



THE MIDDLE EAST REOPENS FOR BUSINESS BUT WITH OLD AND NEW HAZARDS FOR SOUTH KOREA

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Abstract

The Middle East offers huge trade opportunities to South Korea, especially after the P5+1 agreement with Iran. President Park Geun-hye's May 2016 visit to Iran has demonstrated this economic potential very clearly. However, Seoul should be aware that it is not the only state that is looking for business opportunities in the region. Seoul should likewise take into account the political and security threats stemming from some of the Middle East states especially after the Arab Spring (for example, Syria and Yemen), which might endanger South Korean assets and investments in the region. This paper will analyze the current South Korean Middle East policy and offer recommendations. The Middle East should not be perceived as one unified region, particularly in light of the rising tension between Iran and Saudi Arabia and the military involvement of the superpowers in the region. Seoul would be advised, therefore, to customize its Middle East policy to allow it to maximize its economic benefits while minimizing the security risks. Seoul should try to maximize trade with the stabilized states in the region, while paying attention to the regional implications. South Korea should consider offering assistance to the post-Arab Spring states to stabilize their economy and political system but without getting involved in internal and regional conflicts. In the destabilized states in the Middle East, rather than interfering in these conflicts, Seoul could help prepare contingency plans for their rebuilding once the civil wars end.

Key Words: *Middle East, South Korea, trade, security, energy*

Introduction

In December 2014 the South Korean Foreign Minister Yun Byung-se declared 2015 as the "Year of the Middle East."¹ A few months later President Park Geun-hye said: "The Middle East can be the answer to our prayer for economic revitalization."² "The Second Middle East Boom" was the term subsequently coined to describe Middle East-Korea relations. The volume of trade between the Middle East and Korea, the importance of the Middle East as a vital source of oil and gas and the huge infrastructure and construction contracts in the Middle East being awarded to South Korean companies make the region a vital economic partner. Petroleum was about 39 percent and natural gas 16 percent of South Korea's total primary energy consumption in 2014. The importance of the Middle East as an energy source for South Korea can be seen in these figures. Seoul imports more than 80 percent of its crude oil from the Middle East: Saudi Arabia 34 percent, Kuwait 16 percent, UAE 11 percent, Qatar 10 percent, Iraq 8 percent, and Iran 5 percent.³ The lifting of the sanctions on Iran after the P5+1, which will increase Iran's oil exports to Korea, embody Seoul's aspirations for strengthened ties in the Middle East.

The P5+1 agreement with Iran opens a window of opportunity for South Korean companies to compete for infrastructure, construction, and energy sector projects in Iran. It will allow the Republic of Korea to double its trade with the Islamic Republic of Iran, which was constrained for several years due to the sanctions imposed on Iran by the United Nations, the European Union, and the United States. Seoul was bound by the United Nations Security Council sanctions and by pressure from Washington to abide by UN and U.S. sanctions on Iran. As a result, the trade between Iran and South Korea decreased from \$10,045 million in 2013 to \$6,098 million last year.⁴ Now that this last sanctions barrier has been removed, South Korean companies are returning

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to Iran to do business without fear of violating any UN-imposed restrictions. The Islamic Republic of Iran is currently looking for opportunities to develop its economy after several years of sanctions which crippled their GDP growth.⁵

South Korea is not, however, the only country seeking business opportunities in Iran. In January 2016, Chinese President Xi Jinping visited Iran—the first visit by a Chinese president in ten years⁶—sending a clear message that Beijing is also looking for potential business ventures. Japan, Germany, France, Britain, and India are other important competitors, all looking for billions of dollars of contracts in the Iranian market.⁷ Once Washington eases the restrictions on U.S. companies, it is likely that they too will be in the market.

Official state visits to the Middle East by President Lee Myung-bak in 2012 and President Park Geun-hye in 2015 and 2016 demonstrated the centrality of the Middle East in general, and not just Iran, for South Korea. However, due to the lingering political instability caused by the Arab Spring in 2011, the civil war in Syria, and militant threats to the stability of other Middle Eastern states, Seoul has had to reconsider its strategy in the Middle East. In order to maximize the potential economic benefits while minimizing security risks, South Korea must customize its approach to the three groups of countries which currently constitute the region. These groups are the relatively stabilized countries, post-Arab Spring countries that are still at risk of destabilization, and destabilized countries.

