems in the MENA region was the goal of maintaining and developing (ethnic) national unification.³ Essentially, this was not enough to become a sufficient condition for legitimizing iron-fisted rule, but there is a background of such rule being approved by people both inside and outside the countries nominally for the purpose of suppressing the rise of “anti-social troublemakers,” including Islamists. This legacy could not be eliminated in a short time, so the situation became markedly disadvantageous for the Islamist political parties in particular and they fell.

Once the Islamist political parties succeeded in taking power into their own hands, they aimed to expand their rights and interests, and demonstrated a tendency to work to maintain a power oligopoly. This started with so-called corruption. This phenomenon was widely noted in the case of Egypt in particular, and as a result became ammunition for a coup d’état by the military and the legitimization of the subsequent redoing of the regime transition process.

In this way, although the long-sought regime takeovers were achieved through the “Arab Spring,” we have now reached a phase in which support for Ennahda and the Muslim Brotherhood is low. However, even if a situation where chaos and confusion is rampant was brought about by the Islamist political parties, this does not mean that the simple (humanitarian) interventions from outside and the pattern of civil war that subsequently visited the region were also their fault. The “Arab Spring,” which supposedly started out as a peaceful grassroots movement, changed its character as it went through developments, including restoration of calm through oppression (Bahrain), civil wars triggered by interventions from outside and the exercise of military force (Syria, Libya, and Yemen), and a coup d’état (Egypt); so we should point out that the “Arab Spring” is no longer confined to its original form.

1-3 Expanding “Negative Aspects”

As a result of this change in the character of the “Arab Spring,” the deterioration of the situation in MENA has become marked compared to before the revolutions, including a shift from stability to instability, from unifying forces to disruptive forces, from consolidation to dispersion, and so on. These are the “negative aspects” brought about by the changed character of the “Arab Spring” that are eroding MENA.

The fault lines in the societies of each of the countries that have been through the “Arab Spring” period have become even clearer. It should go without saying that this is already true in the countries that have lost their stability due to civil war. Conditions are different in each country, but these fault lines are not only marked out by religions and

³ There are also systems that embody rule backed by religious legitimacy, as in Saudi Arabia and Iran.

sects, ethnic groups, tribes, strata of society, regional characteristics, political beliefs, and the like; but sensitivities when receiving a stimulus from the environment are also rising. For that reason, in Syria, Libya, and Yemen, where the ability of the central governments to govern has declined, the fragmentation of society is progressing prodigiously, and there is concern that little time remains until their dissolutions.

Another concern is that effective measures cannot be found to stop these undesirable developments and reverting to how things were before 2011, although that was probably an imaginary stability. In other words, there is no response more desirable than to continue as we are, surrendering ourselves to a certain kind of freefall, waiting until acceptable new national borders are demarcated among the people involved and a new regional order is formed. This means that MENA will continue to be unstable for now.

During that time we will unintentionally provide extremist organizations, most notably the "Islamic State (ISIL/ISIS)" and Al-Qaeda, with the leeway to act to gain more momentum and further expand their areas of control. Already, that outcome is not limited to MENA. ISIL/ISIS and Al-Qaeda, whose roots go back to before the "Arab Spring," are certainly feeding off of the chaos and instability after the events took place. We certainly cannot say they are unrelated, based on the fact that deteriorating security is being seen even in Tunisia, where the political process is continuing to make progress, from its mid-western region to its southern region. Those regions produce a large number of combatants for the Syrian civil war and other conflicts. The "negative aspects" regarding this point cannot be underestimated.

Note that apart from the impact on the stability of each country, we can discern changes in the evaluation and expectations of the political and social movements before and after the "Arab Spring." This is not uniformly a change for the worse; it is thought to have been expressed in the form of a rivalry between the exercise of the iron fist and respect for democratic values. Will political distrust become entrenched due to skepticism and apathy regarding the transformation by democratic means initially aimed for by the "Arab Spring;" or will the rules be complied with—namely, will a policy course correction be carried out through the next elections, as an awareness of political participation matures? Those two extreme possibilities have been presented by Egypt and Tunisia respectively.

Chapter 2: The “Arab Spring”— Individual Impacts and Policy Responses

This chapter examines the impacts that the “Arab Spring” had mainly on oil and gas producing countries in the Persian Gulf which have a major impact on the Asia-Pacific region from the standpoint of energy exports as well as the many responses of these countries to debate the effectiveness of the “Arab Spring” itself. Through this discussion, the burden placed on governments and regimes will be measured, and changes in relationships between relevant countries considered.

2-1 Saudi Arabia

Saudi Arabia occupies an impregnable position as one of the world’s largest oil producing countries. There is no doubt that Saudi Arabia reacted with extreme caution to the “Arab Spring” movement that occurred in neighboring countries. From the perspective of supplying energy to the Asia-Pacific region as well, every oil consuming country, including the IEA, shares the same consensus that Saudi Arabia’s stable production system is expected to remain unshakeable in the face of such an event.

2-1-1 Impact of the “Arab Spring” on Saudi Arabia

(1) Saudi Arabia’s Reaction and Response to the “Arab Spring”

Saudi Arabia has close relations with many of the countries whose governments were essentially toppled by the “Arab Spring.” When the unrest began, Saudi Arabia initially supported these same governments. In the case of Tunisia and Egypt, however, where the governments fell rather quickly, Saudi Arabia, for all intents and purposes, abandoned presidents Ben Ali and Mubarak when it voiced its strong displeasure to the United States and other Western countries. Saudi Arabia, nevertheless, accepted Tunisian President Ben Ali’s asylum.

Once Saudi Arabia sent the Peninsula Shield Force as conditions worsened in Bahrain, the situation changed as security measures were tightened and demonstrations aggressively cracked down upon. As a result, the unrest calmed almost immediately. Saudi Arabia’s allies, including the United States, criticized the use of force to suppress demonstrations, but Saudi Arabia did not waver in its hard line stance because Iran was behind the Shiite-led demonstrations.

As for Libya, King Abdullah of Saudi Arabia and Colonel Gaddafi of Libya held a personal grudge against each other, so bilateral relations were not necessarily good. Meanwhile, there were rumors that Saudi Arabia secretly provided military support to

the Gaddafi government because they feared a domino effect of governments toppling in the region. In the end, however, only media reports surfaced that Saudi Arabia contacted the former royal family of Libya to serve as a bridge to a new administration after the revolution, so in actuality Saudi Arabia was mostly unable to intervene in Libya at the government level.

The same holds true for Syria. Saudi Arabia was hostile towards Syria, but it restored relations right before the start of the "Arab Spring." Actually, until the summer of 2011, Saudi Arabia had clearly stated its support for Syria's Assad regime, but later it cut off ties completely. Today, it is believed that Saudi Arabia is supporting various rebel organizations active in Syria with military and financial support, from Salafi groups to more secular forces. However, opposition also grew with Qatar, which supports certain Salafi jihadist forces and the Muslim Brotherhood, over which groups to support.

As for Yemen, the GCC led by Saudi Arabia was alarmed at the unrest in the country. To achieve a soft landing in Yemen, they brokered the GCC Initiative, in which Yemeni President Saleh would resign under the condition he be granted immunity and a new government be formed. This would serve to reinforce Saudi Arabia's involvement in Yemeni affairs. However, Yemeni President Saleh persisted in maintaining his position as president, so the GCC Initiative made little headway. However, Yemeni President Saleh was seriously injured in a terrorist attack in Sana'a and received treatment in Saudi Arabia, where he was promised huge sums of financial support. Conditions changed rapidly afterward. Eventually Yemeni President Saleh resigned, and a transitional government led by Yemeni Vice President Hadi was born.

After that, the situation in Yemen remained volatile. Since September 2014, the Houthis has expanded its control mainly from the north all the way to the capital. As a result, Yemen's legal government is essentially in ruins, so Saudi Arabia began aerial attacks of Houthis strongholds in March 2015.

(2) Impact on Grassroots Movements in Saudi Arabia

The "Arab Spring" had an impact on the part of society with the most dissatisfaction in Saudi Arabia. Shiite followers in the country's eastern states suffered a direct blow, resulting in demonstrations by Shiite groups erupting throughout the eastern states. In particular, March 4, 2011 was declared as a "day of rage," resulting in large-scale demonstrations calling for the release of prominent Shiite legal scholars and the expansion of rights for Shiite groups.

This Shiite-led political movement did not directly impact Sunni forces inside Saudi Arabia. On the other hand, new movements were also seen, such as certain Sunni followers announcing on the Internet that they had formed the Islamic Umma Party.

However, most of the founding members of this new party were arrested and the party suppressed, which caused activities to calm quickly.

Meanwhile, another new movement of demonstrations led by women erupted across the country. They demanded the release of relatives who were imprisoned for crimes they were innocent of, and for women to be given the right to drive automobiles, which was prohibited. Such incidents were seen frequently during the first half of 2011. Perhaps as a response to this, 30 women members were appointed to Saudi Arabia's Consultative Assembly for the very first time in January 2013. As a result, women now occupy 20% of the 150-seats.

Liberal parties became more active too, demanding the release of a white paper calling for political reform. In this sense, it can be said that the "Arab Spring" had a certain impact on the revitalization of grassroots movements in Saudi Arabia.

(3) Changes in the Security Environment Surrounding Saudi Arabia

The GCC is the most important framework for Saudi Arabia's national security. This was clearly demonstrated when unrest occurred in Bahrain and Oman. In particular, as the violence in Bahrain spread, Saudi Arabia dispatched a force of 1,000 troops at the request of Bahrain, where they were assigned to policing important locations.

Watching the disturbances in Bahrain, Saudi Arabia announced a new slogan called GCC "integration." For a time, there were rumors that Saudi Arabia would actually integrate with Bahrain. As of today, however, there has been strong opposition from outside both countries, and little progress has been made with the integration of security and military forces of the GCC. Nevertheless, given the worsening situation in Syria and Yemen, Saudi Arabia has become more active with political initiatives and military activities.

On one end, in Syria, Saudi Arabia helped form a coalition of the willing to oppose an Islamic state, and in Yemen it contributed to the creation of a road map for deposing of President Saleh and forming a new government. Furthermore, since Houthi forces in Yemen have grown since 2014, Saudi Arabia launched aerial attacks against the military installations of these groups since March 2015, reinforcing its commitment to military action. Going forward, Saudi Arabia is expected to play a central role in the creation of the Arab League Joint Force decided on after conditions in Yemen deteriorated, in addition to measures against Islamic countries.

2-1-2 Response Measures in Saudi Arabia in the Wake of the “Arab Spring”

(Post-Arab Spring)

(1) Political and Social Measures

In Saudi Arabia, calls were made mainly over the Internet from February to March 2011 to carry out demonstrations, and in particular, in the eastern states with a large population of Shiite followers, small demonstrations occurred sporadically. The authorities consistently responded to events with a constant show of force.

On the other hand, politically, Saudi Arabia established the National Anti-Corruption Committee to focus efforts on eliminating political corruption. However, the succession of the new King Salman and the vast changes in personnel, suggest this need to once again explore the direction of reform momentum.

(2) Economic and Financial Measures

Given the outbreak of the “Arab Spring,” King Abdullah (at the time) returned from his treatment site overseas in February 2011. In the same month he announced a large-scale welfare policy valued at upwards of 36 billion US dollars in February and another 133 billion US dollars in March. Specifically, this policy focused on unemployment measures, minimum wage for public servants, expanded social welfare programs and benefits, provision of home loans, plans to build 500,000 houses, a two-month special bonus for public servants and military personnel, and medical policy. This policy was mainly intended for youth who were not satisfied with Saudi Arabia.

Based on this, Saudi Arabia’s budget for 2012 increased significantly by 19.1% year over year. It allocated 168.6 billion Saudi riyal (SR) for education and human resources development (about 45 billion US dollars), 86.5 billion SR for health and welfare (23 billion US dollars), and 35.2 billion SR to transportation and telecommunications (9.4 billion US dollars). While focusing predominantly on education and human resource training, Saudi Arabia is also focusing on health and social welfare. Compared to the previous year, medical and social welfare received a 65% increase, and a 104% increase for transportation and telecommunication. In addition, Saudi Arabia announced that it booked a total of 67.0 billion US dollars for the constructing of more than 500,000 homes as mentioned above as well as measures for low income individuals.

The price of crude oil per barrel rose from 78 US dollars in 2012 to 89 US dollars in 2013, driven by a marked increase in the balanced budget from oil prices and caused expenditures to increase⁴.

