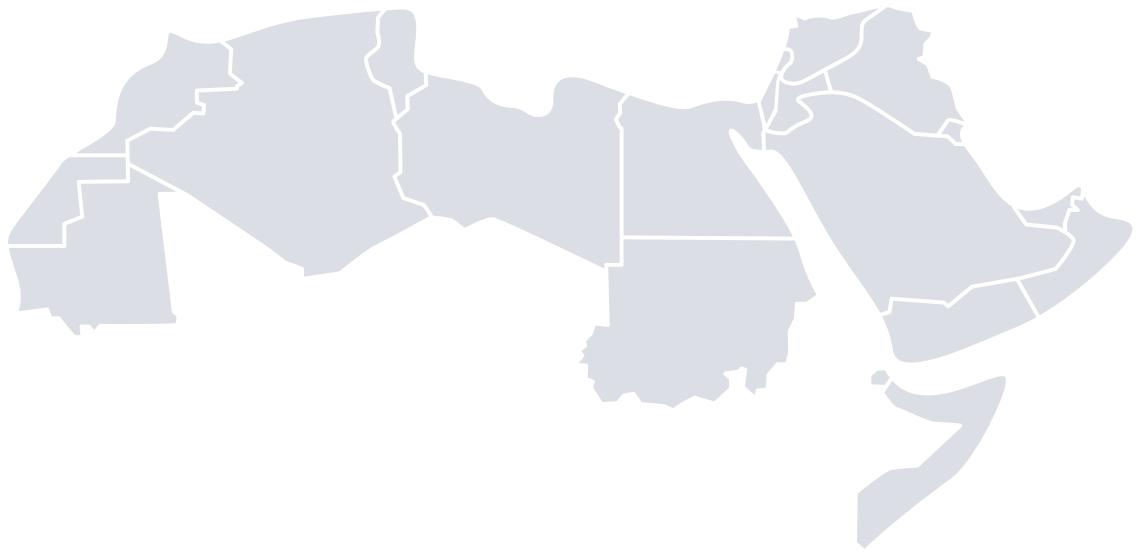


ALMOSTAQBAL

Envisioning a
Better Arab Future



 THE AMERICAN
UNIVERSITY IN CAIRO

100  **YEARS**

FOREWORD

by Dean of GAPP Nabil Fahmy

The American University in Cairo (AUC) has been an exceptional educational institution in Egypt for over a century. Its commitment to rigorous academic standards is unmatched in the region and its social conscience towards the well-being of the Arab World, the Middle East, and Egypt, in particular, is longstanding. As such, its stakeholders are the youth of the region, academics, and practitioners in different walks of life, as well as the public at large.

On the occasion of its centennial anniversary in 2020, the university reflected deeply and seriously to ensure its continued invaluable contributions. Accordingly, it has looked at its programs and future plans. In doing so, it naturally reflected with serious concern and anticipation on the Middle East generally. It is self-evident that the region is experiencing difficult times. The decreasing influence of the Arab World and its increasing challenges in the face of domestic, regional, and global transformations stood out. In fact, there was a stark relative absence of an Arab voice and response to the momentous developments of our time that seem to be defining the present and laying the parameters for the future.

The university's strong commitment to the region and its future, and the absence of Arab voices and engagements were the driving forces behind the university's adoption of a Blue Ribbon Report entitled "AlMostaqbal: Envisioning a Better Arab Future" as one of its centennial anniversary projects. Contributions to the report from across the Arab World place a strong emphasis on presenting Arab perspectives about the present and future of the region with special focus on policy recommendations relevant to the next decade. In so doing, for reasons of focus and concrete guidance, the contributing groups paid special attention to socioeconomic and political security issues.

Needless to say, as is true with almost everything else during 2020–2021, the Covid-19 pandemic created obstacles to repeated and intensive face-to-face discussions after an energetic and passionate set of initial meetings of the group as a whole. Nevertheless, the work continued with determination remotely among the group as a whole and with engagement with individual members. My respect and appreciation for the efforts, commitment, and understanding on the part of the project participants cannot be overstated. They all, without exception, brought their minds, hearts, and souls to the process. And AUC—faculty, staff, and administration—did the utmost to ensure that the Blue Ribbon Report becomes an exceptional project that marks an academically-sound, policy-oriented assessment looking forward on how best to have Arabs contribute to the creation of a more stable and secure region, as well as respond commensurately to local interests, priorities, and aspirations.

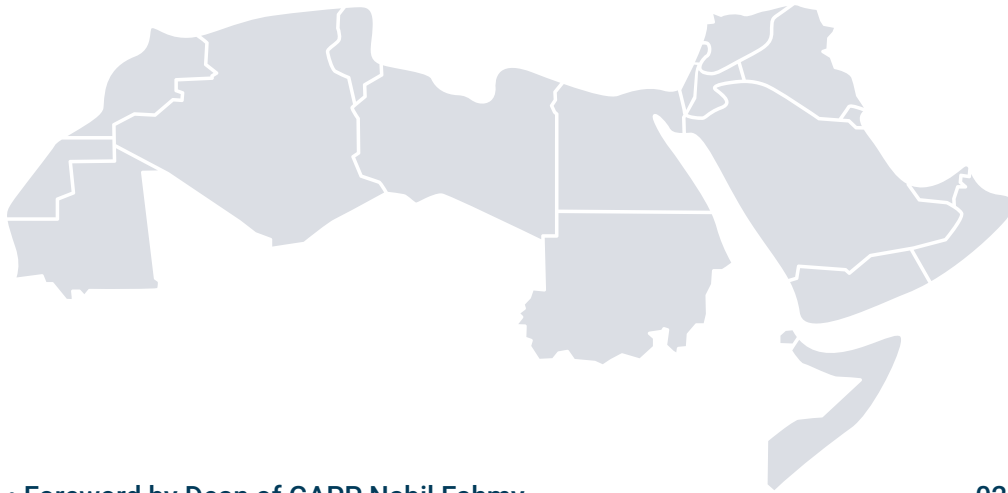
The Report lays out a series of recommendations to address numerous paramount issues to enhance the region's economic sustainability and ensure a more equitable distribution of resources. It also presents recommendations to tackle a "generic resistance to gradual change

deficiency” as well as inherent “national security deficiencies”. Yet, most of all it attempts to create a forward-looking perspective in the Arab World that is more self-dependent and proactive, allowing the majority of the region’s people to engage concretely in the development of their future.