The Relatively Stabilized States

The relatively stabilized countries in the Middle East consist of Saudi Arabia, Kuwait, Qatar, Oman, United Arab Emirates, Oman, Iran, and Israel.⁸ The dominant players in the region with a strong influence on the security, economics, and politics of the region are Saudi Arabia, Iran, and Israel. At the core of South Korea’s relationship with these countries is trade, particularly in the energy sector, which is in the interest of South Korea and these partners to promote. However, the volume of trade is

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influenced by oil prices and regional stability; in other words, tensions between Iran and Saudi Arabia on the one hand and in Syria and Yemen on the other. Seoul’s Middle East policy needs to take into account not just its economic interest in one of these states but also the regional interactions between the different states. For example, Seoul should pay attention how the conflicts in Syria and Yemen will influence the tensions between the Iran and Saudi Arabia.

The price of oil could be influenced by a number of factors, including the failure of OPEC to control the oil market, the reentry of Iran into the oil export market after the lifting of sanctions, Iraq’s renewed oil production, the U.S. lifting the ban on crude oil exports, and the reduced dependency of the U.S. on Middle East oil production.⁹ The tension between Iran and Saudi Arabia in the OPEC Doha meeting on April 17, 2016 and the June 2, 2016 meeting in Vienna was one indication of how disagreements between the two states on issues such as Syria and Yemen influence the functioning of OPEC and prevent any agreement on oil price increases.¹⁰ If current estimates that the price of a barrel of oil will range from \$25 to \$50 in 2016 are correct,¹¹ this might have a negative effect on the volume of trade between South Korea and the Gulf Cooperation Council (GCC), as will be discussed later. Low oil prices and the need to find other income sources will, however, reveal huge potential for new Korean investments in the GCC and other regions of the

Table 1. South Korea – Saudi Arabia Imports and Exports (in US\$ millions)

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015
Export	4,026	5,253	3,857	4,557	6,964	9,112	8,828	8,288	9,482
Import	21,164	33,781	19,737	26,820	36,973	39,707	37,665	36,695	19,561
Total	25,190	39,034	23,594	31,377	43,937	48,819	46,493	44,983	29,043

Source: Korea International Trade Association www.kita.org


Table 2. South Korea – Iran Imports and Exports (in US\$ Millions)

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015
Export	3,266	4,343	3,992	4,597	6,068	6,257	4,481	4,162	3,731
Import	6,482	8,223	5,746	6,940	11,358	8,544	5,564	4,578	2,367
Total	9,748	12,566	9,738	11,537	17,426	14,801	10,045	8,740	6,098

Source: Korea International Trade Association www.kita.org

Middle East, leading to increased trade between the Republic of Korea and the Middle East in the long term.

OPEC cannot force its members to decrease their oil production in order to increase oil prices. Iran, especially after the sanctions, and Iraq are anxious to get back in the oil market and produce oil. News reports from Doha hinted that Saudi Arabia was not willing to limit its oil production.¹² Both the disagreements between OPEC members and oil production in Iraq and, particularly, Iran will keep oil prices relatively low at \$25-45 a barrel. This will affect the state income of some of the oil-producing countries that are dependent on oil, for example, Iran and Saudi Arabia. Likewise, low oil prices will force Saudi Arabia to consider its balance of payments, thus forcing a reduction in expenditure or a search for alternative incomes; otherwise it is likely to face internal economic and political problems in the next few years.

In the last two years Saudi Arabia and Korea have signed deals to increase their trade and cooperation including, among others, hiring South Korean engineers for the state oil refinery¹³ and expanding Korea-GCC¹⁴ trade to other sectors beyond oil, gas, and construction. Examples of this include health, tourism, information and communication technology (ICT),¹⁵ and the energy sector,¹⁶ including the selling of South Korean nuclear power plants in billions of dollars to Saudi Arabia. Another opportunity for expanding trade between Korea and Saudi Arabia is the first Saudi Arabia produced car, Ghazal 1, which was unveiled by Saudi Arabia's King Abdullah in 2010.¹⁷ A Middle Eastern high quality car designed and produced by Saudi Arabia has a potentially huge market among the GCC and beyond. The South Korean car industry could leverage its expertise to increase its involvement in the Saudi car industry, thus boosting exports while at the same time improving trade relations between Korea and Saudi Arabia. Seoul should be aware that both European and Japanese car companies are also likely to try and take their share. The new Saudi Arabia 2030 vision launched by Mohammed bin Salman also opens a new window for economic cooperation

between South Korean companies and the rising Saudi Arabian private sector that is expected to play an important role.¹⁸

