Institutions and Economies
Vol. 6, Issue 3, October 2014, pp. 15-34

The Importance of Middle East for Northeast Asia in the New Global Economic Order

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Abstract: *The world economy has experienced a global shift particularly over the last three decades. In 1980, developed nations produced about 80% of global output while developing nations generated the rest. Three decades later, the ratio is 60:40 respectively. Emerging markets such as South Korea, Taiwan, Hong Kong and Singapore as first tier as well as Mainland China and India as second tier have developed tremendously. Overall, Northeast Asia's total output accounted for 24% of global GDP in 2011- similar to the EU and North America. To ensure Northeast Asia's rapid economic growth, it is absolutely necessary to secure energy resources by cooperating closely with the Middle East because the latter supplies over 50% of energy to Northeast Asia. Greater economic cooperation between both regions is crucial owing to the changing global economic power structure. The paper discusses a global shift in economy with a particular focus on Northeast Asian countries. It analyses how the global economic structure has changed and the form it will take in the near future. The paper explores how the economy of Northeast Asia has been reshaped. Lastly, but not least, the paper offers suggestion on how to create a win-win relationship between the region and the Middle East by creating an emerging economic power house strategically.*

Keywords: Economic Growth, Economic Power House, Global Shift, Middle East, Northeast Asia

JEL Classification: *E60, O11*
Article Received: 13 September 2013; Article Accepted: 24 June 2014

1. Introduction

In 1980, developed nations produced about 80% of the global output while developing nations generated the rest. Three decades later the ratio was 60:40 respectively. Over the last three decades, the emerging markets of South Korea, Taiwan, Hong Kong and Singapore as a first tier and Mainland China and India as a second tier have developed tremendously. The global economy undergoes a new shift as these nations expand rapidly. The World Bank expects the global

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output of commodities between the advanced and developing nations to be equal in 2015 (World Bank, 2012).

Among the emerging markets, Northeast Asia and China have experienced the most rapid growth. In 2011, the GDP of Northeast Asia accounted for approximately 24% which was a similar amount of the GDP in the EU or North America. However, compared with other major economies, the Northeast Asian economies possess potential for rapid growth mainly because of Chinese economic expansion in the next two decades. Economists and scholars do not doubt that China may become the world's largest economy by 2030 or even earlier (Dorruci *et al.,* 2013; Kuijs, 2012; Morrison, 2013).

In 2011, China, Japan and South Korea emerged as major economic powers by producing more USD13.5 trillion in GDP. The region is becoming an economic power house in manufacturing and investment contributing to global economic growth. In order for Northeast Asia to grow more rapidly, it is absolutely necessary for it to ensure constant supply of energy resource. Thus, the region has forge stronger cooperation and ties with the Middle East as the latter supplies over 50% of energy to Northeast Asia. The mutual cooperation is important as Northeast Asia becomes an important economic player in the global arena.

In fact, the rapid economic growth that Northeast Asia is enjoying can be attributed to its close relations with the Middle East. South Korea for example has actively participated in developing social infrastructure in the Middle East since the 1970s to enable it to invest in heavy and chemical industries at home. Japan's rapid economic growth during the 1960s and 1970s was supported by stable and steady energy supply from the Middle East, while in the 21st century China seeks to ensure stable energy supply for further economic growth: it seeks to consolidate its power as an investor in other regions including the Middle East. The Northeast Asia and the Middle East hold over 80% of foreign reserves and 30% of gold that accounts for around USD5.8 trillion and USD1.2 trillion respectively at end 2011. Therefore, two regions need to cooperate with each other for their economic prosperity as well as political stability in a rapidly changing globalising economic system (https://www.cia.gov/index.html).

The paper discusses a shift in global economy with specific focus on relations between Northeast Asia and the Middle East. It also analyses how the global economic structure has changed. It further explores how these evolving ties are reshaping Northeast Asia and the Middle East with a particular focus on economic growth. The paper concludes with suggestions on creating a win-win relationship between the regions by generating an emerging economic power house and non-Western economic partners in terms of macroeconomic strategy in the global economic system.

2. Theoretical debates

Globalisation is a highly complex topic. It covers economy, politics, society, culture among others and is interdependent factors in the process of globalization and difficult to treat them in isolation. Although a global economy is not an isolated entity, it may be valuable to look at its major position within the globalisation debate in order to understand its nature more in detail (Friedman, 1999; 2005; Bhagwati, 2004; Wolf, 2004; Dicken, 2011; Ström *et al.,*2013).

The largest body of opinion on the global economy in the politico-ideological spectrum might be hyper globalists. They explain that we live in a borderless world in which the national concept is irrelevant and thus, globalisation is the new economic order. Nation states are not significant economic units because consumer choices and cultures have become more homogenised as global corporations produce standardised products for consumers worldwide. As a result, they claim the global economy is a natural order.