No single report can offer solutions and recommendations regarding the many complex challenges facing the region. I do, however, believe that we have put forward invaluable suggestions in this report, that can hopefully be built upon and expanded by others, both from the region and beyond. As chairman of the project, I cannot conclude without reaffirming my gratitude to all who have made the project a reality and do hope that it will stand out as a valuable effort in bringing out Arab voices and ensuring engagement in determining the future.

Nabil Fahmy

TABLE OF CONTENTS



• Foreword by Dean of GAPP Nabil Fahmy	02
• Prologue – Addressing the Region’s Coming Challenges	08
• Contributors	11
• Executive Summary	25
• Report of the Socioeconomic Working Group	45
• Report of the Regional Security and Conflict Working Group	59
• Appendices	99

Foreword by Dean of GAPP Nabil Fahmy	02
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Prologue – Addressing the Region’s Coming Challenges	08
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Contributors	
• Project Chair Dean Nabil Fahmy	12
• The Socioeconomic Working Group	13
• The Regional Security and Conflict Working Group	18
• Editors	24

Executive Summary	26
• The Current Arab Regional Security Landscape	29
• The Arab World in the Global Division of Labor	35
• Emerging Policy Challenges	37
• Future Pathways: Regional Security Scenarios for the Arab World	40
• Policy Recommendations	41

Report of the Socioeconomic Working Group	45
<i>Resetting the Arab MENA’s Future Research and Policy Agenda</i>	46
• MENA in the Global Division of Labor: What, How, and How Much?	48
• Human Development with Little Social Empowerment or Participation	51
• Weak International, Regional, and National Integration	53
• MENA in the Global Development Discourse: The “Why” Question	54
• Conclusions and the Way Forward: Resetting the Research and Policy Agenda	55
- <i>Looking for Free Spaces to Move In</i>	56
- <i>Regional is the New National</i>	57

Report of the Regional Security and Conflict Working Group	60
• Assessment of the Arab Regional Security Landscape	62
- Overall Regional Security Trends	62
- Threats to Arab Regional Security	67
- Assets for a New Regional Security Framework	78
• Future Pathways: Scenarios for the Arab World	81
• Implications of Alternative Policy Approaches	87
• Alternative Policy Approaches	88

Appendix A	
• Market Control or Market Reform? Pathologies and Possibilities for Private Sector Development in the Middle East	100

Appendix B	
• A New Framing of Social Policies: Why, What, and How?	109

Appendix C	
• Arab Development, Oil Wealth, and Governance: Issues for Discussion	117

Appendix D	
• Rethinking Diversification and Regional Integration: Prospects for the MENA Region	125

PROLOGUE

Addressing the Region's Coming Challenges

The outbreak of the Arab Uprisings in 2011 threw into question many of the institutions that have long since influenced the trajectory of the Middle East and North Africa (MENA) region. A decade's worth of reform, reconstitution, and adaptation has done little but exacerbate the many deep-rooted political, social, and economic crises in which the region finds itself still mired. Numerous intertwined armed conflicts in Syria, Libya, and Yemen have worsened already fragile political and social structures, while other nations like South Sudan and Lebanon teeter on the brink of collapse. Together, this puts an already fragmented Arab World at an increasingly precarious position considering the geopolitical competition it faces from non-Arab powers such as Turkey, Iran, and Israel, not to mention the internal divisions generated by ethnic and sectarian strife at the substate level.

The overarching political preoccupation with remedying this "security deficit" has, in turn, compounded economic hardship and poor governance in such a way that no current political program seems capable of addressing. The resulting strategic and policy disarray has led to a pronounced absence of future-oriented, long-term visions for progress in the region—what can otherwise be thought of as a "future deficit".

The emphasis on the short-term goals of maintaining territorial integrity, avoiding state collapse, mitigating intrastate violence, and containing armed conflict, although far from inconsequential, has come at the expense of formulating pathways to achieve alternative and potentially more enduring visions for the future of the Middle East.

Many institutions have been forced to reconsider their roles in light of these developments, and the educational institution is no different. As one of the oldest such institutions of higher education in the region, the American University in Cairo (AUC) has traditionally embraced its dual mission as both a provider of quality education and a role in informing issues of public policy for the Egypt and the broader region.

To mark the occasion of its 1919 centennial, the university launched an ambitious project under the title of *AlMostaqbal: Envisioning a Better Arab Future*. The project combines the university's educational and policy missions to address the most pressing policy issues facing the region. As a collaborative research endeavor, AlMostaqbal also represents a new direction in public policy scholarship that aims to ensure that its conclusions and policy recommendations are not only context-specific, but also made by those most deeply immersed in the complexities and nuances of the region's core issues, whether they may be academics, researchers, or practitioners.

The project comprised a multi-track series of workshops and conferences that have convened over the course of its three-year duration to consider the principal impediments to progress in the Arab World, with a particular emphasis on the dimensions of regional security and socio-economic policy. Rather than reiterating the same pronouncements made over and over again by international voices, this project brings together a distinguished group of forty Arab statesmen, intellectuals, and academics in support of a more public Arab dialogue that takes into account regional perspectives on the challenges that face the Arab World, from the present day through to 2030.