Iran represents another large, strategic trading partner in the region. President Park Geun-hye's visit to Iran in May 2016 with representatives from 236 South Korean companies sends a clear message that South Korea is ready to expand business ties with Iran, which were constrained during the era of sanctions.¹⁹ This was the first meeting between leaders of the two countries since 1962, emphasizing the importance of President Park's visit. As seen in Table 2, Korea's trade with Iran was doing very well prior to the imposition of sanctions. South Korea's total trade with Iran was greater, for example, than its trade with the UK or France.²⁰

It should be noted that Iran was one of South Korea's oil sources (about 5 percent),²¹ and this is one of the reasons why Korea began to consider boosting crude oil imports from Iran and expanding economic relations to include other fields of cooperation as soon as the sanctions were lifted.²²

Park's official visit to Tehran offers great opportunities for South Korean companies to realize the potential of the projects and collaborations that they had already begun discussing with the Iranians prior to Park's visit in the financial sector and the car industries among others.²³

South Korea and Iran are looking to boost the trade between the two states from \$6 billion to \$18 billion. They signed as many as 66 basic agreements that will allow for the expansion of economic relations. These agreements will be accompanied by individual contracts between the different companies in both countries. It is forecasted that President Park will manage to succeed in achieving the "Second Middle East boom" even while parts of the Middle East remain unstable due to the Arab Spring. The agreements and understandings attained during the Iran visit will boost both the construction and energy sectors, with the worth estimated to be as high as \$45.6 billion.²⁴ Iranian economic benefits from implementation of the P5+1 agreement



will, it can be assumed, increase the income of Iranian citizens and thus heighten the demand in Iran for South Korean high tech and electronic commodities.

South Korea is also hoping that the P5+1 agreement and Iran's ensuing economic benefits will encourage Pyongyang to pursue the P5+1 Iranian model which would grant similarly huge economic benefits. Iran is, of course, committed by the P5+1 agreement to halting its nuclear military program for at least ten years. The North Korean case, however, is more complicated because it has already become a nuclear state, and it would therefore be more difficult to convince Pyongyang to give up its nuclear arms for financial gains. It should be recalled that Seoul has consistently abstained from using its economic trade with Iran as leverage on North Korea.²⁵ If Seoul decides to use its economic relations with the Middle East as a form of diplomatic pressure on Pyongyang, this would represent a change in Seoul's foreign policy towards the DPRK and the Middle East.

Seoul should be aware, however, that its new partnership with Tehran might raise some questions in Riyadh.²⁶ There is a delicate diplomatic chess game going on in the region that includes not just the dyadic relations between Iran and Saudi Arabia but also the conflicts in which both states are involved, namely, Yemen and Syria. Yemen and Syria are both embroiled in civil wars in which Tehran and Riyadh, ostensibly non-players in the conflicts, are involved directly, by sending forces into the battlefield, and indirectly, by supporting the militants who fight against the government or the militant groups who fight alongside the government forces. South Korea should, therefore, be aware of the consequences of getting involved in one of these conflicts. For now, with the exception of the influx of refugees from Syria to Europe, the conflicts in Syria and Yemen have, on the whole, been contained to these two countries. Nevertheless, the conflict in Yemen could spill over to Saudi Arabia if the Houthis forces (backed by Iran) in Yemen perceive that they are losing the battle and choose to attack strategic sites in Saudi Arabia in order to convince Riyadh to withdraw its forces from Yemen. Such attacks on Saudi's oil refineries would increase the price of oil and greatly affect foreign trade. For the time being, Seoul has been able to continue its Middle East policy without being perceived to take sides in the ongoing tensions between Iran and Saudi Arabia.