Friedman's opinion (2005) that the world was flat represents the hyper-globalists view has become a myth. His opinion has had strong influence on politicians, business leaders and many other interests groups. His view is shared by political right- and left-wings although their positions differ with regards impact of policies. For the neo-liberals (the rightists), globalisation is a pivotal ideology that brings the greatest benefits for the greatest number based on free market, trade and investment, policies. They believe globalisation is a solution to the world's economic problems and inequalities (Wolf, 2004; Dicken, 2011). To hyper globalists (the leftists) look at globalization as a problem. They are against globalisation and regard a free market forces as a destructive resulting in global inequalities, inequities and environmental problems. Therefore, markets must be regulated to protect wider interests. Thus, the only logical solution is to return to localisation and reject globalisation (Greider, 1997).

Hirst et al. (2009) argued that the world economy was more open and integrated for at least half a century from 1870 to 1913 compared with today. This is based on empirical evidence when one examines national states as statistical units using a quantitative and aggregative approach. Sceptics say that world trade, investment, and labour movement between countries during the period were immense and such a level has not been reached. Hirst and Thomson (1992) explained that the current global economic system is not fully globalised, but it internationalised.

However, Dicken (2011) argued that qualitative changes have taken place in the global economy, which is more meaningful than quantitative changes. The most important qualitative changes are transformations in material production, distribution, and consumptions of goods and services. Gereffi (2005) explained

that there has been a huge increase in both intra industry and intra firm trade. These are clear indicators of more functionally fragmented and geographically dispersed production processes particularly in financial markets enabling transfer of money globally in a real time with repercussions for national and local economies. Therefore, Jessop (2002) opined that globalisation is a super-complex series of multi-centric, multi-temporal, multiform, and multi-causal processes. This view regards globalisation not as an inevitable end-state, but as a complex, indeterminate set of processes and operates very unevenly in time and space. Furthermore, the nature and the degree of interconnectedness between different parts of world are regarded as in a permanent state of flux. Globalisation can be linked to new regionalism, a popular concept in the late 1980s, which focused on external links with other regions. The theoretical focal points of the new regionalism are centered on the study of external linkages and interregional interactions. As a result, new regionalism could influence the theory of transaction costs, logic of rational choice, neorealist, neo-liberal institutionalism, structure of interdependence and globalisation. Unlike old regionalism, new regionalism tends to be a spontaneous process taking place both from inside and outside the region as well as expanding by means of not only international political gears, but also economic, social and cultural linkages (Gill, 1998; Schultz, 2001; Shadrina, 2006).

This paper adopts the super complex view of globalists and new regionalism to explain the globalisation processes, the new and emerging economic powers in Northeast Asia, and economic cooperation between the former and Middle East.

3. Reshaping the Global Economy

3.1 Background

Globalisation is perhaps the most misused word today and often confused with other concepts. Stephen (2005) defined globalisation an era in which everything has changed. Power in all forms has been shifting rapidly and unpredictably since the second half of the 20th century. In fact, globalisation is a notable concept in the ideas of Karl Max although the terminology is different. The current interest in globalisation reflects a pervasive feeling that some fundamental changes are taking place in the world.

These changes are all interconnected and could sow confusion and uncertainty intensified by an increased awareness of global changes. In natural science, Lorenz (1963) employed the term “butterfly effect” popularly used in chaos theory to describe how small changes to a seemingly unrelated thing or condition can affect large and complex systems. In social science, it is not easy to explain how the global economic system had been inter-related until the first half of 20th century. Since then the revolution in electronic communications has

connected the world in real time, and production, distribution, consumption among others have become highly globalised (Dicken, 2011).

3.2 Changes in the Global Economy

Division of labour at the global level has been occurring since 18th century greatly aided by industrialisation. After the industrial revolution, the West led by the newly industrialsed United Kingdom became increasingly dominant in world structure both at the core and periphery structure. This structure is whereby the West is the core producer and supplier of manufactured goods while the others are located at a periphery and supply raw materials to the core countries.

Some core economies experienced a progressive decline and became semi-peripheral during the 18th century, and new economies such as Germany, the USA emerged in the late 19th and early 20th centuries. During the period, Asia became the biggest loser, while the USA emerged as winner in terms of shares of gross domestic product (GDP). The core and periphery structure remained until the outbreak of the Second World War in 1939. The West, particularly the USA, UK, France and Germany produced 71% of world's manufactured goods. Japan's share was only 3.5 % of the global output. The core economies sold two thirds of their manufactured products to the periphery economies and absorbed four fifths of raw materials produced by the latter (League of Nations, 1945).

The Second World War changed the long-established global division of labour drastically. As a result, post 1945 saw the emergence of a new world economic system that reflected new geopolitical realities consisting of the capitalist West and the Warsaw Pact. Outside these blocs the former Western colonies either aligned themselves to the Warsaw Pact or the West. In the post-war era, the USA dominated the world economy with its share of world GDP well over 27% by 1950.