In particular, the project's research trajectory has been guided by the following questions: What is the future of the Arab World's relationship with other Middle Eastern states? How can this trajectory be rectified and what corrective policies can be adopted to ensure mutual benefit? How can the Middle East, with the Arab World at its core, develop its own capacity to resolve regional security challenges? What are the main challenges the predominant policy frameworks underpinning the region's socioeconomic policies? What confronting policies can be realistically envisioned in order to move the region towards a more promising trajectory of development?

To address these questions, the participants of the initiative identified regional security and socioeconomic development as the primary focal areas, and the contributors were divided accordingly. The Regional Conflict and Security Working Group (RCSWG), chaired by Ambassador Karim Haggag, Professor of Practice at the American University in Cairo, was charged with assessing the trajectory of the regional security landscape to the extent that it affects the Arab World and formulating policy approaches for alternative policy responses that would better serve the region. The Socioeconomic Working Group (SWG), chaired by Professors Ibrahim Awad, Professor of Practice and Director of the Center for Migration and Refugee Studies, and Amr Adly Assistant Professor of Political Science at AUC, was mandated with investigating the position of the Arab World within the world economy and the global division of labor in light of its enduring sociopolitical underperformance when compared to other regions.

Both groups adopted an empirically-based, academically-informed, and policy-oriented research methodology that situates the Arab World within the broader Middle Eastern, transregional, and international contexts. The emphasis on this interplay between global, regional, and national processes, flows, and actors—on both the material and ideational levels—reflects the growing need for strong cooperative mechanisms and interdependent structures to achieve long-term solutions.

Each working group produced a paper that synthesizes their major findings, based on which the Blue Ribbon Committee has reached the conclusions presented in this report. The Blue Ribbon Committee was convened by Nabil Fahmy, Dean of the School of Global Affairs and Public Policy and tasked with collating the findings arrived at by the working groups throughout the proceedings of the initiative, and then composing an evidence-based, policy-oriented publication that would assess the challenges and opportunities the Arab World is expected to face through 2030. In turn, the report would place special emphasis on the policy recommendations proposed by the participants that together comprise a vision for the future of the region.

The report of the Regional Conflict and Security working group focuses on the "future deficit" which members perceived to be the underlying root cause of the precarious security position in which the Arab World currently finds itself. At the core of this assessment is the recognition that the path forward is one toward a shared notion of security interdependence based on common threats and cooperative mechanisms designed to mitigate them. Their transnational and interregional lens allows them to situate the region within the broader theater of global power dynamics, where shifts often result in a reactive foreign policy. In their estimation, the most viable solution for prosperity in the region is to construct a well-balanced security structure through which the Arab World can pivot from a reactive approach to an active player able to influence the trajectory of regional security dynamics towards a more stable direction.

Their findings, discussed further below, are complemented by the report of the Socioeconomic Working Group which synthesizes four papers developed in later rounds of the initiative to

rethink socioeconomic development in the Arab MENA¹ in the broader context of its position within the global hierarchy of value. The report traces the reasons, and potential remedies, for why the Arab World has occupied relatively low-value positions in global value chains, primarily as suppliers of raw materials, while other productive sectors suffer from weak integration on both the international and regional levels.

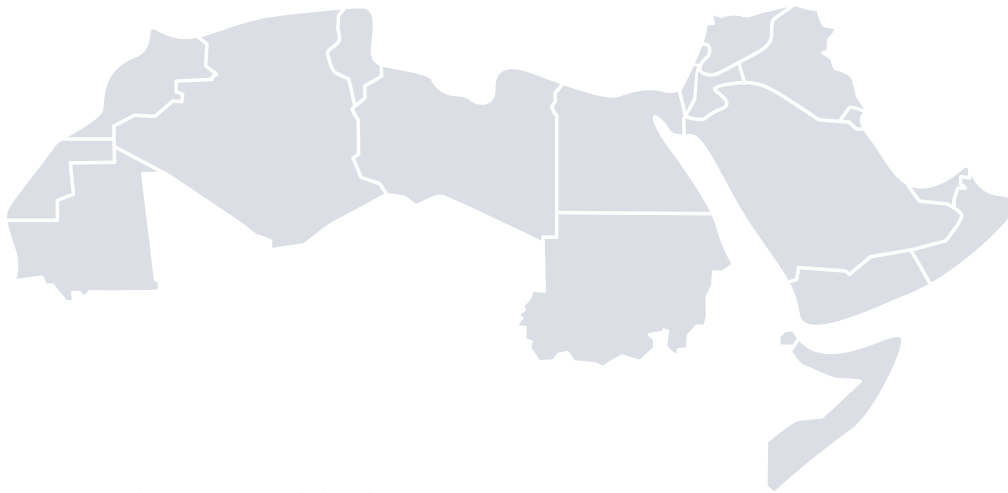
This is compounded by the overconcentration of international trade and investment flows in extractive industries, especially oil, which has led to sectoral and national concentration. On one level, as the report shows, this furthers deepens pre-existing inequalities within the region and within individual nations, and furthermore, reinforces the strong association between the level of development and the mode of integration into global value chains that the report urges us to rethink. Additionally, by paying attention to private-sector enterprises and market-creation, the report aims to provide a holistic picture of the socioeconomic situation of the region that combines macro-level analyses complemented by statistical data focused on micro-level details, such as capitalization and access to technology.

In the synthesis that follows below, the Blue Ribbon Committee has identified the most salient issues and recommendations provided by both working groups to produce a narrative that provides an exposition on what the immediate future of the Arab World, within the broader Middle East regional context, might look like.