⁴ IMF “Saudi Arabia: 2014 Article IV Consultation – Staff Report Press Release” Sep. 2014

Table 1: Breakdown of Saudi Arabia’s expenditures (unit: hundreds of millions SR)

	FY2012 Budget	FY2011 Budget	Change
Education and human resources development	1,686	1,483	13.7%
Healthcare and welfare	865	524	65.1%
Local government services	292	212	37.7%
Transportation and telecommunications	352	173	103.5%
Water, agriculture, and infrastructure	575	419	37.2%
Other (national defense and security, etc.)	3,130	2,982	5.0%
Total	6,900	5,793	19.1%

Source: Prepared by the Middle East Center of The Institute of Energy Economics Japan, based on various media reports.

2-1-3 The “Arab Spring” and Saudi Arabia’s Energy Policy

(1) Beginning of 2011 - First Half of 2014 (period of rising oil prices)

Saudi Arabia has set domestic fuel prices well below international levels, with prices frozen at 16 cents per liter for gasoline and 7 cents per liter for diesel. Among the GCC, Saudi Arabia’s fuel prices are the lowest of any member country. The country’s subsidy policy of keeping fuel prices frozen at low levels is becoming more difficult to change given the “Arab Spring.” Saudi Arabia did not lower the subsidy on fuel and it is carrying out energy efficiency measures, which can be seen as an alternative to fossil fuels.

As for the ratio of energy used, approximately 30% of all energy consumption is attributed to transport, and consumption volume has been growing every year. Given this sharp increase in Saudi Arabia’s oil consumption, the Royal Institute of International Affairs and Citigroup released a report that stated in the future Saudi Arabia will become a net importer of oil, which drew the attention of many around the world. The Government of Saudi Arabia is fully aware of the need to implement measures, but it has been unable to reduce subsidies, so it decided to focus on energy efficiency.

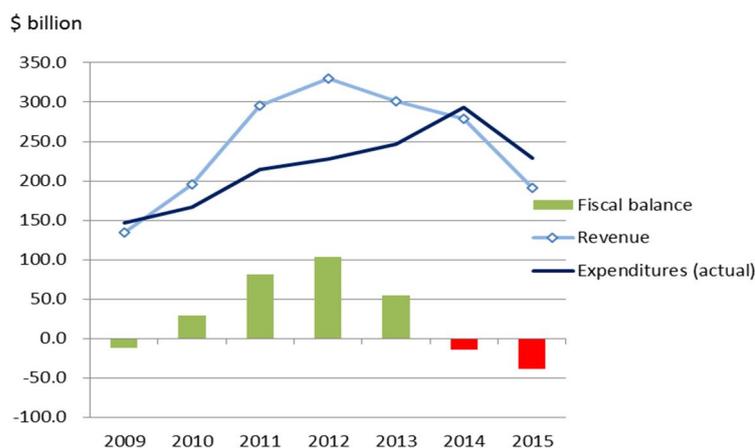
Given this trend, the Government of Saudi Arabia, under research institute KACST, which conducts science and technology research, established the Saudi Energy Efficiency Center (SEEC) in 2011, which focuses on energy efficiency solutions emphasizing buildings, transportation and industry. In 2012, SEEC established a promotion committee under the Ministry of Petroleum and Mineral Resources. This scheme is known as the Saudi Energy Efficiency Program (SEEP). The engineering team responsible for program development involves more than 120 professionals from over 20 government and public sector institutions.

(2) Second Half of 2014 to Present (period of declining oil prices)

Saudi Arabia depends on revenue from oil exports for almost 90% of its fiscal revenue. This means that a drop in oil prices will have a direct impact on the country's finances. In 2014, the country's fiscal balance fell into the red by a small margin and if oil prices continue to fall, this deficit is expected to grow even wider during 2015.

Given this situation, it was anticipated that expenditures would be cut back in the fiscal 2015 budget announced at the end of 2014, but conversely, the budget was rather aggressive in that expenditures were increased 0.6% compared to the previous year. However, Saudi Arabia's strongly conservative estimates on revenue indicate that a fiscal deficit of 38.7 billion US dollars will occur. Furthermore, the revenue and expenditures appearing in the figure below show the results up to 2013, actual figures for 2014 and budget for 2015.

Figure 2: Saudi Arabia's fiscal revenue and expenditures



Source: Prepared based on various documents

Given the drop in oil prices, the Government of Saudi Arabia took the first step in reforming its subsidy programs. However, this reform targets non-civilian sectors of the economy. In December 2014, it decided to increase water rates for the government, industry and business sectors. The new rates will be applied one year later. General families are not subject to this change⁵.

The anticipated fiscal deficit caused by falling oil prices will be covered by the Government of Saudi Arabia's external assets. After the collapse of Lehman Brothers that sparked the global financial crisis, Saudi Arabia had a fiscal deficit in 2009, but external assets held by the Saudi Arabian Monetary Agency (SAMA) were used to

⁵ Arab News, 2014.12.02.

offset this deficit. External assets held by SAMA exceed 700 billion US dollars, so even if the fiscal deficit persists, there is more than enough to cover it.

As noted above, Saudi Arabia has emphasized an energy efficiency policy, so even if oil prices trend at low levels, there will likely be no change in this policy. In November 2014, Saudi Arabia decided to conclude an agreement for improving fuel economy with 78 automakers from around the world, and through improved efficiency of fuel consumption, it intends to cut back on oil consumption. It is believed that this policy will not fundamentally change, even in a phase of lower oil prices.

2-2 Iran

Since Persians are ethnically different from Arabs, strictly speaking it would be a mistake to consider Iran as part of the "Arab Spring." However, as a rift bringing instability to Arab nations emerges, Iran has been able to maintain stability, comparatively speaking. Yet, ironically, the country has raised the threat level in the Middle East, and in that sense, Iran is a major country in the region that has been impacted indirectly nonetheless.

2-2-1 Impact of the "Arab Spring" on Iran

(1) Iran's Reaction and Response to the "Arab Spring"

Iran's reaction to the "Arab Spring" was not uniform. First, Iran's regime and people showed a different and unique reaction. Also, Iran took a different stance depending on which country the "Arab Spring" struck.

For Iran's current regime, the "Arab Spring" conjured up memories of the Iranian Revolution of 1979. As it was called the Iranian/Islamic Revolution, Islam played an important role. Mosques provided hubs essential for mobilizing the masses, and since of Islam emphasizes fairness, the thesis was a revolution against the unjust rule of the monarchy.

Therefore, given the popular uprisings that began in Tunisia and Egypt from the end of 2010, Iran's Supreme Leader Khamenei stated that these uprisings were propagated as an awakening to Islam, as seen in Iran in 1979. Khamenei, in a speech given partially in Arabic at the beginning of February 2011, shared his belief that Islam, in today's Arab and Islamic countries, is an inspiration for revolution just as it once was in Iran.

(2) Impact on Grassroots Movements in Iran

In contrast, the reaction of the Iranian people was different. This was because large demonstrations had already occurred in Iran in June 2009 prior to the "Arab Spring."

The impetus behind these demonstrations was the official announcement that President Ahmadinejad (at the time) had won reelection by an overwhelming margin during the presidential election. The first term of the Ahmadinejad administration deepened Iran's isolation by maintaining a hardline stance in diplomacy; while domestically, under the slogan of "casting out the oil mafia," he pursued a policy of distributing rights of existing oil concessions unilaterally to the second generation of the revolution as well as Revolutionary Guard officials and their affiliates, which invited opposition from various directions. Former Prime Minister Mousavi⁶, the candidate who stood in the way of President Ahmadinejad's reelection, gradually gained widespread support, drawing even greater attention to an election that initially was believed to be an easy win for the incumbent.

Supporters of former Prime Minister Mousavi called themselves the Iranian Green Movement and waged an aggressive campaign battle. However, following the announcement of President Ahmadinejad's easy victory, which appeared to ridicule the serious efforts of the campaign, supporters of the Green Movement began to launch demonstrations one after another. The Iranian regime mobilized security troops and suppressed these demonstrations, resulting in a tragic loss of 100 lives (official reports say 40).

These demonstrations supported President Ahmadinejad, who claimed he wanted to restore the principles of the revolution, but widely voiced dissatisfaction with the regime and Supreme Leader who did not (appear to) respect the vote of the people. The regime, which was threatened by these protests, arrested "conspirators," including many reformist politicians, and placed former Prime Minister Mousavi and former Speaker of Parliament Karroubi, who both supported the Green Movement, under house arrest.

For Iranian supporters of the Green Movement, the "Arab Spring" represented a grassroots movement that occurred approximately one year from the end of 2009, when the protests and unrest ended in Iran. Green Movement supporters saw a shadow of themselves in the people of Arab countries revolting, as they too had repeatedly protested in Iran just one year prior, only to be suppressed.

Therefore, some of the Green Movement supporters were inspired by the "Arab Spring," which ignited momentum for protests in Iran to begin again. However, with nearly all of the politicians and activists who played leadership roles in the movement arrested or

⁶ A reformist candidate who served as Prime Minister for eight years during the 1980s.

under surveillance, protests were forced to be sporadic. Therefore, the wave of protests from the "Arab Spring" failed to engulf Iran at this time.

(3) Changes in the Security Environment Surrounding Iran

Finally, in summarizing the response of Iran to political changes that occurred in Arab countries as a result of the "Arab Spring," Iran essentially repeated the same mantra for all countries that stated "regimes should listen to the voices of the people." (Officially) Iran was opposed to outside intervention affecting the outcome of popular uprisings in each country.

In actuality, however, Iran did not necessarily side with the people in every case. For example, since the start of the "Arab Spring," in Syria, where Iran was involved most deeply, Iran provided support to every extent possible together with Russia to ensure the survival of the Assad administration.

In Syria, the Iranian government encouraged a political revolution whereby fairer elections would be held, so that the Assad administration could listen more intently to the voices of the people. In conjunction, Iran dispatched former Revolutionary Guard soldiers to Syria as military advisors, where they provided ongoing military support to the Assad administration. Iran also mobilized Hezbollah from Lebanon, which it has deep ties with, in an effort to defend the Assad administration.

Iran, from the standpoint of welcoming the ouster of tyrants in Tunisia, Egypt, and Yemen, strongly criticized Saudi Arabia and others for suppressing the Shiite-led grassroots movement in Bahrain by mobilizing the GCC joint force (Peninsula Shield Force). In addition, Iran also criticized NATO's intervention in Libya's popular uprising in which NATO's aerial attacks helped topple the Gaddafi administration. In other words, Iran, with the exception of its own country and Syria, one of its allies, while basically supporting popular uprisings, was essentially opposed to the use of outside forces, such as NATO and others, to determine the outcome of events in these countries.

On the other hand, Iran's stance toward the "Arab Spring" served to reinforce the perceived threat of Shiite followers. The view perceiving Iran as a threat is well-documented from the initial Iranian Revolution in 1979, when it was thought the uprising would be exported to other countries. Later, this viewpoint picked up steam rapidly following the second Gulf War in 2003 in which U.S. Forces toppled the Saddam Hussein regime and a Shiite-led administration was born in Iraq. Therefore, the "Arab Spring," in which leaders belonging to the Sunni sect fell one after another since the end of 2010, was an impetus that once again reignited the perceived threat of the Shiite sect.

The perceived threat of Shiite Islam was first used as an excuse for the suppression of demonstrators in Bahrain. Saudi Arabia, which headed the Peninsula Shield Force, determined that interference by Iran incited Shiite people to engage in widespread protests in Bahrain, which is why it dispatched forces to quell the uprising.

The perceived threat of Shiite Islam was next used as discourse for why the Assad administration in Syria should be toppled. Syria's Assad administration, which had strong ties with Iran, colluded with Shiites from Iran and Hezbollah to crack down on rebel forces in Syria; and Iraq, also led by a Shiite government, did not criticize these actions. At the same time, the theory that the stability of the Middle East was threatened by the Shiite Crescent, spanning from Lebanon and Hezbollah to Syria, Iraq, and Iran, was artificially propagated in various locations.

One of the reasons for reigniting the perceived threat of Shiite Islam was suspicions over Iran's nuclear development. For Saudi Arabia, which was the leader of Islam that had opposed Iran from across the Persian Gulf, Iran appeared not only to be attempting to shake the sovereign regimes of neighboring countries by encouraging uprisings through intervention with Shiite forces, but it was also trying to establish a hegemony in the Middle East through developing nuclear weapons. This caused the relationship between Iran and Saudi Arabia to sour even further. As a result, the civil war in Syria, where Iran supported the regime, and Saudi Arabia, which supported the rebels along with Qatar and Turkey, appeared to be a proxy war between Iran and Saudi Arabia.