Since the 1950s, the world economy has undergone tremendous changes especially with China's open policy in 1979 and the collapse of the Soviet Union and the Eastern Bloc in 1989. The re-emergence of Asia as the world's most dynamic region economically followed these major political events. (Frank, 1998) In fact, Asia dominated the world economy in the 18th century where the share of global GDP was 62%, while the West accounted for 23%. However, by 1950 this was reversed. The declining GDP of China and India over three centuries is an important reason while the West increased its GDP exponentially with its rapid industrialisation processes. The two Asian giants contributed over 50% of the world's GDP in the 18th century. However, their combined GDP declined to 10% by 1950. This trend however changed with China's open policy in 1979 and India's new economic policy in the 1991 (World Bank, 2010, Dicken, 2011; Winters and Yusuf, 2007; Yusuf and Nabeshima, 2010).

3.3 Reshaping the Global Economy

Since 1950, the global economy had two important and distinctive features increased volatility in economic growth, and the growing interconnectedness between different parts of the world. Western economies recovered over 255 recessions between 1870 and 2006. Two thirds of the recession ended within a year, while 33 more than two years. It would appear that national economies have better resilience and recover faster except the recessions as a product of the two world wars including the Great Depression (Ormerod, 2008). Since the 1950s, economic growth have fluctuated from the so called golden ages in early 1950s and 1970s to the negative growth in early 1980s and far slower growth rates at the end of the 1990s. The volatility in economic growth occurred until the global financial crisis in 2008.

The global economy is interconnected specifically in three dimensions namely trade, foreign direct investment (FDI), structural global imbalance. Trade has grown faster than output since 1960. In fact, trade increased nearly more than 20 times, while the world merchandise production increased more than 6 times during the last five decades in the 20 centuries. Increasing trade among countries have grown leaps and bounds and made nations more interconnected. This is reflected the contribution of trade in the national GDP. The higher the ratio, the more the nation is dependent on external trade (World Bank, 2009) (Table 1).

Table 1: Ratio of trade in GDP

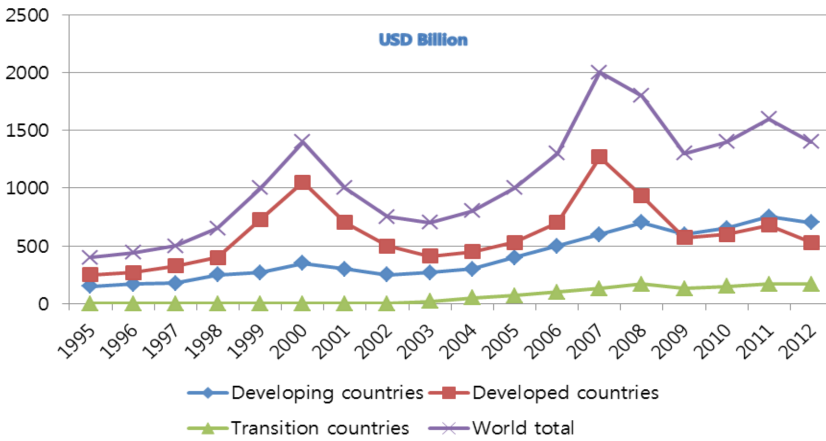
	1960	1970	1985	1995	2007
By income group					
High income	23.7	27.1	37.3	39.8	49.1
Middle income	N.A.	N.A.		55.9	55.9
Upper middle income	34.3	36.4	41.8	51.4	52.0
Lower middle income	N.A.	N.A.	N.A.	58.7	59.6
Low income	N.A.	34.6	41.8	60.5	62.6
By region					
East Asia and Pacific	20.1	18.6	35.7	58.3	75.3
China	9.3	5.2	24.0	40.4	67.8
India	12.5	8.2	15.0	27.7	30.8
Latin America & Caribbean	25.8	23.4	30.8	35.6	41.2
Sub Saharan Africa	47.4	44.3	51.0	56.1	59.7
World	24.5	27.1	37.1	42.5	51.0

Source: World Bank, 2009

The growth of FDI has outpaced in international trade since 1985. The FDI grew substantially in the 20th century especially in the second half of the century. In particular, the growth rate of FDI outpaced the growth rate of trade

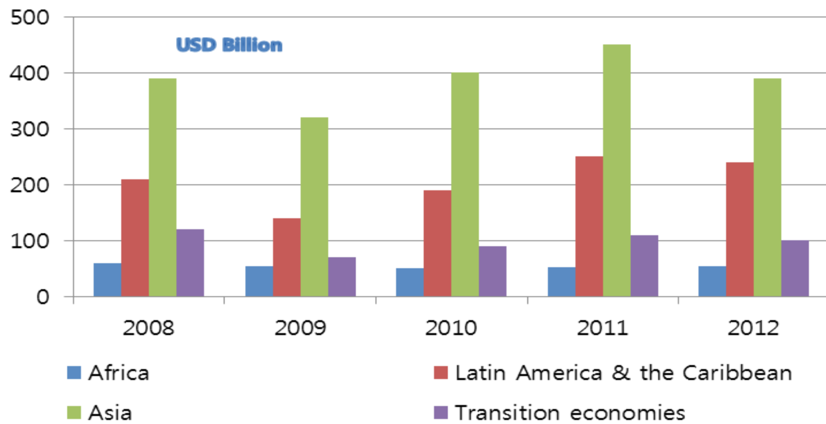
from 1985 to 2008 except during the period of economic crisis in 2001 and 2008. The FDI inflows to developing nations increased, and the developing nations accounted for 52% of the global FDI investment in 2012. Among the developing nations, Asian countries remained the largest recipient of FDI accounting for about three quarters (Dunning and Lundan, 2008; World Bank, 2009, 2010, 2011, 2012) (Figure 1, 2).