Finally, it is important to highlight that this report reflects the synthesis of the discussions and research conducted by participants of the AlMostaqbal project in an attempt to present the broad array of opinions, insights and recommendations offered by the participants. This Blue Ribbon Report includes the names and bios of the participants in recognition of their invaluable contribution to the final outcome of the project. However, the American University in Cairo takes sole responsibility for the contents of this report, which does not necessarily reflect the consensus view of the participants of the AlMostaqbal Project.

1 The term 'Arab MENA' designates a category that includes all the Arab speaking countries in the Middle East and North Africa. It does not include Sudan, Somalia, and Mauritania. In this report, this term is used in reference to the socioeconomic aspects of the analysis as per the report of the Socioeconomic Working Group.

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During his distinguished diplomatic career over three decades, Fahmy served as ambassador to the United States (1999-2008) and Japan (1997-1999), as well as in numerous government and international positions. His work focused on international and regional security, disarmament and non-proliferation, conflict resolution, and Arab-Israeli diplomacy. He was also the chairman of the United Nations Advisory Board on Disarmament Matters, and the vice-chairman of the United Nations General Assembly's first committee dealing with disarmament and international security. He was also a member of the Egyptian delegation to the 1991 Madrid peace conference; the review conferences of the treaty on the nonproliferation of nuclear weapons; the committee on principles in the United Nations conference on promoting international cooperation in the peaceful uses of nuclear energy, and many other multilateral events, such as the supreme advisory council of the Beijing forum. Fahmy was bestowed with the cordon of the Order of the Rising Sun by Japanese Emperor Naruhito.

Fahmy also founded the School of Global Affairs and Public Policy (GAPP) at the American University in Cairo (AUC) in 2009. Its programs are internationally and domestically accredited. The school has become an invaluable Middle East voice of stellar caliber on topical issues of public affairs, law, journalism, as well as studies on the Middle East, refugees, and gender and American studies. He has served as its founding dean from 2009-2022.

Nabil Fahmy published his latest English-language book *Egypt's Diplomacy in War, Peace, and Transition* in February 2020, which seeks to inform future generations about the challenges of statecraft that he and his compatriots faced over the past fifty years.

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EXECUTIVE SUMMARY



- **The Current Arab Regional Security Landscape**
- **The Arab World in the Global Division of Labor**
- **Emerging Policy Challenges**
- **Future Pathways: Regional Security Scenarios for the Arab World**
- **Policy Recommendations**

EXECUTIVE SUMMARY

The Middle East region is one of the most fragmented in the world, plagued by a lack of security frameworks on one hand and viable economic planning on the other. The Arab World in particular, as the core of the broader Middle East regional system, has been at the forefront in experiencing the effects of this fragmentation.

The deficit in security frameworks has stymied attempts to promote cooperation and mitigate common threats and has ushered in prevailing regional instability. For decades, the Arab World has undergone several transformations, often violent and chaotic, leaving the region more vulnerable to growing instability and insecurity. The Arab World is now caught in a vortex of intertwined armed conflicts in Syria, Libya, and Yemen, geopolitical competition, regional and international military interventions, weakness of Arab states vis-à-vis their sub-state ethnic and sectarian loyalties, the threat of nuclear proliferation, as well as identity politics and rising humanitarian crises. Furthermore, these trends are compounded by the specter of terrorism, looming environmental crises, and poor governance. Rarely has the Arab World experienced such holistic threats amid strategic disarray.

Unsurprisingly, the Arab states are currently—separately and together—suffering from what can be described as a “future deficit,”¹ meaning there is a pronounced absence of future-oriented visions for the region. The emphasis has been on the near-term urgent objectives of maintaining stability, avoiding state collapse, and addressing civil wars. These are all worthy goals but come at the expense of formulating enduring pathways to achieve alternative, and potentially transformative, visions for regional security while failing to adequately anticipate regional and global crises and plan for their fallout.

The erosion of Arab nationalism as the dominant ideational framework for Arab governments or as aspiration for the Arab peoples has been a turning point. This nationalism has gradually been superseded by a transnational ideology of Islamism, sectarianism, subnational loyalties, and state-based nationalism. This shift paved the way for the attempted legitimization of Turkish and Iranian intervention in different parts of the Arab World.

This ideational shift was parallel to global political fluctuation amid the fall of the Berlin Wall and the wave of democratization that subsequently spread across Latin American and Eastern Europe. Following this, the fragmentation of the Arab World became a central policy focus for western states in their approach towards the region. Pressures on some authoritarian governments for democratization or liberalization were evident, which, in turn, led to an upgrading of authoritarianism as many countries in the region struggled to rehabilitate their image in the eyes of the West and meet new regional and global conditions while simultaneously maintaining the core elements of their regimes domestically by regulating new policies and strategies of governance.²

The region still lives the effects of the consequences of bad governance that followed this authoritarian upgrade, among other political and social reasons behind the Arab Uprisings. It is not surprising that regimes across the Arab region rediscovered that they still share the same fate. However, Arabism is an outdated solution.

1 World Development Indicators (2021)

2 Heydemann, S. (2007) *Upgrading Authoritarianism in the Arab World*, Washington D.C.: Saban Center, Brookings.

The absence of “Arab” solutions to the burgeoning security deficit ceded the diplomatic, military, and political initiative to the non-Arab periphery comprising Israel, Iran, and Turkey. These three countries have had problematic historical relations with the Arab World, taking advantage of the deterioration of the Arab regional order; these middle powers turned the resulting security deficit into a geopolitical advantage to advance their distinct regional interests.

The nature of the challenge posed by these three countries is both geopolitical and ideational. As they seek to create domains of influence in the Arab region and beyond, they aim to replace the old Arab order with new frameworks. For Iran, this framework is based on “resistance” to both Israel and the West, particularly the United States and Shiite Islamic militancy. Turkey’s regional project is predicated on neo-Ottomanism and an Islamist Sunni ideological framework. Meanwhile, Israel seeks to prioritize forging relations with Arab countries (normalization) to transcend its conflict with the Palestinians and pressuring its primary adversaries—Iran, Syria, Hezbollah, and Hamas.