Likewise, South Korea would be wise not to forget that the honeymoon currently being enjoyed between Iran and the world's nations might come to an end if Iran decides to violate the P5+1 agreement by developing a nuclear weapon. For now, however, Iran lacks any incentives to breach the agreement

and risk the billions of dollars in contracts that are important to its economy.

Although Israel is located near the Middle Eastern states that were affected by the Arab Spring, it was able to minimize the aftershocks of the Arab Spring on its security and economy, but potential security threats still exist. Economic cooperation between Israel and South Korea is improving each year. Israel cannot offer South Korea oil or huge infrastructure and construction projects as the GCC states might. However, it can offer high technology that South Korean companies are looking for, R&D centers, and military cooperation. Both states have declared their intentions to negotiate a free trade agreement after years of postponement due to South Korean geopolitical reasons. The announced FTA negotiation demonstrates the importance of the economic interests to both states.²⁷ Nevertheless, one should wait and see if Korea will approve the FTA with Israel before signing FTAs with other Middle Eastern states in order to not endanger their economic relations with the rest of the region. South Korea will continue to balance its economic and political interests in a way that will allow it to continue its economic and diplomatic relations with Israel without being criticized by the Arab states for having a pro-Israeli policy.

Post-Arab Spring Countries

Some post-Arab Spring states are continuing to overcome the economic slowdown and political instability that came in the wake of the Arab Spring, such as Egypt and Libya. Although trade and investments in some of these countries carry economic, political, and even security risks, South Korea, as a middle power state that is not seen in the Middle East as a threatening force, could play a more dynamic role by supporting these states.

This would, at the same time, benefit its economic and security interests.

Egypt is facing an economic slump due to both destabilization caused by the Arab Spring and militant attacks on tourist attractions, which led to a sharp decrease in foreign tourism,²⁸ and on strategic sites such as gas pipes, mainly in Sinai. The Egyptian President, Abdel Fattah el-Sisi, is hoping that foreign investment in Egypt will help him to develop the economy and reduce political unrest caused by the economic decline. Both President Xi Jinping's recent visit to Egypt and Saudi Arabia's King Salman's official visit, which followed closely, dealt with strategic relations and investments in Egypt and demonstrated the need for foreign investments.²⁹ Despite the security threats and the fear that militant Islamic groups might try to undermine President el-Sisi's initiatives to increase foreign investments in



Egypt, South Korea should nonetheless consider increasing its infrastructure and construction investments in Egypt and not just out of economic interests.³⁰

South Korea should recognize its obligations as a middle power state to prevent an escalating crisis which could lead to regional instability. Korean investment in Egypt could assist economic stabilization and the subsequent resumption of democracy.³¹ Korea cannot replace China, the U.S., or Europe, but by using its expertise from implementing projects in developing countries,³² it can exploit its non-superpower image to assist the Egyptian economy without raising fears that it is looking to take control.

While not having participated in the Arab Spring, Jordan was directly affected by the turmoil in the Middle East. This is mainly due to the influx of over half a million refugees fleeing the civil war in Syria, threatening Jordan’s social and economic stability. Another factor threatening the stability of Jordan is the interaction between Israel and the Palestinian Authority. The limping peace process influences political and social forces within Jordan that call for new policies against Israel.

Although trade between Jordan and South Korea is relatively limited, as Table 3 demonstrates, Jordan is one of the Middle Eastern states that South Korea can assist without the need to send military forces which might inadvertently drag it into regional conflict. Seoul could help to prevent a crisis that might damage the stability of Jordan or other countries in the region, for example by increasing South Korea’s official development assistance (ODA) to Jordan to help provide humanitarian assistance for the Syrian refugees. The South Korean government could, in addition, offer loans and subsidies to South Korean companies that establish research and development centers in Jordan, thus providing employment for Jordanian and Palestinian engineers. These centers will make Jordan an important R&D hub and improve its image in the region.

Destabilized Countries

The destabilized states in the Middle East will pose a threat to South Korea’s interests in the region if it decides to get militarily involved in these conflicts. Seoul would thus be advised to continue with its neutral policy towards these conflicts, all the while preparing a contingency plan for the day after. Once the wars in these states end, they will need to rebuild their countries, and South Korea could be there to offer both experience and financial assistance to fund the construction of new infrastructures.