Figure 1: FDI inflows, global and by group of economies



Source: www.unctad.org/fdistatistics

Figure 2: FDI inflows by regions



Source: www.unctad.org/fdistatistics

Last, but not least a structural global imbalance has now defined the global economy. Major global, shifts based on trade and FDI over the last four decades created a complex interconnectedness in the global economy. The structural global imbalance is a result of trade imbalances in manufacturing, services and agriculture. It can cause instability due to trade surplus and perpetual widening of trade deficits. Countries with trade surpluses such as China, Japan, and South Korea accumulated capital beyond their capacity to absorb it. At the same time, countries experiencing trade deficits such as the USA, the UK financed their current account through increased borrowing. Economies experiencing trade surpluses accumulated record reserves and have invested abroad, countries with big trade issued more equity resulting in the widening of global imbalances. In 2012, China, Japan, and South Korea were the world's top twenty investors investing USD 123 billion, USD 84 billion, and USD 33 billion respectively. They ranked as 2nd, 3rd, and 13th investor economies in the world respectively. Including Hong Kong and Singapore, there are five East Asian countries are in the top twenty investor countries list (World Bank, 2009, 2010, 2013).

4. The Role of the Middle East in Emerging Northeast Asia

4.1 Background

A marked shift has occurred in the global economy over last five decades. The developing countries share of GDP, exports, and inward investment has increased significantly although the developed countries still dominate in this regard. Among the developing countries, a few countries particularly in East Asia, Russia, Eastern Europe and the Middle East have notched high economic growth between 1960s and 2010. The developing economies accounted for 18.4% of the world GDP, 19% of world exports and 20.6% of inward investment in 1990. Two decades later, these shares increased to 30.5%, 40.8%, and 35.2% respectively (World Bank, 2011; UNCTAD, 2011) (Table 2).

Table 2: Shares of world production, exports, and inward FDI in developing economies

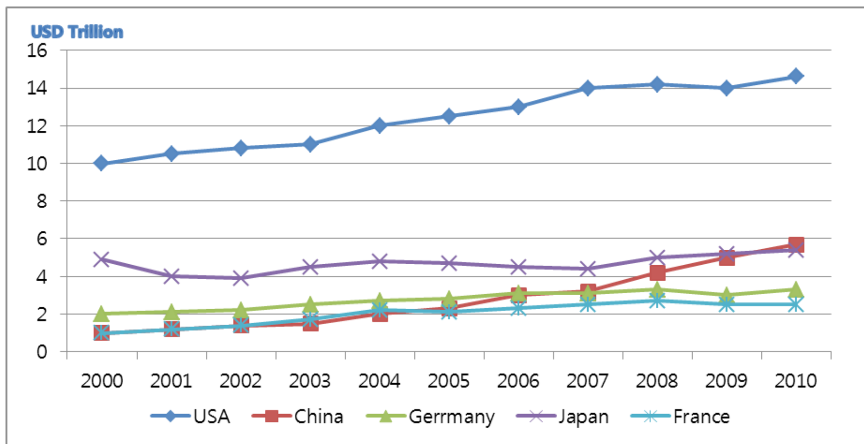
Sectors	1990	2010
Share of World GDP	18.4	30.5
Share of World Exports	19.0	40.8
Share of Inward FDI	20.6	35.2

Source: World Bank, UNCTAD, 1991, 2011

Despite the rapid growth of the developing economies, the USA is still the dominant economic power contributing 20% of the world's manufactured

goods, 28% services and 8% of agricultural product in 2010. However, its dominance has been steadily eroded since the 1980s, facing competition with China and India in particular which have been developing at more rapid pace than the USA. The global financial crisis in 2008 considered the worst economic downturn since the Second World War, adversely impacted the US economy. At the same time, Chinese economy surpassed that of Germany's in 2007 and Japan's in 2010 and emerged as the second largest economy in the world. (Dicken, 2011; The Economist, 2011; Wall Street Journal, 2011) (Figure 3).

Figure 3: Trend of GDP in major Global Economies



Source: World Bank, 2010

4.2 Resurgence of East Asia as a global economic power; Strategic importance of the Middle East

Without any doubt, the resurgence of East Asia is regarded as the most significant shift in the world economy in the last five decades. Some scholars wrote in the early 1980s that the leverage of world power shifted from North America to the Asia-Pacific region. (Kennedy, 1984) The resurgence of East Asia is defined by the following first, the rise of Japan in the post-war period; second, the rapid growth of four tigers such as Hong Kong, South Korea, Singapore and Taiwan; third, the re-emergence of China as a major participant in the global market economy; fourth, the potential economic dynamism of the Philippine, Vietnam and particularly India's growth (Dicken, 2011).