For these reasons, exploring the future of regional security in the Arab World has become more pressing within the wider context of the MENA region. Foresight, rather than prediction, is key in anticipating unexpected shifts and providing a sound basis for policy alternatives. The future of regional security in the Arab MENA cannot be envisioned without rethinking socioeconomic development in the region and resetting the future security research and policy agendas.

This future is predicated on the acknowledgment that the position the combined Arab countries of the region occupy in the global division of labor has been both a cause and an effect of socioeconomic underperformance when compared to other regions of the world that could redefine their mode of specialization into higher-value niches (i.e., East Asia). Nevertheless, Arab states have offered some opportunities for major human development achievements compared to other parts of the world, such as South Asia and different subregions in Africa outside North Africa. This is crucial in putting socioeconomic development in a global perspective and thus denying any explicit or tacit assumptions about the uniqueness or exceptionalism of the Arab World, which have influenced much of the scholarship and policy analysis on the region.

The position occupied by the Arab World countries in the global division of labor raises two interrelated but conceptually separate questions. First, what does the Arab World produce for exchange with the rest of the world? This entails the descriptive questions of how the Arab region is tied to the global economy: what does it sell to the world and what does it import? How intensively are MENA-based firms integrated into global value chains? Second, how much does the Arab region benefit from its position in the world economic hierarchy, and how does this explain its socioeconomic development record thus far?

It is no secret that the Arab World’s position in the global division of labor has revolved around oil and natural gas since the end of World War II.

This, in turn, has resulted in a partial redefinition of the region’s position in the global division of labor throughout the past fifty years. There has been a general inability to upgrade into higher value-added manufactured goods or services. According to the World Bank, the share of high-tech exports in the MENA region has remained negligible, indicating weak industrial policies and poor educational outcomes. Between 2007 and 2018, the ratio of high-technology exports to total manufactured exports averaged 5.9 percent for MENA compared to 29.76, 13.74, 7.48, and 6.07 for East Asia, Latin America, South Asia, and different subregions in Africa outside North Africa.³

3 World Development Indicators (2021)

However, the inability to diversify the region's mode of insertion into the global economy did not hinder significant economic (albeit not export) diversification within the region, expressed in the continuous decline of the share of oil rents in the region's GDP. Noticeably, this was not confined to the non-oil-rich nations of the region. Rather, it extended almost equally to the high-income, oil-rich countries of the Gulf Cooperation Council (GCC), which has witnessed a significant expansion of primarily service sectors since the 1970s, leading to the rise of diversified economic structures.

The large disparities in the region are not merely a side effect or byproduct of bad governance. They are rather "one of its root causes that leads to the denial of social justice and the ineffective whole of government policies".

A value and a paradigm shift recognizing the centrality of fairness for well-being and achieving national development is a must at this stage to achieve social peace and political stability in the future. There is no lack of demand for major socioeconomic and political reforms in the region despite the present difficulties in channeling them or translating them into policy and institutional changes.

Most recently, the Covid-19 pandemic has displayed the deep inequalities and inequities within and between the nations of the region. The pandemic revealed the impact of informality and workers' precariousness as well as the effects of decades of austerity and welfare retrenchment on the ability to resist the pandemic and mitigate its negative effects on the most vulnerable social groups. Above all, the pandemic and the situation it has unleashed has confirmed the emphasis this project has placed on well-being as a broad social criterion that goes beyond public health and healthcare provision and expands into encompassing the basic features of the socioeconomic and political orders.

It may be time to begin to examine possible scenarios of moving away from the policy models inspired by neoliberalism, those enforced by international conditionality and the needs of global creditors and investors.

• The Current Arab Regional Security Landscape

Regional Security Trends: The Weakening of the 'Arab Core'

The security repercussions of the Arab uprisings are one example of the historical developments that contributed to the weakening of the Arab core of the regional order, which formed during the rise of Arab nationalism in the 1950s and 1960s. These uprisings broke out in 2011 against a backdrop of an already-unstable regional situation shaped mainly by the U.S. invasion of Iraq and polarization between the Arab powers.

Furthermore, the inability to forge a negotiated political contract to address such grievances and the parallel attempts by regimes to manage these disagreements by force ultimately militarized the uprisings. Several of them were transformed into civil wars—in Syria, Libya, and Yemen. This violent turn of the uprisings gave rise to transnational terrorism, regional and international intervention in Arab regional and domestic politics, and geopolitical rivalries.

The resulting erosion of the Arab core was reflected in the following regional shifts:

- 1) Arab nationalism ceased to be the dominant ideational framework for the Arab governments or aspiration for the Arab peoples and has gradually been superseded by a transnational ideology of Islamism, sectarianism, subnational loyalties, and state-based nationalism. This shift paved the way for the legitimization of Turkish and Iranian intervention in different parts of the Arab World.
- 2) Many of these developments have led to a greater regional assertiveness on the part of GCC countries. With the benefit of greater financial resources, Saudi Arabia and the UAE in particular have pursued more proactive regional policies to advance ambitious goals and counterbalance Iran's influence. Moreover, Qatar has grown more influential in the region's power dynamics while forging a closer security relationship with Turkey.
- 3) This issue is the least significant in Maghreb region, where security threats posed by terrorism, human trafficking, and organized crime in the Sahel region are more pressing. Although Egypt is still concerned with the security dynamics in the Levant, especially the Palestinian cause, the lack of resolution concerning the issue of the Grand Ethiopian Renaissance Dam (GERD) continues to present a significant challenge to Egypt's water security. The same applies to Sudan in relation to the democratic transition following the overthrow of the Bashir regime in April 2019.