This construct was essentially maintained even after the summer of 2014, when the threat of ISIS/ISIL grew, and as 2015 approached propagated to Yemen, located on the southern tip of the Arabian Peninsula.

2-2-2 Response Measures in Iran in the Wake of the "Arab Spring" (Post-Arab Spring)

(1) Political and Social Measures

As stated above, large-scale demonstrations spread throughout Iran in 2009, which caused the regime to step up its censorship of the Internet in an attempt to prevent similar types of demonstrations from happening again. In addition, it expelled students who appeared to participate in the Green Movement. By picking off participation in demonstrations, it showed a new stance of zero tolerance toward challenges made against the authority of the Supreme Leader and the regime's framework.

Meanwhile, Iran, which had lobbied all governments to listen to the voices of the people since the "Arab Spring," attempted to carry out the eleventh presidential election held in June 2013 as fairly as possible. As a result, Hassan Rouhani, who was in charge of nuclear negotiations from 2003 to 2005, was elected as the new president.

The reason why the people of Iran entrusted Rouhani, who shares a similar ideology as former President Rafsanjani who is known as a realist, is because they want to resolve the nuclear issue through flexible negotiations not fixated on ideology or slogans, and to lift the economic sanctions placed on Iran due to the nuclear issue.

Once the Rouhani administration took power in August 2013, it was able to realize direct dialogue with the United States the following month in September, and progressed all the way to the point of reaching a provisional agreement by November the same year. The nuclear negotiation team appointed by President Rouhani is viewed today as the best team in Iran for achieving its goals, and thanks to the expectations that future conditions may get better, the atmosphere in Iran has become brighter.

(2) Economic and Financial Measures

Since the "Arab Spring," or the start of riots in 2009, the Iranian government has attempted to usher in economic reforms in a way that does not incite opposition of the people to every extent possible. Specifically, the Ahmadinejad administration (2005 to 2013) attempted to begin subsidy program reform, something that no other administrations could accomplish, in order to reduce the government's financial burden. As part of these reforms, a new rationing system was introduced for gasoline where a ceiling for per capita consumption was set, and it started cash payments to all who desired. Next it implemented a policy of raising energy prices, including gasoline, only after everyone was satisfied from the first two measures. In this way, Iran implemented these policies very carefully using a phased approach.

Raising energy prices with economic sanctions being tightened on Iran over suspicions of its nuclear development caused a rise in production costs of most products, placing a greater burden on domestic industry. However, combined with cash payments, these price hikes did not result in major opposition from the people. The Ahmadinejad administration's greatest achievement was reducing subsidy payments, which had been a long-standing issue. Since then, the government has kept the cash payment policy for all who desire, including high net worth individuals.

The tightening of sanctions on Iran has caused its fiscal situation to worsen, which is completely unrelated to the "Arab Spring." Currently, the Iranian government is working to eliminate all forms of waste domestically, and is devoting all of its efforts to making progress with nuclear negotiations to ease the sanctions. However, the outcome of these negotiations is still very much an uncertainty. Speculation is beginning to emerge that the Rouhani administration will be forced to cut cash payments to high net worth individuals. If these payments are actually cut, the impacts this will have on society will need to be scrutinized.

2-2-3 The “Arab Spring” and Iran’s Energy Policy

(1) Beginning of 2011 to First Half of 2014 (period of rising oil prices)

Iran’s energy policy essentially calls for the efficient development of oil resources (fourth most in the world in terms of reserves) and natural gas resources (largest in the world in terms of reserves), and to achieve economic growth by maximizing the use of these resources. Iran’s income from crude oil exports accounts for over 80% of the country’s export value, and soaring oil prices contributed directly to an increase in export revenue.

However, the series of economic sanctions placed on Iran as a result of the nuclear issue has transformed this assumption. The tightening of monetary sanctions on Iran has made it difficult for countries importing Iranian oil to remit payments to Iran. As a result, proceeds from imports of Iranian crude oil have been accumulating in offshore accounts.

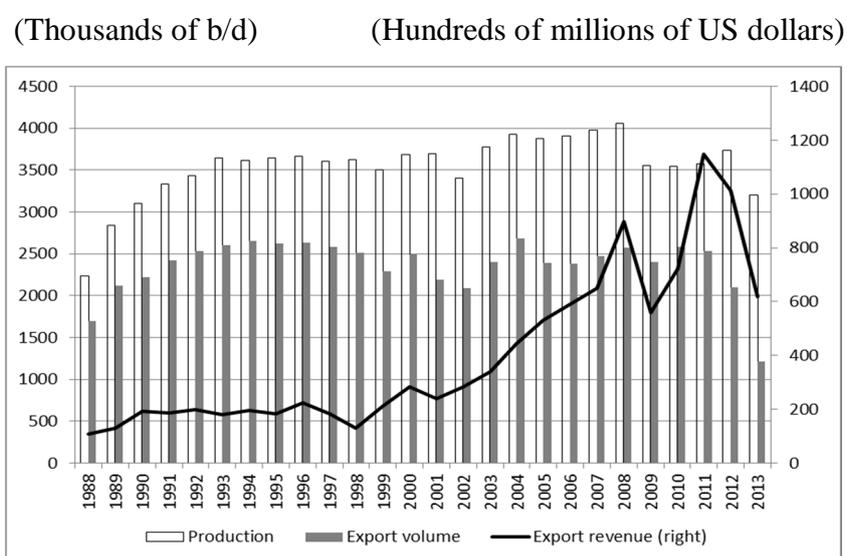
Later, when the EU and United States began boycotting Iranian crude oil in July 2012, Iran’s export volume itself began to gradually decline. Export volume that had reached upwards of 2.5 million b/d prior to the boycott fell all the way to a little over 1 million b/d in 2013, as illustrated in the figure below. This represents a drop of 60%. As a result, oil export revenue that had topped 110 billion US dollars in 2011 before the boycott due to high oil prices fell all the way to 60 billion US dollars in 2013.

Given this situation, Iran attempted to repatriate proceeds of oil exports by contracting some crude oil sales to the private sector. However, this arrangement was not very successful, as part⁷ of the oil export proceeds supposed to be paid to the national treasury by the private sector were lost somewhere along the way.

Changes in Iran’s crude oil production, export volume and export revenue can be found in the figure below.

⁷ Upwards of 2.7 billion US dollars have been lost according to Iranian media reports.

Figure 3: Iran's crude oil production, export volume and export revenue



Source: OPEC statistics

(2) Second Half of 2014 to Present (period of declining oil prices)

The fact that Iran was not able to fully benefit from high oil prices because of the economic sanctions suggests, on the other hand, that even if oil prices dropped, Iran would not be impacted that adversely. Under the current provisional framework agreement, Iran (on average) can receive remittances of 700 million US dollars per month, and the drop in oil prices that occurred since the second half of 2014 has not had an immediate and sharp impact.

Of course, Iran's fiscal year 1393 (March 2014 to March 2015) assumes oil prices of 100 d/b, so if oil prices fall below this figure, it will not be able to obtain revenue that it initially forecast. The budget proposal for fiscal year 1394 submitted by the government to the parliament in December 2014 assumes oil prices of 72 d/b, but oil prices have fallen further since then, and some have pointed out that this assumption should be lowered to around 40 d/b.

As long as nuclear negotiations go well, the Iranian government will be able tap foreign capital once again, and it intends to proactively develop its domestic energy sector. To accomplish this, it is attempting to switch contract formats with foreign companies from the widely unpopular buy-back contract of the past to the Iran Petroleum Contract, to make it more attractive for foreign companies. Iran is deeply concerned that its oil and natural gas development is lagging far behind other neighboring countries, and it faces the challenge of prioritizing development of oil and gas fields located along its border. However, it deeply understands that it can overcome these hurdles with the entrance of

foreign capital. As such, it can be said that Iraq's energy sector officials are closely watching the outcome of nuclear negotiations currently underway.

2-3 Iraq

Iraq has surpassed Iran, which has been weighed down by sanctions, to become the number two oil-producing country in OPEC. While Iraq is unique along with Iran in the fact that other matters were occurring according to a different timeline than the "Arab Spring," the emergence of ISIL/ISIS in 2014 indicated that the situation until then was merely superficial. Today, Iraq's political and social systems are being shaken more than any other oil-producing country.

2-3-1 Impact of the "Arab Spring" on Iraq

(1) Iraq's Reaction and Response to the "Arab Spring"

Iraq already experienced a regime change when the former Hussein administration was toppled in 2003. When the "Arab Spring" erupted in 2011, Iraq had drawn up a draft proposal for its new constitution and was carrying out its second parliamentary elections. The Iraqi government at the time was mainly formed by people who had actively worked for many years as anti-government forces to overthrow the previous dictatorship, and it boasted that it was a democratic nation led by politicians chosen by the people in elections. Therefore, it welcomed grassroots movements meant to overthrow authoritarian regimes, and it was in a position to be able to support constitution drafts and transitional elections as the Middle East's forerunner in this area.

However, Iraq's regime change, unlike the "Arab Spring," happened because of external intervention (the United States' attack on Iraq), and it cannot be denied that its failure to build a stable political or security system after the regime change greatly undermined the Iraqi government's justification that it was a stronghold of democracy, something it had worked so hard to promote. Additionally, as mentioned in Chapter 1, until the "Arab Spring" was exposed, Iraq's basic stance of supporting democratization as a simple third country alone made it impossible to respond, falling short of its initial expectation of expanding influence as a leader in democratization.

(2) Impact on Grassroots Movements in Iraq

Given the impacts of the "Arab Spring," demonstrations against the government spread momentarily even in Iraq. At the peak in February 2011, several thousand people gathered in the capital of Baghdad, while demonstrations were also held in 16 other cities, including Basra and Mosul. The demonstrations were not about toppling the

government. They mainly focused on economic and social demands, or in other words, mainly unemployment measures; improvements in public services such as electricity, water, and healthcare; and opposition to widespread government bribery and corruption. This is because as of 2011, nearly nine years had passed since the end of the war, but public services were still not functioning, and despite Iraq having one of the largest oil reserves in the world, many people felt they were not benefiting from this oil wealth.

In response, the government reduced the number of ministers, lowered minister pay as a cost-cutting measure, and demanded that each ministry and agency reform in a deadline of 100 days. It also expanded the budget for the food rationing system in the budget proposal for 2011 that was being deliberated on at the time. However, the government did focus even greater efforts on restricting conditions for demonstrations, arresting activists, organizing a government demonstrator force, all in an attempt to crush the demonstrations with iron-fist tactics. These demonstrations did not begin because of gloom over a dictatorship that had lasted for decades, like in other countries. Instead, they were demonstrations critical of the government influenced by the unrest taking place elsewhere. The demonstrations in Iraq gradually tapered off, as the government cracked down and let the air out of the bag.

(3) Changes in the Security Environment Surrounding Iraq

The greatest change the Arab Spring had on Iraq's security environment was the civil war caused in neighboring Syria. Since 2003, the relationship between the Assad administration and the Iraqi government was not necessarily positive. Syria intended to avoid an Iraqi-like regime change led by U.S. military intervention in its own country. Since 2003, it did not actively approve of the new government in Iraq and did not necessarily take a friendly stance toward the country either. The Iraqi government, too, frequently criticized Syria because it believed the Syrian government was harboring Baath party members and actively/inactively supporting Sunni armed forces.

However, the Arab Spring led Syria into a civil war. Once the survival of the Assad administration was in doubt, the Iraqi government officially took a neutral stance, saying that Syrians should determine the future of Syria, but took a position of advocating for the Assad administration. When the Arab League debated a proposal to depose President Assad in July 2012, Iraq was one of the few countries in opposition. Until now, the Iraqi government has not denied the legitimacy of the Assad administration. In April 2013, Syrian Foreign Minister Muallem visited Iraq, and in March 2015 Iraqi Foreign Minister Jaafari visited Damascus in March 2015 and met with President Assad.

The background to this policy on Syria can be traced to the concern that Islamic extremists in Eastern Syria would become more active if the Assad administration lost

control of the country, which would directly impact Iraq. In 2011, when the “Arab Spring” began, Iraq’s public safety was comparatively stable and the activities of Islamic extremists were in decline. However, the Iraqi government failed to secure the support of Sunni followers in the country. The fact that Islamic extremists shifted their battleground to Syria, gaining an opportunity to amass power by putting on the guise of moderate anti-government forces that could easily gain support of the international community, was the result of the major impacts from Iraq’s own security situation. It is believed that the advancement of ISIL/ISIS, which took Mosul in June 2014 and extended its control to much of Midwestern Iraq, would not have occurred if it were not for the civil war in Syria.