The front runner of East Asian growth was Japan which achieved tremendous economic growth of over 10% in the 1960s and continued until the 1970s and 1980s. Japan became the second largest economy in 1968 and

maintained its status until 2009 when China claimed the coveted spot in 2010. Japan lost its dynamism as a result of the economic bubble in the 1990s with the country notching an average economic growth rate of only 1.2% between 1990 and 2003. The global financial crisis in 2008 led to soaring trade deficits which did not improve until end 2012. Despite a sluggish economy, Japan is still the world's third largest economy after the USA and China. (Park, 1997; Dicken, 2011; Nihonkeijai, 2012, World Bank, 2000)

The four Asian tigers of Hong Kong, South Korea, Singapore, and Taiwan emerged as major global players in the 1980s. In the 1960s for example, South Korea's manufacturing sector grew at an annual average rates of 18% in the 1960s, 16% in the 1970s, 13% in the 1980s, and 7% in the 1990s. Taiwan's growth rates of manufacturing sector were also very high as that of South Korea's which accounted for 16%, 14%, 8%, and 6% in the same periods. Overall, manufacturing and trade have increased tremendously over the last four decades for the East Asian economies and their share of the world's exports in terms of manufacturing increased from about 1% in 1963 to about 18% in 1999. However, this declined to 11% by 2008 due to a sharp increase in the growth of China's exports (IMF, 2009, 2010; World Bank, 2009, 2010).

In the 21st century, the re-emergence of China as one of the world's most important economic powers is noteworthy. The influx of massive Chinese labour force into the global economy may be considered as the most notable feature in economic history for the next 50 to 100 years. The growth rates China recorded are not regarded as exceptional compared with other East Asian economies. However, due to large Chinese labour forces and willing to accept low wage in addition to its open policies on trade, China will undoubtedly have an impact on the global economy. As a result, China is not only a powerful driver of global growth, but also has pervasive and potential impacts on other economies. (The Economist, 2005; Morrison, 2013; Haltmaier, 2013; Dorrucci *et al.,* 2013)
From 1980 to 2010, the Chinese economy grew at an average rate of 10.5%. The global financial crisis in 2008 also affected the Chinese economy, but it still recorded a growth rate of 8% and higher in 2009. During the global financial meltdown from 2008 to 2010, the Chinese high economic growth played as a major engine of the global economy that could contribute to nearly 50 percent of the world economic growth. China became the world's second largest manufacturing producer, the largest export nation and agriculture producer in 2010 (Chan, 2012; World Bank, 2012, IMF, 2012).

The largest market for China's manufactured products is Asia that accounted for over 40% of its export. The EU and the USA are the second and third largest markets with 21% and 18% of total export respectively. China imports fuel sources and mining products mainly from the Middle East, Southeast Asia, Sub Saharan Africa, and South and Central America. China's impacts on the global economy can be seen in the following areas: Firstly,

China's growth was based on exploitation of resources which led to high prices in crude oil, natural gas, coal, copper, iron raw since 2000. By 2006, of the total of world production of steel, aluminum, and copper, China had consumed 32%, 25%, 23% respectively. Secondly, China's production capabilities in the manufacturing sector have enabled it to reduce prices of commodities in the global markets. Last, but not least Chinese trade surplus enabled it to become capital exporter. China has the largest amount of foreign reserves in the world since 2007 (Wolf, 2008).

A new global economic structure emerged in 2000 with the Chinese economic resurgence. In 2004 a global triad consisting of North America, Europe, and East and South East Asia, generated 34%, 32%, and 21% of the world GDP respectively. In 2010, the figures were 29%, 30%, and 27% respectively (WTO, World Trade Report, 2004, 2010, World Bank, 2005, 2011).

The global financial meltdown in 2008 affected many advanced nations particularly the United States and Euro zone nations who were faced with shrinking economies, while the East Asian economies particularly China grew steadily. Like the EU, the Asian economies have formed an intra-regional economic sphere but without the former's restrictive legal system. Therefore, Asia has a relatively high intra-regional trade accounting for about 60% of trade in 2010. The ratio of intra trade in the EU accounted for about 70 percent although it declined recently due to the financial crisis in the Euro zone (Mastcielli and Park, 2012).

The Asian market emerged the world's second largest market in 2008 and continues to grow. In 2008, the value of world imports was USD 16,700 billion, and the Asian share was reached 25.2%. It means that the Asian is not only the largest exporter of manufactured goods, but also an important market in the global economy (IMF DOTS Quarterly, 2008).

The East Asian economies are mainly manufacturing-based requiring a steady and stable supply of resources without undue price fluctuation. Therefore, the East Asian region and the Middle East must consolidate their economic ties which are mutually beneficial by boosting trade relations. China, Japan, and South Korea are the second, third, and fifth largest importers of crude oil and natural gas from the Middle East, while the latter have steadily boosted its imports of manufactured goods and services from East Asia.