The Challenge of the Non-Arab Middle Powers

The failure of the "Arab" solutions to the burgeoning security deficit ceded the diplomatic, military, and political initiative to the non-Arab periphery comprising Israel, Iran, and Turkey, which have had long, problematic historical relations with the Arab World, where these middle powers took advantage of the Arab regional order to advance their own distinct regional interests. These three countries imposed geopolitical and ideational challenges to create domains of influence in the Arab region and to replace the old Arab order with new frameworks.

For Iran, this framework is based on "resistance" to both Israel and the West, particularly the United States, and Shiite Islamic militancy. Turkey's regional project is predicated on neo-Ottomanism and an Islamist Sunni ideological framework. Meanwhile, Israel seeks to prioritize

forging relations with Arab countries to transcend its conflict with the Palestinians and pressure its primary adversaries.

The growing challenge posed by these powers has been manifested in the following trends:

- 1) The increasing resort to military use—“hard power”—which was hitherto confined mainly to Israel. Yet, Iran and Turkey have increasingly resorted to military power in their interventions in the Arab World.
 - a) Iran deployed the Iranian Revolutionary Guard Corps and allied proxy forces in conflict zones throughout the region.⁴
 - b) On the other hand, the Turkish response to the challenge posed by the rise of Kurdish People's Protection Units (YPG) forces in northern Syria manifested in the provision of intelligence and logistical support to the Syrian armed opposition. Also, Turkey's military intervention in Libya constituted a major turning point in the Libyan civil war.
 - c) For its part, Israel has engaged in repeated military campaigns in Gaza and Syria against Iranian and pro-Iranian assets.
- 2) Escalating regional rivalries, in particular the growing role of Iran in both Iraq and Syria, its support for regime change in Bahrain, and its role in the Yemen conflict sparked a far-reaching rivalry with Saudi Arabia and the UAE with significant implications for regional security. Also, Iran and Israel have been engaged in a long-standing rivalry involving proxy wars since the 1980s. Regarding Turkey, its policy for cultivating ties with the Arab Islamists did not succeed as Ankara's relations with Egypt, the UAE, and Saudi Arabia worsened.

In addition to those encounters, Ethiopia is also exerting influence on the region's security dynamics as it poses a significant challenge to Egypt's water security. The implications of the GERD project are severe for Egypt, facing the challenges of growing water demand, population growth, climate change, and environmental impacts.⁵

Realignment of Great Power Intervention

Contrary to conventional wisdom, the United States is not withdrawing from the Middle East, but rather from the region's conflicts, militarily and, to a large extent, diplomatically. Doubts about the U.S. commitment to this vital region have grown among allies and adversaries alike.

The changing U.S. role in the region has contributed significantly to its compounding security deficit and can be attributed to the following actions from Washington:

- 1) The dire consequences of the destructive war in Iraq and the mismanagement of the post-war occupation.
- 2) Ignoring Arab interests in the 2015 Iran nuclear deal, then withdrawing from it in 2018, and escalating confrontation with Tehran.

4 IISS, *Iran's Networks of Influence in the Middle East*, IISS Dossier 2019.

5 Abdelhadi, Magdi, Nile Dam Row: Egypt Fumes as Ethiopia Celebrates, BBC, 30 July 2020, <https://www.bbc.com/news/world-africa-53573154>

- 3) The failure to broker sustained peace in Palestine while pursuing a monopoly of the peace process.
- 4) Finally, the departure of the Trump Administration from the tenets that have guided U.S. policy regarding the Arab-Israeli conflict.

Also, the shift in U.S. posture can be viewed as part of a broader trend signifying a realignment of great power interests towards the region from countries such as China and Russia. Moreover, mistrust and doubts grew among allies over U.S. security commitments, and regional powers, especially in the Gulf, started to take more assertive actions in ensuring their own security.⁶

Threats to the Arab Regional Security: Intersecting Conflicts

The region's multiple conflicts and rivalries have become more interconnected, complicating conflict management and resolution attempts. Civil wars are no longer internal affairs, and intersecting conflicts in the Arab World are not new. For example, the Syrian civil war⁷ began as a local uprising inspired by the precedent events in Tunisia and Egypt. The threat to the Assad regime invited intervention from its allies.

The civil war fomented the intra-Sunni radicalization that had already plagued Iraq. Iraqi Jihadists, mainly affiliates of Al-Qaeda, fought in Syria, as did the pro-Iran Iraqi-Shiite-militias. Sunni jihadists mutated to form Islamic State of Iraq and Syria (ISIS), which declared its "Caliphate" in 2014 after occupying a vast area of the Iraqi-Syrian border. This inspired other Jihadists in the region and beyond to pay allegiance to ISIS. The Syrian war also had its ramifications on the fragile politics of Lebanon. As a result of the jihadists' infiltration in the region of the Syrian-Lebanese border, Hezbollah was able to justify a more assertive posture as a counterweight to such groups.

Arab State Weakness

Although the Arab states had long suffered structural weaknesses since their independence,⁸ they did succeed, for the most part, in developing centralized and robust power centers in terms of penetrative and administrative capacities. Although most of the ruling regimes lacked popular legitimacy, thereby blurring the lines between the state and the regime, they were able to deliver the essential public goods and services, above all security, defense, and assertion of sovereignty. This situation prevailed until the 1980s when these states reached their fiscal limits and had to painfully transition away from a social welfare state to a neoliberal model in which they attempted to cede much of the above functions to the private sector.