2-3-2 Response Measures in Iran in the Wake of the “Arab Spring” (Post-Arab Spring)

(1) Political and Social Measures

Excluding the impacts of the civil war in Syria noted above, Iraq’s political situation and internal affairs were not significantly affected directly by the “Arab Spring” and later political changes. Diplomatically speaking, attempts were made to use changes brought about by the “Arab Spring” to normalize and reenergize diplomatic relations with Arab countries. But for Iraq, which had an unstable domestic situation, it could not commit a large amount of effort to diplomatic issues, meaning results were limited.

Originally, Arab countries rejected the scenario of ousting a dictatorship with U.S. intervention in the Iraqi war and since the new Iraqi government took a friendly stance towards Iran, they tended to put some distance between Iraq and themselves diplomatically. However, later on, Iraq’s political process became fixed despite some bending; and the change of governments in Arab countries caused by the “Arab Spring” provided an opportunity to turn over a new leaf for diplomatic relationships.

In the case of Egypt, the Iraqi government welcomed the establishment of the Morsi administration in June 2012 and regularly scheduled flights between the two countries were restored for the first time since 1990. Iraq did not change its stance even when the government was overthrown in a military-led coup in July 2013. A friendly relationship has been maintained ever since, with Iraqi Vice President Khozaei attending the inauguration ceremony for Egyptian President Sisi in June 2014. In the case of Libya, after the war in Iraq in 2003, the Libyan government did not recognize the Coalition Provisional Authority (CPA) that was in charge of the occupation of Iraq, so diplomatic relations were cut off. However, after the “Arab Spring,” the foreign ministers of both countries met in Cairo in September 2012, restoring diplomatic relations between the two countries for the first time in nine years. However, Libya fell into a civil war in 2014 with two governments existing at the same time: one in Tripoli and the other in

Tobruk. The Iraqi government has not positively said which it supports in Libya. In the case of these two countries, given the fact that Muslim Brotherhood forces are not a threat to the current administration like in the GCC, it is believed that Iraq would rather accept the status quo than concern itself with the legitimacy of the government.

On the other hand, with regards to Syria as stated above, Iraq has made its support for the Assad administration clear. Even when it was highly likely Syria would be attacked for its use of chemical weapons in August 2013, Iraq was opposed to the attack, and announced its support for the Russian proposal of disposing the chemical weapons under international supervision. For the current Iraqi government, Syria's Assad administration is considered an ally in the fight against the international terrorism organization of ISIL/ISIS. Because of this, Iraq is seeking to maintain its cooperative relationship. At the same time, behind its support for the Assad administration is the further intensification of the civil war and moderate rebel forces infiltrating the government, so any scenario without the Assad administration would not be preferential for the Iraqi government. Additionally, it sees the intensification of the civil war as inevitably having a negative effect on the security situation in Iraq.

Also, if the anti-government forces opposing the Assad administration gain power, it would gain the sympathy of Islamic extremists battling the Iraqi government and Sunni followers unhappy with the Iraqi government, meaning that they would likely not be friendly to Iraq. The presence of Iran has the most impact on Iraq's policies toward Syria. In particular, Iraq, which is depending more on military support from Iran for cleanup missions targeting ISIL/ISIS, wants to avoid being in complete opposition of the foreign policies of Iran.

Iraq is also taking the same approach with regard to the situation in Yemen, which is falling into civil war. Iraq was opposed to the aerial attacks on the Houthis in Yemen led by Saudi Arabia in March 2015, and the fact it appealed for a peaceful approach to revolving the issues is aligned with the diplomatic route of the Iranian government.

In most cases, the conflict brought about by the Arab Spring and post-Arab Spring is attributed to the individual situation of each country. At the same time, as this conflict became militant and conditions grew unstable, in many cases these turned into a battleground over hegemony in the Middle East between major powers Iran and Saudi Arabia. Given this situation, the Iraqi government, which is mainly made up of Shiite politicians and which emphasizes its alliance with Iran, has frequently opposed the policies of Saudi Arabia, which is strengthening its presence among Arab nations. In many cases this places it in a minority position within the Arab world. Iraqi Prime Minister Maliki, who faced frequent problems between Arab nations, stepped down in September 2014. With the establishment of the new Abadi administration, movements

have been seen to normalize relations with Saudi Arabia, but no specific results have been made.

Today, the battle for hegemony in the Middle East between Saudi Arabia and Iran over the "post-Arab Spring" is leading in a direction where the religious split between the Sunnis and Shiites will be exacerbated. As a result, Iraq's position in the Arab world is expected to continue to be a difficult one.

(2) Economic and Financial Measures

Excluding the emergence of ISIL/ISIS and the declaration of an Islamic State, there has been no serious political or social unrest during this time in Iraq, and therefore, there has been no heightened need to take special measures economically or financially. Additionally, government plans do not include setting petroleum product prices to promote energy efficiency or reducing government subsidies. There have also not been any cases where such measures were postponed or cancelled altogether.

Therefore, Iraq has not seen any particular noteworthy change in economy or financial measures in response to the "Arab Spring."

2-3-3 The "Arab Spring" and Iraq's Energy Policy

(1) Beginning of 2011 to First Half of 2014 (period of rising oil prices)

In 2009, Iraq held the second international tender for oil field development, in which there were 11 successful bids⁸. These were oil fields for which development had already begun. With foreign capital entering the fray, all together Iraq's crude oil production volume began to eke up from around 2011. As a result, the country's crude oil production volume gradually increased from 2.36 million b/d in 2010 to 2.66 million b/d in 2011, 2.94 million b/d in 2012, 2.98 million b/d in 2013 and 3.11 million b/d in 2014⁹. Additionally, there were three successful bids for gas field development in the third tender held in 2010 and in the fourth tender held the year after foreign companies obtained four undeveloped areas.

As for the impacts from the "Arab Spring" itself, in the case of Iraq, demonstrations were localized and temporary in nature, so there was no significant impact on energy policy. However, given the civil war in Syria, the impacts felt from gradually worsening security within Iraq from around 2013 were unavoidable. Crude oil produced from oil

⁸ Of these, Sonangol announced in March 2014 that it would withdraw from two oil fields because of security concerns.

⁹ In the autonomous Kurdistan area of Northern Iraq, the Kurdistan Regional Government independently carries out crude oil development and exporting. This paper thus discusses only production volume managed by Iraq's central government.

fields in the north centered on Kirkuk was exported through the Iraq-Turkey Pipeline (ITP), and the area where the ITP ran was where Islamic extremist groups were quite active. The number of attacks on the ITP by extremist organizations increased from around spring 2013, and by March 2014 the pipeline was shutdown. As a result, the Iraqi government momentarily lost a route for exporting more than 500 thousand b/d of crude oil. However, Iraq's largest and most important oil fields are concentrated in the south. As Sunni-led extremist groups were less active in the south because of the large Shiite population, the security of main production and export areas has been maintained. Although below the expectations of the Iraqi government, a point has yet to be reached where the country's plans for increased production have been called into question.

As the production and export volume of crude oil gradually increased during a time of rising oil prices, Iraq's finances tended to expand with each passing year. The budget for 2010 totaled 72.4 billion US dollars, but by 2012 this had increased to 100.4 billion US dollars, and by 2013, 119.2 billion US dollars. Iraq has yet to make progress with the development of domestic industries or begin the process of diversifying its economy, so it has been unable to escape from the economic structure of being bloated with public servants to serve the people. Therefore, close to 70% of the government's expenditures tend to be earmarked for ordinary expenses, such as public servant pay. As a result, the IMF found that Iraq's balanced fiscal cost of crude oil is 111 US dollars per barrel, extremely high compared to neighboring countries.

(2) Second Half of 2014 to Present (period of declining oil prices)

Falling oil prices from the second half of 2014 have had an unprecedented impact on the Iraqi government. One reason is because its economy is so dependent on oil that any drop in prices will have a direct impact. Second, Iraq did not have the capacity to build up external assets like other GCC members, so it does not have a buffer that can absorb the drop in oil prices. Therefore, the Iraqi government is examining new tax sources, such as increasing taxes, to address the recent drop in oil prices.

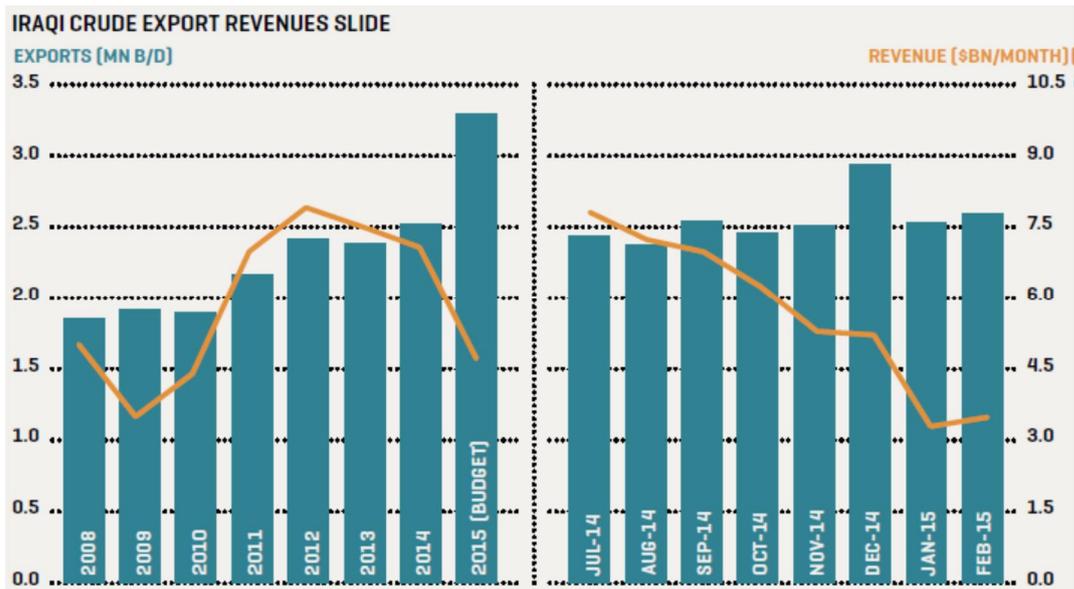
In addition, since June 2014 the extremist group ISIL/ISIS has controlled a large swath of land beginning with Mosul and extending mainly to Nineveh Governorate, Salah ad-Din Governorate, and Al-Anbar Governorate. This has forced the Iraqi government to engage in large-scale battles to weed these forces out. Although Iraq is receiving international assistance for the more than 1.9 million refugees in the country, to procure weapons and ammunition for the fight, and to pay the wages of its volunteer soldiers, the Iraqi government's fiscal burden is still heavy. The drop in oil prices and rising war expenditures has been a combination blow to Iraqi finances. The budget for fiscal year 2015 is 102.7 billion yen, which is lower than fiscal year 2013, but the country will likely not be able to avoid a deficit.

Given this situation, increasing crude oil exports by even the slightest amount to boost revenue has become an urgent task for the Iraqi government. Even if OPEC were to reduce production in order to increase prices, Iraq generally understands that this is the responsibility of Saudi Arabia and other more powerful countries with the capacity to do so. This is why Iraq does not believe cutting production itself is an option. Given the issue over OPEC production quotas has been around for a long time, since the Iraqi government could not produce or export due to economic sanctions, it has taken a stance where it likely will not be on the receiving end of restrictions until it reaches at least 4 million b/d. When oil prices are low in particular, it is difficult to imagine that the Iraqi government will implement a policy for reducing production or curbing increases in production.

In addition, given falling oil prices, impacts are beginning to appear in the delivery of crude oil for recovering costs paid to foreign oil companies. It has been reported that already 9.0 billion US dollars of cost payments have been postponed up to 2014, and total costs for 2015 are expected to amount to upwards of 18 billion US dollars. Iraqi Oil Minister Abdulmahdi stated in an interview at the end of March 2015 that the Iraqi government had secured 3.0 billion US dollars by issuing government bonds, and by the end of June 2015, Iraq expected to be able to pay these accrued costs up to 2014. Additionally, under the service agreements concluded between the Iraqi Ministry of Oil and foreign oil companies, oil prices and payments are not linked to costs. Therefore, the Oil Minister has made it clear that Iraq is examining changing contracts to provide incentives for companies to cut costs¹⁰. It is uncertain whether progress can be made with changing these contracts, but whether Iraq can steadily shift costs to foreign companies because of its tough fiscal situation is an important element that could very well affect Iraq's future plans to increase production.

¹⁰ Ben Lando, Q&A: Oil Minister Adil Abd al-Mahdi, *Iraq Oil Report*, 2015.03.30.