4.3 Future perspective of Northeast Asian and the Middle East Economies

Since the global financial crisis in 2008, the world economy has persistently experienced lower growth. In 2007, the world economy grew at average of 5.5% but recorded minus 0.7% in 2009. It was expected to grow about 3.3% in 2012. The developed economies to counter the adverse effects of the crisis

embarked on Quantitative Easing (QE) in 2009, 2011 and 2013. China also responded to the crisis by implementing financial policy measures to boost domestic demands which contributed to its growth.

The advanced economies are expected to grow only 1.2%, while the emerging and developing economies up to 5.4% in 2012. Even among the developed economies, differing growth potential is expected. Major global economies such as the United States, Euro zone, and Japan are expected to record only 1.8%, minus 0.5%, 1.7% respectively. But the newly industrialised Asian economies are expected to grow almost twice that figure 3.3%. These economies are expected to have a more balanced expansion (IMF 2011, 2012).

Among the emerging and developing economies, the projection of Chinese economic growth is striking. The economic growth rate in 2012 was expected to be 8.2% although the Chinese government set its own target of 7.5% in order to address the uneven economic development between the coastal areas of the East and inland areas of the West. In general, compared with other regions, East Asia is expected to experience the highest growth. The countries in Middle East can be defined as either oil exporting or oil importing nations. The oil exporting nations recorded a high economic growth of about 5.8% from 2000 to 2007, while the oil importing nations grew 4.9% during the same period. Based on the IMF projection, the Middle East economies will record a 2.3% and a 3.6% growth rate in 2013 and 2014 respectively, which are slightly lower than the average world economic growth (IMF, 2012, 2013).

5. A Crucial Review of Economic Cooperation between Northeast Asia and Middle East

5.1 Background

The Northeast Asian and the Middle East economies are complementary in their economic and industrial structures[1].The formers' economies are mainly manufacturing and service based, while the latter relies on natural resource for effective collaboration and long term benefits. Northeast Asia imports 60% of its energy resources from the Middle East while the latter imports 30% of its manufactured goods from the Northeast Asia[2] (Luciani, 2005).

5.2 Structure of the Middle East economies

The current global economic situation based on a lower economic growth in the United States, the EU, Japan and China has negatively affected the Middle East. Although the long term benefits of the Arab Spring since the beginning of 2011 are regarded as very positive,the region has witnessed unparalleled uncertainty and economic pressures from domestic and external sources (IMF, 2011).

At present geopolitically, the Middle East is the center of the world oil resource. The oil industry plays an important role in both foreign and domestic politics as it is regarded as a political commodity because of its pivotal importance as a primary source of energy. Therefore, governments are keen to minimise their dependence on oil imports and at the same time ensuring its availability. Major oil companies and OPEC producers have been primarily concerned about excessive global supply and a consequent drop in oil prices especially since the Iraqi War in 2003 (Tetreault, 2008; Luciani, 2005).

The Middle East has played a special role in the global oil industry. Five Gulf producers possess over 60% of the world's proven oil reserves. The Middle East and North Africa (MENA) account for over 66.2% of the world's proven oil reserves in 2006. The Middle East share of global production has been below its share of global reserves as the oil industry is not competitive enough particularly in Iraq (Luciani, 2005) (Table 3).

Table 3: World's proven oil reserves in the Middle East and North Africa

Country	**Thousand million barrels**	**Share of world's total (%)**
Iran	137.5	11.4
Iraq	115.0	9.5
Kuwait	101.5	8.4
Oman	5.6	0.5
Qatar	15.2	1.5
Saudi Arabia	264.3	21.9
Syria	3.0	0.2
United Arab Emirates	97.8	8.1
Yemen	2.9	0.2
Other Middle East	0.1	
Total Middle East	742.7	61.5
Algeria	12.3	1.0
Egypt	3.7	0.3
Libya	41.5	3.4
Total North Africa	**57.5**	**4.7**

Source: British Petroleum, 2007

The oil industry is divided into two major sectors: upstream and downstream. The upstream oil sector is also commonly known as the exploration and production sector involving the search for underground and underwater crude oil and the construction of production infrastructure such as oil wells and gas separators. The downstream refers to the refining of crude petroleum oil

as well as marketing and distribution of oil production that include building of pipelines, tankers and railroads. The oil industry in the Middle East contributes the most share of national GDP while. Oil importers in the region rely mainly on agricultural and textile products as well as tourism to generate income. In the Middle East, rights to extract mineral belong to the state. Oil companies must negotiate with respective governments to secure the rights to extract oil in exchange for lump-sum payments or royalties based on payments per barrels or tons. There has been an ongoing price war between Iran and the Gulf nations. Iran, Libya, Algeria, and Iraq among others have tried to raise oil prices, while Saudi Arabia and small Gulf states such as Kuwait, Bahrain, Arab Emirates Republic, and Qatar have opposed the oil price increase. Such disagreements over oil prices are usually based on basic differences in economic interests (Tetreault, 2008).

