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Turbulent geopolitics and finance

By Mauro Guillen, Emilio Ontiveros

The events in North Africa and the Middle East have cast a thick cloud over the incipient global economic recovery, especially in the most vulnerable economies.



This is certainly the case of the Euro Zone. If tensions continue to spread, other areas might be affected. These events illustrate the impact of geopolitical risk on economic and financial variables in an environment already characterized by uncertainty.

The rapid diffusion of popular uprisings, that is, the contagion effect observed thus far, is to a certain extent similar to the unfolding of events during the financial crisis afflicting the advanced economies after the beginning of the credit crunch in the United States in July of 2007.

The difference with the second-largest financial crisis in history lies in the unanticipated nature of the popular mobilizations and the difficulty in assessing their impact on economic variables and business behavior with some degree of accuracy.

While we can clearly discern the disappearance of an “old order,” it is not at all easy to foresee how a replacement will come into being.

It is perhaps likely, and certainly desirable, that in the medium to long term, after a transition that at the present appears to be mired by uncertainties, countries in the region will improve the quality of their political institutions.

In that case, economic and business conditions would be more munificent, and living standards and the welfare of the citizenry might also improve.

So far the variable that has proved to be the most sensitive is oil prices, especially after the wave of popular mobilizations reached Libya. This country produced before the conflict some 1.7 million barrels a day, 80 percent of which were exports.

Proven reserves are estimated at a level of 44,000 million barrels. Libya is the eighth-largest producer within the OPEC, the cartel that accounts for 40 percent of global supplies.

The protracted fight between pro and anti government factions and the evacuation of oil workers by major multinational firms, such as Italy's Eni, the largest Libyan producer, has added to the negative effect on the markets.

Taken together, North African and Middle Eastern countries account for 61 percent of global oil reserves and about half of gas reserves. It is not surprising that Brent prices have risen by 15 percent in a matter of weeks.

Volatility has also come to dominate the market for other commodities. Food price increases are especially worrisome because of their impact on inflation rates and on social turmoil, which could further undermine economic recovery.

Some currency safe havens, such as the Swiss franc, have directly felt the impact of heightened risks. In the end, instability makes it harder for economies to perform well and for unemployment to come down.

We are witnessing political revolutions whose full effects will not be known for some time. An intensification of migration outflows might extend the consequences into neighboring countries.

The young have played a key role in the popular uprisings, indicating a lack of economic opportunities and a greater familiarity with the new tools of mobilization enshrined in telecommunications technologies.

In the long run, however, this is a good sign because the young can carry the torch of democratization in a part of the world that so far was oblivious to the globalization of political freedoms and did not enjoy the kind of economic growth that results in a greater well-being of the population.

Emilio Ontiversos is a Professor of Applied Economics at Universidad Autónoma de Madrid and Chairman of AFI. Mauro Guillén is Director of the Lauder Institute at the Wharton School.