Figure 4: Iraq's oil export volume and export revenue



Source: MEES, 2015.03.20

2-4 UAE

The United Arab Emirates (UAE), occupying one corner of the Gulf's monarchy regimes, is one of the countries that was impacted very little by the "Arab Spring," politically or security-wise. Generally speaking, even today the UAE is praised as one of the Middle East's most stable nations. However, as will be discussed below, the UAE did not hide its concern over the emergence of political reform forces that were empowered by the "Arab Spring," as it cracked down heavily on Muslim Brotherhood-affiliated groups. Facts show that the UAE responded extremely sensitively.

2-4-1 Impacts Caused by the "Arab Spring"

(1) The UAE's Reaction and Response to the "Arab Spring"

The greatest goal of Gulf countries including the UAE is to firmly maintain the autocratic monarchy system. Having witnessed authoritarian regimes in the Middle East like Tunisia, Egypt and Yemen topple one after another political changes brought about by the "Arab Spring" could not be dismissed by Gulf countries as the problems of others.

The UAE got ahead of the people and responded with a carrot-and-stick policy of conciliation measures but also further crack downs. As for the carrot, the candidate in the next UAE presidential election Crown Prince Mohammed bin Zayed bin Sultan Al

Nahyan visited the northern emirates himself in an effort to listen to the dissatisfaction and needs of the people. As for the stick, the National Security Agency (secret police) took the lead in stepping up surveillance of reformist forces and Muslim Brotherhood groups in the country. Additionally, it also stepped up its monitoring of postings on social networking services (SNSs) such as Twitter and Facebook.

Externally, the UAE worked alongside Saudi Arabia, Kuwait and Bahrain to respond to the Muslim Brotherhood in particular, but it continually opposed Qatar which supported the group. As a result, doubt has arisen about the unity of the GCC.

(2) Impact on Grassroots Movements in the UAE

In March 2011, when the *Arab Spring* reached its height, a total of 133 experts from the UAE, including former politicians, scholars, professors, writers, and media officials, signed a petition demanding comprehensive political reform, which was then submitted to the government. The details of the petition contained demands for the Federal National Council to conduct general elections and for the granting of legislative powers. Initially, there was no clear response from the government, but starting in April the following year, a number of activists were arrested and condemned because they represented a threat to national security. The submission of this petition can be seen as the first political movement in the political history of the UAE.

However, these demands for political reform never gained the support of the people or held any influence. The religious organization *Da'wa Al Islah*, which served as a platform for reform forces, is an organization affiliated with the Muslim Brotherhood, which increased its influence through the *Arab Spring*. Therefore, *Islah* was cracked down upon severely following the end of the court battle over the petition movement. From 2012 to 2013, more than 100 people and their families were arrested in the UAE and tried one after another because they, too, were considered threats to national security.

In particular, the government's precautions and response to the Muslim Brotherhood was so harsh that at first glance, it could be considered extreme. *Islah* was criticized for taking orders from the headquarters of the Muslim Brotherhood in Egypt and for receiving financial support from other Gulf countries. This is why doubts remain whether *Islah* had the ability or the intention to cause regime change in the UAE. The international community has pointed out that the investigation and interrogation techniques used were suspected of violating human rights.

(3) Changes in the Security Environment Surrounding the UAE

The Arab Spring did not bring about change in the security environment resulting in a direct threat to the UAE. However, it is worth noting that changes in the UAE's perception of threats did usher in changes in diplomatic policy, including national security.

As authoritarian regimes fell one after another, the UAE grew concerned about the effects on its own country. On the other hand, it was involved in a competition with Saudi Arabia and others for expanding its influence in the Middle East. In 2011, the UAE participated in the aerial attacks launched on Libya and supported rebel forces who wanted to overthrow the Assad administration in Syria. Furthermore, it attacked Islamist forces that were attempting to gain power, all in an effort to firmly maintain the monarchy regimes of the Gulf.

However, because the Middle East and international community's Syrian policy failed, the Islamic State (ISIL/ISIS) was able to expand its power in the area between Syria and Iraq. Ordinary citizens even from Gulf countries, including the UAE, joined the Islamic State to fight, and there are strong suspicions that money is flowing to the organization through Gulf countries. The UAE is participating in the coalition of the willing led by the United States and bombing the Islamic State. However, participating in this direct military action means that the UAE is now a target of the Islamic State, which will likely lead to greater national security risks.

To respond to these changes brought to the Middle East by the Arab Spring, the UAE has strengthened its alliance with Saudi Arabia both diplomatically and in terms of national security. These two countries have taken the initiative for policies on Egypt and Syria in an attempt to form an order in the Middle East, including Gulf countries.

2-4-2 Response Measures in the UAE in the Wake of the "Arab Spring" (Post-Arab Spring)

(1) Political and Social Measures

As the government's perceived threat has grown, the UAE is focusing more efforts on security measures domestically. In 2012, the UAE introduced a revised version of its Cyber Crimes Law that enables crackdowns on speech critical of the government posted on the Internet or social media. In 2014, the UAE rolled out the Anti-Terrorism Law that clarifies its stance in the fight against terrorism both domestically and internationally. Under this law, in summer 2014 the federal government designated 83 organizations both at home and abroad as terrorist groups.

At the same time, in 2014 the UAE also introduced military training for all adult men. Nominally speaking, this program was started to improve national defense; but in actuality, it contains a strong degree of nation building to foster a sense of loyalty to the regime and state, and to heighten a sense of solidarity among the people. In particular, an atmosphere demanding loyalty and support of the government has taken root more strongly than ever before. During the petition issue of 2011 discussed above, each emirate in the UAE set up a council and later submitted tribal ads to local newspapers calling for loyalty and devotion to the regime. In addition, on National Day, special guests of the president are invited to a camp on the outskirts of the city where they are treated to traditional dance and tribal performances and take part in events that foster loyalty to the regime. These can be seen as new, never-seen-before political and social phenomena of the post-Arab Spring.

(2) Economic and Financial Measures

Looking at GDP trends, the UAE recorded negative (real) growth in 2009 following the impacts of the Dubai Shock. However, GDP data steadily improved since the following year, and in 2013 the UAE recorded GDP growth of 4.5%. There are believed to be several reasons for this turnaround. First is the inflow of money from the Middle East and North Africa to the safe haven of UAE due to the Arab Spring. Others include Dubai's economic recovery and soaring oil prices.

The UAE implemented economic measures in response to the Arab Spring. The cornerstone of these measures was earmarking 5.7 billion UAE dirham (approximately 1.55 billion US dollars) for development projects in northernmost emirates, where there are no strong industries like in Abu Dhabi and Dubai. There, incomes are low and the area has posed a problem in terms of political stability for some time. In addition, it increased retirement benefits and pensions of military and defense workers 70%, public servant pay 35 to 45%, and social security benefits 20%. The economic measures also included the establishment of a special fund (10 billion UAE dirham) to support people with debt problems. Dubai also increased subsidies for electricity and water tariffs.

Within the UAE, Abu Dhabi does not release its budget, so data cannot be examined. Therefore, this paper will compare the budgets of the federal government and Dubai in 2011 and 2012, respectively. First, the federal budget increased social service spending (education and social security) by 3.7% in 2012 compared to 2011. On the other hand, Dubai reduced its 2012 budget by 4.2% over the previous year, but slightly increased spending on wages, expenses, and subsidies.

Table 2: Breakdown of UAE federal government expenditures (hundreds of millions UAE dirham)

	FY2012 Budget	FY2011 Budget	Change
Social services (education and social security)	197	190	3.7%
National defense, security, judiciary, diplomacy, etc.	175		NA
Healthcare	30		NA
Infrastructure development	16	16	0.0%
Total	418	410	2.0%

Source: Prepared by the Middle East Center of The Institute of Energy Economics Japan based on various media reports.

Table 3: Breakdown of Dubai expenditures (hundreds of millions of UAE dirham)

	FY2012 Budget	FY2011 Budget	Change
Wages	126	124	1.6%
Expenses and subsidies, etc.	113	106	6.6%
Infrastructure projects	59	75	21.3%
Other	25	32	21.9%
Total	323	337	4.2%

Source: Prepared by the Middle East Center of the Institute of Energy Economics Japan based on various media reports.

2-4-3 The “Arab Spring” and the UAE’s Energy Policy

(1) Beginning of 2011 – First Half of 2014 (period of rising oil prices)

Most crude oil production in the UAE is concentrated in Abu Dhabi. The production capacity of Abu Dhabi is 2.9 million b/d for crude oil and 350,000 b/d for condensate, totaling 3.25 million b/d. In November 2012, Abu Dhabi National Oil Company (ADNOC) announced its plan to invest Dh260 billion (USD70.8 billion) in oil capacity expansion by the end of 2017.¹¹

Following the “Arab Spring,” the UAE did not change the direction of its energy policy. Since the price of fuel oil, such as gas oil from the UAE, is at the highest standard among the GCC countries, as far as fuel oil is concerned we can say it requires the smallest amount of subsidy. For this reason, the government of the UAE never changed its subsidy policy during the phase of rising oil prices on the grounds of the “Arab Spring.”

(2) Second Half of 2014 to Present (period of declining oil prices)

The UAE continues to aim at expanding crude oil production, and has set the goal of increasing its production capacity to 3.5 million b/d by 2017. It has been assumed so far

¹¹ “Abu Dhabi to invest Dh260bn in oil capacity expansion,” *Emirates* 24/7, 11 Nov., 2012.

that achievement of this production goal would be delayed due to the postponement of relevant projects and a shortage of engineers, among other factors. However, on January 12, 2015, UAE's Minister of Energy Suhail Mohammad Al Mazrouei clearly stated, "The government of the UAE will increase its gas production capacity and will have crude oil production capacity of 3.5 million b/d by 2017."¹² Nevertheless, this remark strongly connotes that they will not change the goal while oil prices are declining. Therefore, it is assumed that actually meeting this goal will take longer, until roughly 2020.

Currently, the extension of concessions regarding the Abu Dhabi Company for Onshore Oil Operation (ADCO) is drawing attention. Amid such a situation, on January 31, 2015, it was revealed that French Total S.A. reached an agreement with new contract conditions concerning the renewal of concessions. The renewal of concessions is largely influenced by the judgment of the Supreme Petroleum Council (SPC), and the SPC is said to emphasize security aspects. When the instability of the Middle East Region rose following the "Arab Spring," and amid uncertainty due to the decline in oil prices, the possibility that the increasing expectation of French military power played a part in selecting Total cannot be denied. Excluding 10% by the recent Total case and 60% of the ADNOC, renewal of the remaining 30% of concessions has not been made clear.

It has been reported that, in a response to the sharp fall in crude oil prices, the UAE is moving towards subsidy cuts. Namely, electric utility charges for both civilian use and industrial use were raised from January 2015 in the Abu Dhabi Emirate. With regard to water charges, a fee collection from the UAE citizens also started and an application of 170% extra charge on water fees for foreigners became an obligation.¹³ In the Dubai Emirate, Dubai Supreme Council of Energy (DSCE) submitted a document requesting the reduction of fuel oil subsidy to the Ministry of Energy of the UAE.¹⁴

2-5 Qatar

2-5-1 Impact of the "Arab Spring" on Qatar

(1) Qatar's Reaction and Response to the "Arab Spring"

When the "Arab Spring" began, Qatar attempted to resolve conflicts in Arab countries by taking a step beyond the frame of "mediatory diplomacy" as its conventional approach. For example, Qatar implemented an air campaign against the Gaddafi regime in Libya, while it provided military and financial support for the dissidents in Syria upon expressing its position against the Bashar Assad regime. These actions confirmed

¹² Gulf News, 2015.01.12

¹³ Reuters, 2014.11.13.

¹⁴ Khaleej Times, 2015.01.15.

the change in Qatar's diplomatic policy from that of conventional mediation to "intervention." Qatar intended to use the "Arab Spring" to raise its profile both in the region and in the international community.

Following the collapse of the Mubarak regime in Egypt, which had been a symbol of authoritarianism in the Middle East, Qatar continued to provide Egypt with both political and financial support. Amid the birth of the Morsi regime, with the Muslim Brotherhood as its support base, Qatar and Egypt celebrated their honeymoon. However, viewing the Muslim Brotherhood as dangerous, this backfired on Saudi Arabia and the UAE, which continuously placed diplomatic pressure on Qatar. As a result, an incident in 2014 involving the three countries Saudi Arabia, the UAE, and Bahrain occurred in which they recalled their ambassadors from Qatar, which made the infighting among the GCC apparent in that the relationships between the Gulf countries deteriorated.