6 Tol, Gönül & Dumke, David (eds), *Aspiring Powers, Regional Rivals, Turkey, Egypt, Saudi Arabia and the New Middle East*, Middle East Institute, March 2020 https://www.mei.edu/sites/default/files/2019-12/Aspiring%20Powers%2C%20Regional%20Rivals_Dec.%2013%2C%202019.pdf

7 For more on the dynamics of intersecting conflicts in the region, check J. Hiltermann, *Tackling Intersecting Conflicts in the MENA region*, International Crisis Group, 15 January 2020 <https://www.crisisgroup.org/middle-east-north-africa/tackling-intersecting-conflicts-mena-region>

8 Salem, Paul, *the Arab State: Assisting or Obstructing Development*, Carnegie Papers, 2010 https://carnegieendowment.org/files/arab_state_devt.pdf

State fragility is thus ubiquitous in the Arab World. Among the 22 members of the League of Arab States (LAS) only the UAE, Oman, Qatar, and Kuwait were identified as highly stable countries according to the 2020 Fragile States Index.⁹ Meanwhile, Yemen, Syria, and Somalia are classified as a very high alert. On a regional level, the weakened structures of Arab states consolidated the ties between non-state actors and regional powers. These relations are thus enhanced due to the security vacuum resulting from the weakening of centralized state structures.

The Erosion of the Two-State Solution

The two-state solution has been recognized as the basis for the Israeli–Palestinian conflict's just and lasting settlement. However, the prospects for realizing a two-state solution are rapidly fading. Little meaningful progress has been achieved in the peace process since the last attempt at negotiations undertaken by the Obama administration in 2016.

The Trump administration's decision to move the U.S. embassy to Jerusalem in June 2018, along with U.S. recognition of the Golan Heights as part of Israel, were both manifestations of the departure in U.S. policy toward the Arab-Israeli conflict. Prospects for serious international intervention to revive the peace process are minimal, with no indication that the Biden administration will renew serious U.S. engagement towards a negotiated final status settlement.¹⁰

New Arenas of Conflict: Eastern Mediterranean and the Red Sea

One of the significant changes brought about by the region's shifting security dynamics is the emergence of new arenas of geopolitical competition. In the Eastern Mediterranean, tensions are escalating quickly. The rivalry between Turkey and an array of Mediterranean countries is intensifying into rhetorical and military muscle-flexing.¹¹

Such a strenuous status is mainly a result of Turkey's shift in strategic postures, increasingly relying on military force to uphold its energy and maritime claims.¹² Rivalries in Africa have also threatened the stabilization and state-building in fragile states such as Somalia, an LAS member, and which remains divided into regions influenced by external powers and plagued by terrorism and violence.¹³ Similarly, the eruption of violence in the Eastern Mediterranean will put any stabilization processes in Syria, Libya, and Lebanon at risk.

9 Fragile States Index, the Fund for Peace, <https://fundforpeace.org/wp-content/uploads/2020/05/fsi2020-report.pdf>

10 International Crisis Group, Nineteen Conflict Prevention Tips for the Biden Administration, ICG, January 2021 <https://www.crisisgroup.org/united-states/b002-nineteen-conflict-prevention-tips-biden-administration>

11 Hokayem, Emile et al, Competition in the Eastern Mediterranean: Understanding the Complex Dimensions and Multiple Players, IISS, September 2020 <https://www.iiss.org/events/2020/09/eastern-mediterranean-complex-dimensions-multiple-players>

12 Deep Sea Rivals: Europe, Turkey and New Eastern Mediterranean, European Center for Foreign Affairs, May 2020 https://ecfr.eu/special/eastern_med/

13 Melvin, Neil John, the New External Security Politics of the Horn of Africa Region, SIPRI, April 2019 <https://www.sipri.org/publications/2019/sipri-insights-peace-and-security/new-external-security-politics-horn-africa-region>

Growing Militarization

Militarization can be understood as both a cause and a result of the region's conflict and regional insecurity. Since the 1970s, the MENA region has been one of the most militarized regions in the world.

The region constitutes a major epicenter for international arms deals. Saudi Arabia is the world's largest arms importer, receiving 11 percent of the world's arms sales in 2020. The United States is Saudi Arabia's largest supplier providing 79 percent of its imports during the same period.

Militarization induces escalation but does not necessarily bolster deterrence. Miscalculation can push disputes and rivalries to armed conflict, be it direct or through proxies. The risk of miscalculation is high as problem-solving mechanisms are absent from the region's security architecture.¹⁴

Seeds for New Regionalism?

Despite the rising tensions in the Eastern Mediterranean and the Red Sea, both subregions witnessed significant steps towards establishing cooperation frameworks. In early 2019, Egypt led the initiative to establish the East Mediterranean Gas Forum (EMGF), a collective framework to leverage recent hydrocarbon discoveries in the eastern Mediterranean to foster increased cooperation between Greece, Cyprus, Israel, and Egypt, as well as key energy companies from Italy and France. This grouping has grown to encompass the governments of Italy, Jordan, and Palestine.

Tripartite Economic Cooperation: Egypt, Jordan, and Iraq

Economic cooperation between Cairo, Amman, and Baghdad is gradually increasing. Since 2019, the three countries have sought to strengthen coordination to achieve greater integration. Dubbed by Iraqi Prime Minister Mustafa Al-Kadhimi as "the New Mashreq Plan," the grouping is predicated on taking advantage of their resources and assets: Iraq's oil wealth, Jordan as a crossing point, and Egypt's infrastructure and workforce. The project's potential next step can be an expansion to include other Arab states, with Syria as the most probable next candidate.

The Abraham Accords

The recent steps towards normalization between Bahrain, the UAE, Sudan, and Morocco, respectively, and Israel are subject to different assessments throughout the region. Some have criticized these agreements and have considered it an infringement of the Arab consensus on Palestine as embodied in the Arab Peace Initiative of 2002. On the other hand, some observers may consider the accords as promising channels between Arab societies and Israel which may help achieve progress in the peace process and potentially lay the groundwork to form regional security cooperation beyond the focus on Iran.