The private sector is in a weak position in the Gulf nations as it is the state that owns the right to oil exploration and production. Thus, economic reforms such as privatization, liberalisation, of international trade and more flexible capital movements are vital in the Middle East. However, the prospect of selling all major economic assets to foreign owners is not appealing. Globalisation

Table 4: Selected economic indicators in MENAP

	Average 2000-2007	2008	2009	2010	2011	2012
MENAP						
Real GDP (annual growth)	5.5	4.5	2.6	4.4	3.9	3.7
Current account balance	9.5	13.4	1.8	7.0	10.4	8.2
Overall fiscal balance	3.5	6.7	-2.9	-0.2	0.4	0.1
Inflation (annual growth)	5.9	14.4	7.7	7.4	10.6	8.3
MENAP oil exporters						
Real GDP (annual growth)	5.8	4.0	1.8	4.4	4.9	3.9
Current account balance	13.3	18.7	4.1	10.6	15.0	12.4
Overall fiscal balance	7.7	13.0	-1.6	2.9	4.6	3.6
Inflation (annual growth)	6.6	14.9	5.9	6.7	11.1	7.7
Of which: Gulf Cooperation Council						
Real GDP (annual growth)	5.6	6.4	0.3	5.4	7.2	4.0
Current account balance	15.7	22.5	7.1	15.0	20.6	16.9
Overall fiscal balance	11.9	24.7	-0.4	6.1	9.7	8.3
Inflation (annual growth)	2.2	11.0	3.0	3.2	4.3	4.2
MENAP oil importers						
Real GDP (annual growth)	4.9	5.5	4.2	4.3	1.9	3.1
Current account balance	-0.7	-4.4	-4.4	-3.3	-3.3	-3.8
Overall fiscal balance	-5.2	-5.4	-5.2	-6.0	-7.6	-6.7
Inflation (annual growth)	4.7	13.3	11.1	8.7	9.8	9.6

Source: IMF, 2013

needs a strong private sector. In the Middle East, only the rentier states of the Gulf possess the required combination of financial and managerial capabilities (Luciani, 2005).

There is a clear difference between oil exporters and oil importers. A strong presence of the private sector has widened the gap between these economies in terms of economic growth, inflation rate, current account balance, and overall fiscal balance in the last decade. The former have enjoyed high economic growth, lower inflation rate, and maintained good fiscal balance. The latter however faced low economic growth, high inflation rate, and big budget deficits that have contributed to political uprising popularly known as Arab Spring in early 2011 (Table 4).

5.3 A possible win-win approach for Northeast Asia and the Middle East

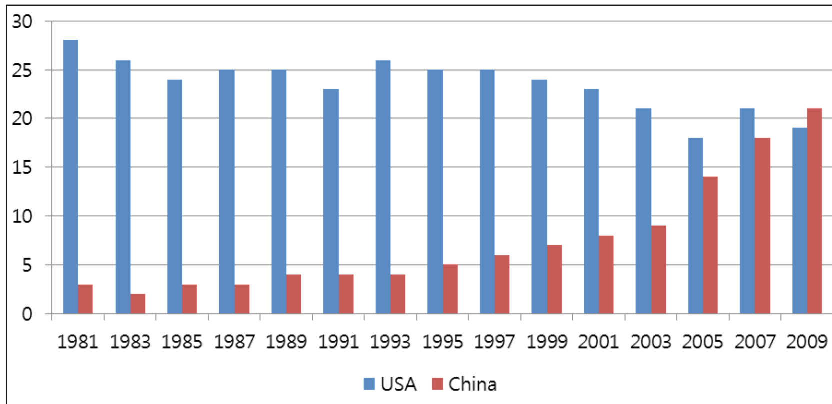
The Northeast Asian economies have emerged as among the major global economic powers in world alongside North America, and the EU. The Northeast Asian economies draw their strength in exporting manufactured products and services such as construction, finance, telecommunication etc. With surging trade volumes, Northeast Asia possesses extremely high amount of foreign reserves totalling USD4.5 trillion in 2010.

However, Northeast Asian economies are highly dependent for energy resources such as crude oil and natural gas especially from the Middle East. It means that their economic growth is very much dependent on energy imports from outside.

The Middle East and North Africa have over 66% of world proven oil reserves. Most of the latter are concentrated in the Persian Gulf states which produce about 37% of global oil production. By exporting oils and natural gases, the Middle East has increased its purchasing power enabling the member states of the Gulf Cooperation Councils (GCC) to emerge as the financial and economic centre of the Middle East in the early 2000s (BP, 2008; Habibi and Woertz, 2009).

In the Middle East, net private assets of GCC members are estimated at about USD1.5 trillion US in 2010 and of this, Saudi Arabia's asset alone are worth between USD850- USD950 billion. Saudi Arabia's economic power in the Middle East is overwhelming. The Middle East also has over USD1.2 trillion in foreign reserves and gold. By exporting oil and gas to Northeast Asia, the latter are able to build better and more sophisticated infrastructure, while increasing trade volume with the Middle East. The trend was noticeable since 1981. In 2009, China became the Middle East's largest trading partner. This is a win-win situation for both regions (https://www.cia.gov/index.html; Habibi and Woertz, 2009; IMF, 2010) (Figure 4).