(2) Impact on Grassroots Movements in Qatar

In Qatar, anti-government and anti-establishment demonstrations by Qatar nationals have not been confirmed. Although there were claims of such posted on some social media sites, deemed to have been made by dissidents, these had no effect at all. Also, some Qatari scholars published books seeking political reform in Qatar outside the country, and a poet was arrested due to writing poems that criticized the family of the chief. However, these words and acts by experts did not have any negative effect on the political system and public order in Qatar.

Rather, the demonstrations confirmed within Qatar were demonstrations by Egyptian and Libyan workers, criticizing the systems in their own countries.

(3) Changes in the Security Environment Surrounding Qatar

It cannot be said that the security environment surrounding Qatar has changed to a great extent with the "Arab Spring" as a direct incentive. There has been no change in the provision of a base for the U.S. Armed Forces either. However, the support for the Egyptian Muslim Brotherhood effectively worsened relations with neighboring Gulf countries, which brought a hardline among some people to impose sanctions against Qatar at some point. In short, it was the proactive diplomatic policy based on Qatar's own decision that caused its own security environment to deteriorate in the end.

In addition, to counter the Islamic State in Iraq and al-Sham/Islamic State in Iraq and the Levant (ISIL/ISIS), which expanded its areas of control in Syria and Iraq, Qatar is also participating in the Coalition of the Willing led by the United States. Most recently, it has been a concern that the worsening situation in Yemen might bring a negative

influence on the entire Arabian Peninsula. In this situation, Qatar will need to be against these threats in collaboration with other Gulf countries.

2-5-2 Response Measures in Qatar in the Wake of the “Arab Spring” (Post-Arab Spring)

(1) Political and Social Measures

Qatar is one of the most internally stable countries within the MENA region in which the wave of the “Arab Spring” occurred. Amid the background in which little criticism against the monarchy is heard, the government of Qatar has been striving to enhance social security by making preemptive moves, such as implementing a measure to raise the wages of civil servants and military personnel.

In Qatar, where construction for hosting the 2022 FIFA World Cup is currently in progress, rapid social changes are also beginning to appear. For example, the foreign population has rapidly increased during the past decade, creating social problems concerning the population balance and cultural conflicts within the country. While Qatari households have become economically prosperous, it has been pointed out that the issue of personal debt due to the expansion of consumer culture has emerged. Amir of Qatar Sheikh Tamim Bin Hamad Al-Thani, successor to the former Amir of Qatar Hamad bin Khalifa Al Thani, will be required to formulate and implement balanced policies to prevent dissatisfaction among the domestic conservatives, in order to stop these social changes from coming to the fore.

Meanwhile, regarding the issues related to “ISIL/ISIS,” Qatar is suspected of funding this organization. Of course, it is not realistic to consider any direct involvement by Qatar’s government. However, a concern still remains in that illegal remittances are being made through religious groups and charities. The international community is also requesting Qatar to crackdown more on these, as part of efforts against such international remittances.

(2) Economic and Financial Measures

Looking at the course of affairs, government expenditure has increased since the “Arab Spring.” From the perspective of pacifying citizens to prevent discontent from breaking out, the strategy “rewarding” citizens by raising the wages of civil servants, as seen in other GCC countries, is also taking place in Qatar.

The trend in spending in the recent government budget shown below also clearly shows the active attitude of the government of Qatar in this regard:

April 2011 ó March 2012 QR140 billion (38.5 billion US dollars), 19% year-on-year increase (wage growth rate is 10.2%)

April 2012 ó March 2013 QR178 billion 48.9 billion US dollars), 27% year-on-year increase (wage growth rate is 45.5%)

April 2013 ó March 2014 QR210.6 billion (57.9 billion US dollars), 18% year-on-year increase (wage growth rate is 20.7%)

April 2014 ó March 2015 QR 218.4 billion (60 billion US dollars), 3.7% year-on-year increase (wage growth rate is 7.3%)

However, due to the main factor for the increase in expenditure being infrastructure investment associated with the FIFA World Cup 2022, the government is not implementing a policy with massive government spending in an inexhaustible way. Such a huge amount of infrastructure investment has certainly activated the economy, resulting in the growth rate of real GDP in 2012, 2013, 2014 being 6.0%, 6.3%, 6.1% and 7.0%, respectively. The GDP per capita in Qatar has reached 93,714 US dollars (World Bank, 2013); second in the world following Norway.

As these data have shown, despite the significant increase in expenditure, Qatar's finances have kept a significant surplus due to the revenue increase brought by rising oil prices and increasing exports of LNG, for example through developing North Field gas, which is the world largest gas field. As a result, the Sovereign Wealth Funds (SWF) rapidly expanded from 115 billion US dollars in November 2013 to 256 billion (equivalent to 850,000 US dollars per capita) in November 2014.

2-5-3 The "Arab Spring" and Qatar's Energy Policy

It is not plausible to consider any changes in Qatari energy policy due to the "Arab Spring." There has been no policy change due to changes in oil prices either. However, going forward, the energy policy may be modified depending on the changes in investment profitability seen in the cancellation of oil and gas projects.

(1) Beginning of 2011 – First Half of 2014 (period of rising oil prices)

Regardless of the oil price level, Qatar's basic policy regarding energy is summarized as follows. First, maintaining the production volume of crude oil (crude oil + NGL) is an important policy. With regard to the North Field gas, the largest single gas field, Qatar declared a moratorium in 2005 based on the idea of considering the physical load of the gas field. Since then, it has been extended several times, with the current declaration set to continue until 2015. While the moratorium refers to a voluntary limit on further

development of the gas field by Qatar, the development of the Barzan mining site, which was planned prior to the declaration, is still in progress.

The expansion of the LNG equipment capacity (currently 77 million tons/year), which was advanced in parallel with the development of gas fields, enabled Qatar to become the largest export country. However, as the shale gas revolution in the United States in effect broke off the contract with them, there has been a growing proportion of exports based on spot transactions. For this reason, Qatar has placed priority onto long-term contracts. Regarding contract prices for Asian customers, Qatar asserts oil price linkage, which causes Asian customers to prefer exports from North America.

Qatar operates the export of gas to the UAE and Oman using pipelines. However, the country is not actively pursuing its expansion due to having a lower profitability than LNG exports. In recent years, Qatar has been promoting exports with added high-value by extending oil and gas plants and expanding its oil-refining capability.

In Qatar, demand for domestic electric power and water has increased due to the increase in the number of foreign workers required for construction related to the FIFA World Cup 2022. Although the country was expanding its power generation and desalination facility capacity, since April 2012, conserving electricity and water has been promoted through the Tarsheed 22 (T22) campaign.

(2) Second Half of 2014 to Present (phase of declining oil prices)

Along with the decline in oil prices, the LNG price for long-term contracts, connected to oil price, also drops. In addition, the spot price for LNG is falling, particularly in Asia, due to excess supply. Caught in this situation, Qatar has not changed its LNG sales policy; but it is assumed that unreported backstage negotiations are underway. For example, from March 2015 Qatar will supply LNG to Pakistan, a first-time importer of LNG; but whether this is based on a long-term contract or a spot transaction has not been disclosed.

Qatar continues and maintains the policy of adding a high value to exports. However, the joint oil and gas project with Shell has been cancelled because of the decline in the petrochemistry market and an increase in construction costs. In light of the fact that Shell decided to invest in a petrochemical project in Iraq immediately after the decision on the cancellation, we can assume that the major reason for cancellation was the cost involved in the project. It is reported that increasing infrastructure investment has pushed construction costs in Qatar to extremely high levels.

What stands out in the domestic energy policy is the legislation to prevent waste of electric power and water, and a draft bill was approved at the Cabinet meeting on March

25, 2015. The contents of the bill are strict, including a fine imposed on direct water discharge using a hose.

It is said that Kuwait, the UAE, and Qatar supported Saudi Arabia, which refused production cuts, at the 166th Meeting of the OPEC held in November 2014. Meanwhile, Qatar asserts cooperation with consumer countries at the GECF. For now, no signs are seen for major change to occur in these attitudes taken by Qatar.

2-6 Oman

2-6-1 Impact of the “Arab Spring” on Oman

(1) Oman’s Reaction and Response to the “Arab Spring”

Among the Gulf countries, Oman was one of the countries most impacted by the “Arab Spring.” At the same time, Oman is a country with poor resources when compared to its neighboring countries. Therefore, concern over long-term instability triggered by economic and financial problems persists. Needless to say, Oman is a recipient of benefits from the 20 billion-scale Economic Development Fund, established in 2011.

For this reason, there was no way for Oman to interfere and intervene in the “Arab Spring” in other countries and other situations. It is not compatible with Oman’s diplomatic policy, which prioritizes the open-door approach. Rather, it is not surprising if Oman finds a way to serve as a mediator. Making arrangements for secret negotiations between Iran and the United States, believed to have taken place since spring 2013, is considered one result of their policy.

(2) Impact on Grassroots Movements in Oman

In Oman, a popular protest was already happening in January 2011 in the capital city Muscat, and protests against the government took place from the end of February in major cities such as Sohar and Salalah. Security forces were deployed to deal with the popular protest, resulting in a clash between the two parties where some in the protest group were killed and wounded. The demands of the Omani people gradually shifted from political reform and the eradication of government corruption to wage increases and the expansion of social security. Responding to these demands, Sultan Qaboos carried out in-depth political reform and announced measures to raise the minimum wage, as well as the expansion of expenditure for subsidies. The snap decision by Sultan Qaboos to play the reform card calmed the protest activities, most of which ceased by summer 2011.

Although Oman overcame the storm of the “Arab Spring” in this way, it continues to strictly monitor speech, such as criticisms of the establishment within the country. So far, there have been incidents where not only bloggers, poets and journalists, but also members of Parliament who have taken a critical position against the government have been arrested.

(3) Changes in the Security Environment Surrounding Oman

The security environment surrounding Oman has not significantly changed due to the “Arab Spring.” Since Oman intentionally holds itself back from being involved in regional affairs related to Libya, Syria, and ISIL/ISIS, it can be said that risks from such affairs, which would affect Oman, are limited in comparison with Saudi Arabia and the UAE. With regard to the act of piracy, which occurred in the Gulf of Aden off the coast of Somalia, it has been effectively suppressed by strengthening international patrol operations.

However, the most serious concern for Oman in terms of security is assumed to be the situation in neighboring Yemen, where the security condition has become unstable in association with the resignation of then-President Ali Abdullah Saleh, and which today is in a civil war caused by the Houthis expanding its influence.

2-6-2 Response measures in Oman in the Wake of the “Arab Spring” (Post-Arab Spring)

(1) Political and Social Measures

Oman, as well as other countries in the Middle East, face a booming youth population; and development of employment and unemployment policies to deal with the situation is an important issue. In addition, conventional conciliatory measures targeting nationals, which depend on massive government spending in an inexhaustible way, is deemed to soon reach its limit due to the financial situation in Oman. For this reason, the Omani government is to make necessary moves towards fiscal reform, even though its nationals strongly oppose the subsidy cuts in fuel, food, and utility charges, making the government response a tough task.

In summer 2014, along with Sultan Qaboos bin Said Al Said’s failing health becoming more serious, issues concerning a successor became more concrete. Several “Post-Qaboos” candidates are expected to come out, based on their past experiences in politics, capability, and popularity. Omanis will be required to take an extremely difficult course of action.

(2) Economic and Financial Measures

In Oman, government expenditure has also shown a tendency to increase since the "Arab Spring." Oman is not the exception in implementing the strategy of giving "rewards" to its citizens, such as by raising the wages of civil servants and social welfare policies as seen in other GCC countries, and this is the main factor causing increase in expenditures. Furthermore, it has been pointed out that its method for financing fiscal deficit is unclear. The IFM has proposed to cut certain subsidies, which has put pressure on the country's finances and the wages of civil servants.

The trends in spending in the recent government budget in terms of its budgetary or actual value are shown below:

FY2011 (actual) OR8.1 billion (21.1 billion US dollars), 2.1% year-on-year increase

FY2012 (actual) OR10 billion (25.6 billion US dollars), 23% year-on-year increase (85% for defense spending and 9.9% for non-defense wages)

FY2013 (actual) OR12.9 billion (33.5 billion US dollars), 29% year-on-year increase (5% for defense spending and 8.7% for non-defense wages)

FY2014 (actual) OR13.5 billion (35.1 billion US dollars), 7.0% year-on-year increase (18% for defense spending and 17.8% for non-defense wages)

FY2015 (actual) OR14.1 billion (36.6 billion US dollars), 4.5% year-on-year increase (2.7% for defense spending and 15.1% for non-defense wages)

In the meantime, regardless of the wage increase curve, diversifying industry is a major issue for Oman, which aims to realize economic development without depending on exporting oil and gas resources. In particular, it should not be forgotten that expanding investment in the logistics infrastructure sector has been added as a factor for increase in expenditures. Oman, aiming to become a logistics hub by making use of its geopolitical features, particularly the fact that it is located outside the Persian Gulf, is planning and implementing priority investment in ports, railways, roads, and airports. The country is also attempting to enjoy that advantage by promoting trade relationships through joining the WTO. Along with wage increases, these investments in infrastructure led to economic activation and the growth rates of real GDP for 2012, 2013, and 2014 are 5.8%, 4.2%, 2.9% (estimate), respectively.