Syria (along with Libya and Yemen) is an example of one of the destabilized Middle Eastern countries. As shown in Table 4, trade between South Korea and Syria is quite limited, and, due to the Syrian civil war, has decreased yet further. It should be noted that due to its diplomatic relations with Israel, South Korea does not have diplomatic relations with Syria.

The involvement of Russia and the U.S. in the Syrian war can be seen as the new “semi-Cold War” arena, and South Korea would be well advised to remain uninvolved. Russian military involvement has increased tension with the U.S. and other Middle

Eastern states (Saudi Arabia, Turkey, Israel); it is perceived as Moscow’s attempt to tip the balance of power in the Middle East toward a Moscow-Tehran-Damascus axis.³³ Although Moscow has withdrawn most of its forces from Syria, it continues to be active in the region. Washington, Riyadh, and Ankara still support the forces opposing Assad, although there is some disagreement between Turkey and the U.S. regarding which opposition forces to support.

Seoul has managed to remain neutral on Middle East-related issues, which has served its economic and political interests.

It should continue to avoid being perceived by the superpowers and the different regional states as identifying with one or other of the axes. Provided it is not interpreted as support for any

Table 3. South Korea – Jordan Imports and Exports (in US\$ Millions)

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015
Export	386	734	1,019	1,266	1,224	1,396	1,317	1,383	849
Import	48	55	31	36	74	69	67	78	78
Total	434	789	1,050	1,302	1,298	1,465	1,384	1,461	927

Source: Korea International Trade Association www.kita.org


Table 4. South Korea – Syria Imports and Exports (in US\$ Millions)

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015
Export	608	787	960	1,256	842	433	445	423	209
Import	7	83	90	151	63	2	1	0	1
Total	615	870	1,050	1,407	905	435	446	424	209

Source: Korea International Trade Association www.kita.org

political goals in Syria, Seoul should send humanitarian help to the Syrian refugees fleeing Syria for Jordan and Turkey. Once the civil war ends, Syria will need to rebuild the cities that were destroyed by the government and rebel forces. When that time comes, South Korean companies will be in a position to offer their long experience.

The conflicts in Syria and Iraq have also created a new problem for intelligence communities around the world including in Korea.³⁵ Syria and Iraq have become destinations for European, Russian, African, and even Asian volunteers who want to join ISIS, al-Qaeda, and other militant groups. Some of these volunteers do not even have the Islamic background that might partly justify their willingness to fight alongside these Islamic militant groups. Although the number of Koreans who have joined the war in the Middle East is marginal, there was the case of one South Korean teenager, described as an outsider, who flew to Syria and of a few foreigners who worked in Korea and later went on to join ISIS. It is possible, albeit unlikely, that additional South Korean volunteers might join these militant groups.

The volunteers present an additional layer of threat once they return home or move to another country equipped with knowledge and military experience gained during their fighting in Syria, Iraq, or Afghanistan. The November 2015 terrorist attack in Paris and the March 2016 attacks in Brussels are two examples of the damage that these volunteers can cause in Europe, the U.S., or even Korea. These people, who know how to live undetected in their hometowns, have become a major challenge for the different intelligence agencies. Without international intelligence cooperation, the battle against terrorism is doomed. For now, South Korea is not perceived as a target for terrorist attacks; Europe, Israel, and the U.S. are the main targets. Nevertheless, Seoul should reconsider upping its cooperation with international intelligence agencies in order to be ready for any unlikely but not inconceivable threats on Korean soil or on South Korean companies working in the Middle East.

Conclusion

In order to maximize the potential of the Middle East to the South Korean economy, the customization of Seoul's Middle Eastern policy according to economic, political, and geopolitical factors is imperative. The economic indicators of each state are clearly crucial when making decisions regarding investment in the Middle East; however, the conflicts in Syria and Yemen, the tension between Tehran and Riyadh, and the militant destabilizing forces in the region which might influence the outcomes of any economic benefits cannot be ignored. The Korean government would, therefore, be recommended to consult with South Korean companies about the political and security dynamics of the Middle East. These issues must be taken into account but should not prevent South Korea from boosting its gains in the Middle East for the sake of mutually improved economic relations.



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