Death and rebirth in the Arab Spring

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This week began with the dramatic and unexpected news of the death of Osama bin Laden, the long-standing head of Al Qaeda, at the hands of US military forces. The immediate financial market implications of this event—awaited with impatience for nearly a decade—were somewhat limited as the “feel-good factor” was soon countered by concerns about possible retaliation. Moreover, the sense that Bin Laden was no longer chiefly responsible for the organization’s planning and decision-making underlined a broad sentiment that not much may have really changed with his passing. Oil markets have since posted meaningful declines, perhaps reflecting some modest reduction in political risk premium, but more likely the result of growing concerns about the strength of the global recovery. Against a backdrop of significant price gains since the start of the year, there may also have been an element of the Bin Laden news that served as a catalyst for a realignment of prices toward levels more reflective of global economic fundamentals.

Yet beyond its scope for influencing short-term market moves, this historic milestone in the war on terror has created an important moment for reflection about the state of geopolitical risk in the Middle East and North Africa (MENA). While international terrorism certainly did not die with Bin Laden (in fact, near-term risks of reprisal may have increased), the appeal of extremism appears to be on the decline. Witness an increasingly fractured and globally weakened Al Qaeda (even if admittedly some of its local franchises, such as Al Qaeda in the Arabian Peninsula continue to thrive). Moreover, the recent secular revolutionary movements across the MENA region have captivated popular interest at the expense of more radical movements. Indeed, the most striking features of the ongoing regional political shifts are that they have *not* had religious undertones, and they have *not* focused on blaming the West for decades of support for corrupt and non-democratic regimes—both important elements of extremist doctrine in the past.

Upon further reflection, it would appear almost scripted that the death of Bin Laden should come during this so-called “Arab Spring,” marking the end of an era, just as another one has been born. Extremism has lost some of its prior ability to galvanize support, as have government policies focused solely on fighting it. Prior to the revolution, there was a Tunisian saying that many used to excuse the oppression of the former regime which said “at least a Ben Ali is better than a Bin Laden.” Now both are gone. The challenge ahead for the nascent democracies emerging in the region is therefore to create a new set of references.

In the new era ahead, political debate may well center on the issue of secularism versus the inevitably increasing influence of religion in the political sphere. There are undeniably important and difficult questions in this debate, and there is much passion on all sides. Yet at the same time, there is a danger that such debate eclipses an equally important set of questions about how to put these young democracies on a sounder economic footing. Nowhere is this more apparent than in the need to create jobs, especially (though not exclusively) for the young male population, which has been the recruiting ground from which extremists have drawn in the past.

Outside the region, the challenges for current and would-be international partners have also multiplied in this new era. The international community has already begun to explore difficult questions of how to support democracy more broadly, even while there is some trepidation about the potential success of more religiously-oriented political parties—which are better organized and funded than most of their secular counterparts. In the end, significant and well-designed financial and economic policy assistance is likely to prove one of the most powerful tools that the international community can use to prevent a resurgence of extremism, even if getting popular support for required reforms will not be easy.

While the death of Bin Laden alone may not have meaningfully reduced the risks of terrorism, the success of the region’s new democracies and their partners in meeting the multitude of economic and political challenges has the potential to do so. Battling extremist appeal through both democratic and economic enfranchisement remains key, but it is important to be realistic: achieving success will not always be quick or easy. As the experience of Libya so vividly illustrates, ushering in a new era of democracy can be painful, both in human cost and for markets. Consequently, it may be some time before political risk premia, especially in oil markets, can be sustainably reduced—perhaps much longer than just a “Spring” season.
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