Amid increase in expenditures, Oman accomplished a fiscal turnaround in 2013 due to revenue increases as a result of the rise in oil prices and increase in production of crude oil. The SWF, the scale of which is overwhelmingly small in comparison with other oil-producing Gulf countries, was 14.2 billion US dollars in November 2013, but was expanded up to 19 billion US dollars (8,000 per capita) in November 2014.

2-6-3 The “Arab Spring” and Oman’s Energy Policy

It is not plausible to consider that there has been any change in Omani energy policy due to the “Arab Spring.” However, wage increases and other factors worked as incentives for domestic energy consumption, as in other GCC countries. Meanwhile, responding to changes in oil prices, there has been a sudden increase in senior government officials appealing for the reduction of domestic energy consumption.

(1) Beginning of 2011 to First Half of 2014 (period of rising oil prices)

Oman is the largest oil-producing country in the Middle East, which is not a member of the OPEC. The country successfully increased its crude oil production, which had previously decreased from 950,000 b/d in 2000 to 700,000 b/d in 2007, to 942,000 b/d in 2013 by introducing the Enhanced Oil Recovery (EOR). For further increase in the production, Oman, in the first attempt in the Middle East, embarked on the EOR using solar power. In addition, the plan to expand its oil refining capacity is underway, due to the increase in demand for petroleum products.

Domestic gas consumption is increasing in Oman, as an exporter of LNG to Japan and South Korea, as well as a member of the GECF, and it has embarked the development of its gas field, which BP operates. It seems this is because the price of the gas that Oman already imports from Qatar is cheap, and that the Qatar side has no intention of increasing the amount of the gas it exports to Oman. Meanwhile, although the submarine pipeline plan with Iran has reached a basic agreement, it is deemed that the divergence in the price plan between the two countries is so large that it is unclear whether or not they can reach a final agreement.

For the increase in demand for domestic electric power and water, the government of Oman is attempting to deal with the issue by increasing the number of Independent Power Project (IPP) and Independent Water Project (IWP).

(2) Second Half of 2014 to Present (period of declining oil prices)

Although there has been no change in the policies to increase crude oil production and the expansion of oil refining capacity described above, delays are anticipated in some part of development process. There has been no change in gas field development policy.

As part of the renewable energy development, a bid for wind power, supported by Abu Dhabi, is being promoted. Furthermore, solar power is currently also under consideration. In line with the construction of new power generation and desalination facilities, campaigns calling for the conservation electric power and water to the public

are spreading; and so it is assumed that a sense of crisis, including the delay in the plan, is growing.

2-7 Kuwait

Since the coronation of the current Amir Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah in 2006, political disorder has continued in Kuwait. When the conflict between the National Assembly and the administration, organized mainly by the Sabah family, became serious, the Assembly was often dissolved by the Amir. After the "Arab Spring," protests also took place sporadically in Kuwait, and collisions between the antigovernment forces and the security forces were frequently seen.

2-7-1 Impact of the "Arab Spring" on Kuwait

(1) Kuwait's Reaction and Response to the "Arab Spring"

When the "Arab Spring" started in Tunisia, followed by the same movement in Egypt, the government of Kuwait saw it as peaceful transfer of power in response to a legal demand by the people within each country, and made clear its basic position to respect the will and choice of the people.

Meanwhile, the attitude of Kuwait towards the popular movement in Bahrain, also a member country of the GCC, was different to its attitude toward Egypt. Departing from its initial position taken prior to the collision between the crowd and the security forces, that Kuwait would be willing to make an effort to play the role of mediator, it has shifted its response and deployed Kuwait Navy vessels offshore Bahrain, following a request from the Bahraini government to dispatch the "Peninsula Shield Forces." However, it is clear that the government of Kuwait attempted to avoid direct intervention, and it is considered that this decision was made in consideration of the Shia population within the country.

With regard to the anti-Gaddafi political conflict being escalated to armed conflict in Libya, Kuwait once again expressed its intention to support the dissidents and provide financial assistance.

In this way, the position of Kuwait to the "Arab Spring" is, similar to other GCC countries, prioritization of upholding the form of nations based on the emirate and monarchy system. It does not acknowledge the legitimacy of the requests from the people as a textbook case. This basic attitude did not change when Kuwait responded to the civil wars in Syria and Yemen.

(2) Impact on Grassroots Movements in Kuwait

In Kuwait, large-scale antigovernment movements already took place prior to the "Arab Spring." Therefore, the root cause of political dissatisfaction in this country should be considered independently from the "Arab Spring." Nevertheless, it is certain that these movements gained momentum through the "Arab Spring." After autumn 2011 in particular, the nature of the protests taking place rapidly changed, and were in a way led by anti-government assemblymen from within the National Assembly who put up mainly political slogans.

In November 2011, an incident occurred when a crowd of protestors and some members of the Assembly broke into the National Assembly, temporarily occupying the Assembly building. Following this incident, protests continued to grow, and the dissolution of the National Assembly and the pursuit of corruption became political themes in the country. In the end, President Nasser Mohammed Ahmad Al-Jaber Al-Sabah was forced to resign, and the new Cabinet led by President Shiekh Jaber Mubarak Al-Hamad Al-Sabah was formed instead. In response, the National Assembly was dissolved and a new Assembly was established in February 2012.

The great boosts gained by the anti-government forces at the new National Assembly resulted in demands to summon ministers. Ministers resigned one after another, which further intensified the conflict between the administrative and legislative branches. These political disorders also had the effect of dragging the country's economy down, leading to a further expansion of political uncertainty among the people. In June 2012, as soon as the Amir Sheikh Sabah Constitutional Court ruled that the National Assembly election carried out in February should be invalid, another National Assembly election was held in December. However, prior to the election, the government conducted an election law amendment to change the system from four votes per person to one vote, causing the opposition to boycott the election and leaving darkly unpleasant feelings.

In the end, the Constitutional Court ruled this election law amendment constitutional in June 2013. However, this court determined that the National Assembly election, which took place in December 2012, to be invalid; and thus, the National Assembly election was once again carried out in July 2013. Following the result of the election, in July the same year, a new Cabinet with President Jaber as its head was formed.

Since then, there has been a temporary lull in political disorder, which continued since 2006; although the situation is far from reaching a final settlement.

(3) Changes in the Security Environment Surrounding Kuwait

There have been major changes in the area of security caused by the Arab Spring, including changes associated with the regime change in Egypt. The Mubarak regime, which had a close relationship with Kuwait, collapsed, and the Muslim Brotherhood regime was established instead. Within the GCC, member countries were split over the positions of pro-Brotherhood (Qatar) and anti-Brotherhood (UAE, Saudi Arabia, Bahrain). Kuwait found itself in a delicate position between these two groups, as the Brotherhood had long played an important role in Kuwaiti politics.

Following the coup in Egypt, Kuwait has consistently expressed its support for President Abdel-Fattah El-Sisi and provided assistance. Having said this, so far any moves to delegitimize the Brotherhood have not gained momentum.

Kuwait places emphasis on unity within the GCC, but does not stand at the forefront of it. When the riot in Bahrain intensified, Saudi Arabia and the UAE dispatched frontline troops to Bahrain, while Kuwait only symbolically sent Navy vessels offshore.

Furthermore, regarding countermeasures against ISIL/ISIS, Kuwait's involvement is limited to the provision of military bases and humanitarian aid; while Saudi Arabia, the UAE, and Bahrain militarily participate in the Coalition of the Willing enthusiastically.

2-7-2 Response measures in Kuwait in the Wake of the "Arab Spring" (Post-Arab Spring)

(1) Political and Social Measures

When Kuwait confronted the frustration expressed by the National Assembly and members of the general public as an issue to resolve, it intermittently adopted measures to silence the voices of the malcontents by taking its usual practice of parliamentary dissolution and introducing systematic reform in the form of revising the election law.

However, measures targeting the groups within Kuwait, which were deeply dissatisfied with the current condition of the country, in particular the stateless Bedoon people, were despised. Since these people did not receive any benefit from the measures involving large-scale government spending to resolve the issue with malcontents announced by the government, they held a large-scale protest from around February 2011, demanding that the government give them the same political and social rights as those with Kuwait nationality, as well as granting them Kuwait nationality. They collided with security forces every time they protested, and many were arrested.

(2) Economic and Financial Measures

In January 2011, which marked the 50th anniversary of the founding of the nation and 20 years since liberation from Iraq, the Amir of Kuwait Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah gave all of the approximately 1.1 million Kuwaiti nationals 1,000KD and free food distribution for one year. It is thought that this measure was implemented not only to celebrate the 50th anniversary, but also to placate Kuwaiti nationals who began developing political discontent due to the influence of the "Arab Spring."

Having said this, many Kuwaiti people at that time were receiving the benefit of huge oil revenues, and were also enjoying political freedom compared with other Arab countries. For this reason, similar to Tunisia and Egypt, most of the protests called for by the youth using social media failed to gather participants and the movement therefore misfired.

Chapter 3: Impact of the “Arab Spring” from the APEC Perspective

As we have seen so far, the overall situation in MENA, which experienced the “Arab Spring,” is becoming increasingly chaotic and unstable. When considering the interrelationship between MENA and APEC, the greatest and most important impact on APEC economies is expected to hit in the area of energy. The one consolation is that to date, there have been no cases among countries in the Middle East, which the Asia-Pacific region relies on for its energy resources, where the “Arab Spring” has brought about a substantial decline in production or lower export volumes. However, in light of the complex tangle of strategic motives of actors within the region, the medium to long-term impact of the “Arab Spring” should not be underestimated.

This section evaluates the geopolitical impact that the “Arab Spring” has had on MENA, and considers the anticipated impact from the perspective of energy security.

3-1 Geopolitical Impact

First, from a geopolitical perspective, Group 1 - Countries that directly experienced of the “Arab Spring;” Group 2 - Countries subjected to a certain level of repercussions from the event; and Group 3 - Countries tenuously linked with the event, all reacted differently to the event; and it is inevitable that differences will also arise in their responses thereafter. As we have discussed thus far, it is clear that chaos and instability is spreading across Libya and Yemen, which fall under Group 1. There are also cases, such as Egypt, where the country is starting afresh in the process of regime transfer. Group 2 is comprised of monarchies or sheikhdoms, mainly the GCC. Although no destabilization has occurred as a direct result of the “Arab Spring,” these are countries that have made it a priority to provide support or intervention to their allies and other countries. With regard to Group 3, Iran and Iraq, which are most distant from the “Arab Spring,” as well as Israel which we have not yet touched upon, are considered to be a part of this group.

As a consequence of the “Arab Spring,” changes have emerged in the structure of the interrelationship between the two neighboring countries in Group 1, or Libya and Egypt; and the countries that make up Groups 2 and 3. These changes are surfacing in the form of interference or intervention, or cooperation and support, of Groups 2 and 3 toward Group 1. In other words, changes or shifts in the alliance partners in Groups 2 and 3 are arising as a result of the domestic situation in the countries of Group 1.

During the Gaddafi regime, the relationship between Libya and the GCC member states in Group 2 were mostly estranged; there had even been confrontations in the League of Arab States. Hence, when the popular movement sprung up in Libya in March 2011, GCC member states such as the UAE and Qatar took a unanimous stand to strengthen their relationship with the anti-Gaddafi movement, and they have maintained that relationship to the present day. However, against UAE and Saudi Arabia that support the transitional regime based in Tobruk under the current situation, Qatar takes a different position, and is considered to have a deep relationship with the "Libya Dawn" regime developing in the capital Tripoli. In this aspect, the GCC is not monolithic with regard to Libya¹⁵.