Figure 4: Chinese and US Shares of total exports to the Middle East



Source: IMF, 2010

Table 5: World exports by origin and destination based on selected country groups (% of world exports)

Year	Origin & Destination	Developing Economies	Transition Economies	Developed Economies	Total
1995	Developing economies	11.9	0.3	16.1	28.3
	Transition economies	0.3	0.6	1.1	2.1
	Developed economies	16.6	1.1	52.1	69.7
	Total	**28.8**	**2.0**	**69.2**	**100**
2000	Developing economies	13.1	0.2	18.8	32.1
	Transition economies	0.4	0.5	1.4	2.4
	Developed economies	15.0	0.8	49.8	65.5
	Total	**28.5**	**1.5**	**70.1**	**100**
2005	Developing economies	16.7	0.5	19.1	36.3
	Transition economies	0.6	0.7	2.1	3.5
	Developed economies	13.6	1.4	45.3	60.3
	Total	**31.0**	**2.5**	**66.5**	**100**
2008	Developing economies	19.8	0.8	18.3	38.9
	Transition economies	0.9	0.9	2.8	4.6
	Developed economies	13.6	1.9	40.9	56.5
	Total	**34.3**	**3.7**	**62.0**	**100**
2010	Developing economies	23.2	0.7	18.4	42.3
	Transition economies	0.9	0.7	2.1	3.7
	Developed economies	15.3	1.5	37.2	54.0
	Total	**39.4**	**2.9**	**57.7**	**100**
2012	Developing economies	25.3	0.8	18.5	44.7
	Transition economies	0.9	0.8	2.4	4.1
	Developed economies	15.0	1.7	34.6	51.2
	Total	**41.2**	**3.3**	**55.5**	**100**

Source: UNCTAD secretariat calculation based on UNCTAD statistics.

Such trend in world trade has become mainstream since end 1990s. Trade volume between developing nations has increased rapidly from 11.9% in 1995 to 25.3% in 2012, while trade volume between developing and developed nations has increased slightly from 16.1% to 18.5% during the same period. Trade volume between developed nations has declined rapidly from 52.1% in 1995 to 34.6% in 2012. The statistics show that trade volumes between developing nations has expanded rapidly over the last two decades. It is vital for East Asian and the Middle East economies to strengthen trade relationships to establish a win-win scenario (UNCTAD, 2013) (Table 5).

6. Conclusions

The process of globalisation had intensified since the 1980s. Since then, the world economy has changed dramatically. The G 7 (Group of Seven economies) economic system has been replaced by G 20 (Group of 20) that includes countries such as Argentina, Australia, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, South Korea, South Africa, and Turkey. The G20 accounts for 85% of world GDP and consists of developed and developing economies. In 2012, advanced economies of share of world GDP was 70%. However, the rate of economic growth in developing economies has been striking over the last four decades, and the GDP share between the developed and developing economies will be equal by 2020.

The re-emergence of Northeast Asian economies particular China is seen as a marking shift in the global economic power structure from the West to the East in the 21st century. Northeast Asia has emerged as one of the major economic sphere along with the North America and the EU. Expansion of manufacturing, increasing trade volumes and foreign direct investment greatly contributed to rapid growth in the region. Though, Northeast Asia has become more dependent on the global markets and imports of energy resources particularly from the Middle East. But on the other hand, the region has succeeded in accumulating huge capital, and technological know-how. Therefore, the likelihood for the region to grow and become the centre of the global economy in the near future is significant.

The Middle East and North Africa nations possess over 66% of proven world oil reserves, and countries in the Persian Gulf produce about 37% of world oil production. MENA and even GCC member nations do not have a big manufacturing sector except agriculture, textile, tourism, finance services. Therefore, Northeast Asia and the Middle East can complement each other in terms of industrial structure if both regions can intensify their economic integration. Therefore, it is wise that both regions cooperate with each other to generate steady economic growth and achieve a win-win scenario.

In addition, Northeast Asia and the Middle East have a long trade history. From the religious point of view, Buddhism, Confucianism and Shamanism do not have strong dogmas. Such a philosophy does not pose a threat to other religious orders creating a perfect harmony with the Arabic world and establish a stable platform of cultural, economic, and social cooperation on a long term basis. Overall, economic, social, and cultural cooperation between both regions can be one of the best win-win scenarios in the globalizing economic system.

Acknowledgement

This work was supported by the National Research Foundation of Korean government (NRF 2012S1A3A2033350).

Notes

1 The Middle East economies include Egypt, Syria, Israel, Lebanon, Jordan, Iraq, Saudi Arabia, Kuwait, Bahrain, Oman and Qatar.
2 China, Japan and South Korea imports 40%, 85%, and 85% of its energy resource from the Middle East respectively.

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