As for Egypt, which was the political leader of the Arabic world, after the "Arab Spring," countries like Saudi Arabia that had a good relationship with President Mubarak have kept their distance from President Morsi, a member of the Muslim Brotherhood and the first President practically elected by the people. With the exception of Qatar, relationships generally froze. During this period, Iran from Group 3 set out to improve relations with Egypt. Although it did not succeed in fully restoring diplomatic relations, the relationship between the two countries was at its best since the Iranian Islamic Revolution in 1979. Permission for Iranian warships to pass through the Suez Canal, controlled by Egypt, was also the product of the relationship between Egypt and Iran at the time. This further provoked a sense of vigilance in Saudi Arabia, as well as Israel, one of the actors in Group 3. Without pointing out this fact once again, the structure after the coup in the summer of 2013 is continuing to undergo changes. Iran's presence has weakened once again, while relations with countries such as Saudi Arabia, which has provided generous support to the Sisi regime, are growing stronger.

Yemen, which falls under Group 1, has shown unusual developments, with Groups 2 and 3 (excepting Israel) exchanging their cooperation partners in the country as a result of the civil war. Countries such as Saudi Arabia, which originally maintained a close relationship with former president Saleh, switched over to supporting Hadi, the president of the transitional regime who later became Saleh's successor. On the other hand, amidst their clashes with President Hadi to seize governmental power, the Houthis (Ansarullah), anti-government armed forces from Yemen, turned toward Saleh and cooperated with him despite having opposed his regime for the past 10 years. The Houthis are believed to be receiving support from Iran, contributing to the mounting sources of uneasiness for Saudi Arabia, which aims to restore power to President Hadi.

Analyzing the various phenomena that have been observed over the past four years, one trend can be spotted. That is the significant stimulation of the confrontational

¹⁵ A similar case to this is observed in the support for the Islamists who constitute the Syrian dissident group.

relationship over Iran's regional policies which existed even before the "Arab Spring" arose, between the GCC and Iran, the representative polar presence engaged in geopolitical confrontation in the MENA region. Therein lies one aspect of the realities brought about by the "Arab Spring": Egypt collapsed as a great Arabic power of the region, while the relative position of Iran, a great non-Arabic power of the region, rose. In other words, this represented a shift in the balance of geopolitical power.

In the face of these new realities, while fearing the arrival of the backlash of the "Arab Spring" in their own countries, monarchies and sheikhdoms such as the GCC member states, which felt the threat¹⁶ of Iran's growing influence in the region, grew anxious and discontent with the non-intervention principles of the Obama administration, which failed to protect the leaders of the countries that had longstanding friendly relations with the United States during the "Arab Spring." They graduated from the conventional diplomacy based on quiet lobbying and behind-the-scenes work, and moved toward a proactive diplomatic strategy that gave them a stronger say and more important role. As a result of this policy that pushes strongly to the forefront, sometimes to the extent of being dogmatic, there are suggestions that the situation has fallen into one of heightened friction and indirect conflict with Iran, which occupies a polar position and is relatively stable.

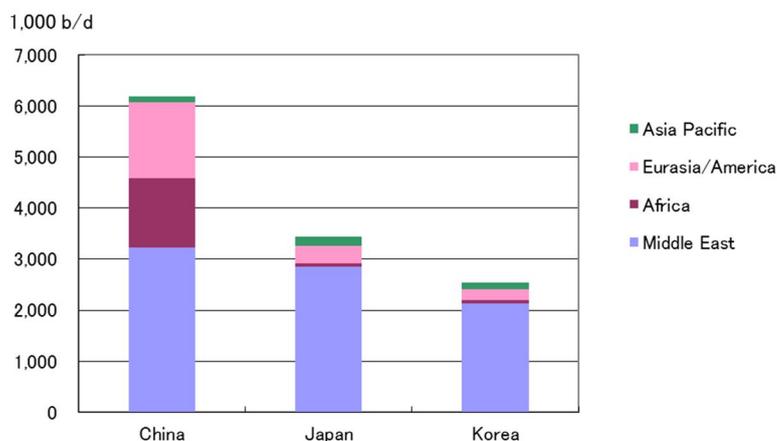
Hence, we can summarize the geopolitical impact brought about by the "Arab Spring" in two points: changes in interrelationships in MENA, and the emergence of proactive actors in the GCC.

3-2 Matters of Concern Pertaining to Energy Security

While East Asia is already increasingly reliant on the Middle East for crude oil, going forward, this increase in relying on energy resources from the Middle East in the mid to long-term is expected to continue.

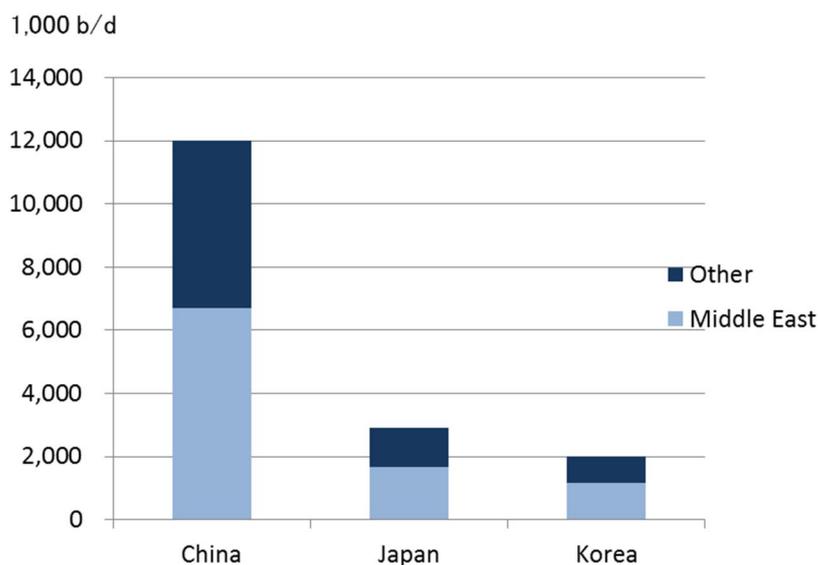
¹⁶ While Iran's nuclear problem is also an important element constituting a threat on the GCC side, developments in diplomatic negotiations being carried out to resolve the problem are also perceived to increase the threat originating from Iran.

Figure 5: Crude oil import volumes by region for China, Japan, and Korea (2011)



Source: JIME Center, The Institute of Energy Economics, Japan

Figure 6: Forecast of crude oil imports by region for China, Japan, and Korea (2035)



Source: JIME Center, The Institute of Energy Economics, Japan

This situation is also important from the perspective of ensuring market stability for Gulf countries that rely on income generated from exporting oil and natural gas, which makes up 80% to 90% of their state revenues. In short, future increases in the proportion of exports to countries such as China out of their total oil and natural gas export signifies greater dependence by Gulf countries on the Asia-Pacific region. An

interdependent relationship in the energy sector will be established, even if not by choice of either party.

In the meantime, even amidst the “Arab Spring” and its aftermath of chaos and civil war, with the exception of Libya, the production and export of oil and natural gas have escaped serious impact during these four years. This should be considered a blessing for oil-consuming countries that import these products.

Table 4: Changes in the production of oil and natural gas before and after the “Arab Spring”

	2010	2011	2012	2013
Egypt (oil) 1,000b/d	29. ⁴	8. ⁹	-13. ³	-46. ⁴
(gas) bcf	371. ¹	371. ⁶	259. ³	n.a.
Libya (oil)	1,457. ⁹	319. ³	1,244. ⁰	735. ⁶
(gas)	344. ³	85. ⁵	228. ⁵	n.a.
Syria (oil)	112. ⁰	79. ⁸	-141. ⁵	-238. ⁹
(gas)	-24. ⁴	-8. ⁸	0. ⁰	n.a.
Yemen (oil)	280. ⁰	216. ⁴	168. ⁷	130. ⁷
(gas)	186. ⁸	308. ⁷	236. ⁰	n.a.
Entire OPEC (oil) 1,000b/d	23,112	23,581	25,068	24,054
(gas) tcf	7,873. ⁶	7,771. ³	8,105. ³	7,942. ⁹

Source: EIA, DOE, OPEC Annual Statistical Bulletin.

Libya, which is showing great volatility in the production of both oil and natural gas, showed temporary signs of recovery in production after the spread of the anti-Gaddafi movement in 2011. Despite that, production declined once again when the country was faced with a succession crisis. In June 2014, ISIL/ISIS occupied Mosul in northern Iraq, raising concerns for the impact on oil fields in southern Iraq when it declared the founding of the Islamic State. However, production increased after that as well, putting an end to these concerns as a groundless fear for now.

It is considered that by the end of 2014, cases of direct impact on resource development for the various oil and gas producing countries were extremely limited. First, the “Arab Spring” and the subsequent years coincided with a period of high oil prices. Partially due to this, each country has increased fiscal spending, and actively engaged in resource development. This means that a high level of production capacity has been maintained, and expanded.

Thereafter, during the civil war in Libya, IOC activities shifted from decline to a full suspension, so it is not necessarily true that there were no mid to long-term impacts.

Against this, despite the spread of unrest regarding Algeria, where natural gas-related plants were attacked in 2013, activities entered a lull. Furthermore, in summer 2014, when it was pointed out that the threat of ISIL/ISIS could spread to southern Iraq, part of IOC took a cautious stance toward development projects in Iraq, but they also returned to the usual state of alert as the situation at the central front reached a deadlock. However, as ISIL/ISIS activities have not declined in the least, and resource development around Kirkuk in the north is dominated under a negative environment, IOC and the Kurdistan Regional Government (KRG), which had staked hopes on that development, will likely be forced to revise their plans. Moreover, if ISIL/ISIS takes the offensive in the south once again, it would inevitably bring about another stagnation in development. Therefore, the risks need to be calculated that a mid to long-term decline in production may occur.

With respect to Saudi Arabia, Qatar, and the UAE, which are participating in a bombing campaign against ISIL/ISIS in Syria, it is possible ISIL/ISIS will retaliate against them. To what extent should the probability of such an attack be calculated, and how should hypotheses be drawn on the target of attacks and situation of damage during that time? It is difficult to assess these questions. However, we must perceive that risks have increased when compared prior to intervention in September 2014.

With regard to transportation routes, threats exist to free passage between the Strait of Hormuz and the Strait of Bab-el-Mandeb. Of these, although the latter is not directly linked to the energy security of APEC member economies, in light of the intensifying civil war in Yemen and military intervention in GCC countries, we must recognize the fact that tensions are gradually rising in the neighboring waters, including the Gulf of Aden. As for the Strait of Hormuz, continually a problem as the chokepoint of the Persian Gulf, the probability of military conflicts that would bring about the closure of the straits is decreasing in tandem with progress made in nuclear negotiations with Iran. Despite that, due to the intensification of conflict between Iran and Saudi Arabia/UAE over the civil war in Yemen, we cannot deny the likelihood that tensions may shift to these waters.

Overall, it is recognized that there are growing uncertainties arising from MENA toward the energy security of APEC member economies.

Conclusion

This section organizes the key points drawn from the study.

First, with regard to popular movements such as the "Arab Spring," even if dissatisfaction among the citizens toward the government regime and systems were to surface in any place, it is highly possible that they would not be like the peaceful demand movements of the "Arab Spring," as observed in 2011. Rather they are likely to develop into a chain of violent responses within a short period of time. This is because many of the states that succeeded in avoiding the impact of the "Arab Spring" while suffering from its aftermath became aware of the reality that when they not only possess powerful systems for maintaining security, but also take forceful measures to protect these systems through a coup or the use of force, their social, diplomatic, and economic considerations diminish; and as such they will not hesitate to confront the people with a hardline stance in the future.

Second, from the perspective of Asia-Pacific economics, with regard to the significance of the instability brought about by the "Arab Spring" and the resulting chaos, it must be pointed out that oppositional relations between states that have existed in the region from long before were stimulated by changes that, temporary or hypothetical, arose in the alliance relationship in MENA after the revolution, which are contributing to civil disturbances and civil wars erupting throughout the region. Furthermore, in this process, some GCC member states have become increasingly dissatisfied and distrusting of the United States' response to the "Arab Spring," and have had no choice but to pursue more proactive and dogmatic diplomatic and security strategies. This is becoming more apparent with participation in military attacks against ISIL/ISIS and military intervention in the civil war in Yemen. As a result of this confident stance and the regional strategy of Iran, positioned as the polar opposite, tensions in MENA are rising, which will continue going forward.

Supported by an environment of high oil prices at the same time, energy production as well as the progress of development never came to a halt, with the exception of Libya. However, we cannot say for certain that the MENA region, where there is an increasing number of states hit by civil wars, will be able to avoid wars and stay disconnected from the energy industry. In that sense, MENA, which is taking on a major role in energy supply to the Asia-Pacific region, and the impact brought about by the negative aspects of the "Arab Spring" in the region, are important matters of concern. In addition, we must recognize that the risks originating in the region are on the rise.