14 Wezeman, Siemon, Wezeman, Pieter & Kuimova, Alexandra, Trends in International Arms Transfers, 2020, March 2021 <https://www.sipri.org/publications/2021/sipri-fact-sheets/trends-international-arms-transfers-2020>

Regional Humanitarian Relief Efforts

Recently, Saudi Arabia has undertaken extensive humanitarian relief investments. This assistance is delivered through a range of public and private mechanisms. Saudi organizations like Saudi Red Crescent, International Islamic Relief Organization (IIRO), and King Salman Humanitarian Aid and Relief Center (KSRelief) are primary components of the Saudi welfare network with a scope covering the Arab and Muslim worlds.¹⁵

Conflict Stabilization and Regional Cooperation

There are tentative signs toward de-escalation regarding several regional conflicts. For instance, the Astana and Sochi process, under Russian auspices and involving Turkey and Iran, has contributed to de-escalating the war in Syria. Also, the Arab-GCC reconciliation with Qatar is a sign of pacification that ended the rift in Arab politics beginning in 2017 between Qatar and the “Arab Quartet”—comprised of Egypt, Saudi Arabia, the UAE, and Bahrain.¹⁶

Yet, the most significant development in stabilization was the regional cooperation in ending the Libyan conflict. The conflict reached a military stalemate in mid-2020 as Sirte became the frontline between the rival military camps of the Libyan National Army (LNA) and the Government of National Accord (GNA). This precipitated the conditions for the revival of the UN-sponsored peace process supported by Egypt, Tunisia, and Algeria. Based on that support, the United Nations Support Mission in Libya (UNSMIL) managed to broker a permanent ceasefire agreement in October 2020, which led to reviving the long-suspended political process and the election of a new Government of National Unity (GNU) in March 2021.

15 Aluwaisheg, Abdel Aziz, Council of Red Sea and Gulf of Aden to play critical role, January 2020
<https://www.arabnews.com/node/1612471>

16 Harb, Khaled et al., The GCC Reconciliation: An Assessment, Arab Center, 11 January 2021
http://arabcenterdc.org/policy_analyses/the-gcc-reconciliation-an-assessment/

• The Arab World in the Global Division of Labor

What, How, and How Much?

A common denominator of all three empirical, theoretical, and normative dimensions of the AlMostaqbal project is the investigation of the position the Arab MENA occupies—and should occupy—in the world. This section reflects research on the region from *within* the region, but not in isolation from the rest of the world. Conversely, it engages extensively with the extra-MENA economic, geopolitical, and intellectual context.

The point of departure is the conceptualization of the world economy as a hierarchy where better-positioned regions, nations, and firms produce and exchange higher value-added goods and services.¹⁷ Accordingly, socioeconomic development is worrying vis-à-vis the region's position and its constituent countries in this global hierarchy of value.

Furthermore, there has been a general inability to upgrade to higher-value-added manufactured goods or services. According to the World Bank, the share of high-tech exports in the MENA has remained negligible, indicating weak industrial policies and poor educational outcomes. Between 2007 and 2018, the ratio of high-technology exports to total manufactured exports averaged 5.9 percent for MENA compared to 29.76, 13.74, 7.48, and 6.07 for East Asia, Latin America, South Asia, and different sub-regions in Africa other than North Africa.¹⁸

There were two main issues with these diversification efforts. On the one hand, they had little impact on redefining the niche the Arab MENA region occupied in the world economy. On the other, MENA showed a peculiar drive for diversification compared to almost all other regions of the Global South. In the MENA, industrialization remained relatively lower than other regions of the world, including South Asia and Africa (minus North Africa).¹⁹

Human Development with Little Social Empowerment or Participation

Despite some impressive human development gains, their unequal distribution in the Arab MENA and their quantitative bias should not be overlooked. Likewise, these indicators should also cover war-torn countries in the region such as Syria, Libya, Iraq, and Yemen which witnessed a significant deterioration in almost all aspects of human and physical development throughout the past decade.

Therefore, the particular mode of insertion of the Arab MENA as a supplier of raw materials, namely fossil fuels, did, somehow, pay off. It also indicates that some processes of redistribution of income did take place between and within the MENA countries and enabled this general improvement.

Also, it is essential to highlight that the Arab MENA is home to some of the countries with the highest per capita income globally, for example Qatar and the UAE. It also hosts some of the poorest, such as Yemen and Sudan. However, there is considerable evidence of significant

17 Evans, Peter B. *Embedded autonomy: States and industrial transformation*. Princeton University Press, 2012, 5

18 World Development Indicators (2021)

19 Arrighi, Giovanni, Beverly J. Silver, and Benjamin D. Brewer. "Industrial convergence, globalization, and the persistence of the North-South divide." *Studies in comparative international development* 38, no. 1 (2003): 3-31, p.12

disparities along most class, gender, generational, subnational, and ethno-sectarian lines, and the Arab MENA is home to the highest ratio of educated youth unemployment in the world.

Socioeconomic exclusion was often a cause and an effect of authoritarianism, poor governance, and conflict, creating a vicious circle that proved hard to escape, as revealed by the post-2011 dynamics. Throughout the past decade, the Arab MENA has shown the highest concentration of conflict between and within nations in the world. The MENA region has also been the seat of significant international protracted clashes.

In the same vein, social and economic inequalities were exacerbated by decades of neoliberal reforms, especially in the oil-poor countries, which resulted in the increased concentration of wealth and income into the hands of a few, often politically-connected elites at the expense of the majority. Rounds of neoliberalization did not give rise to competitive markets.

Weak International, Regional, and National Integration

It is essential to demonstrate that the MENA region “is still not integrated in regional or global value chains like other regions”.²⁰ Using the World Bank Enterprise Survey to estimate the Arab MENA’s position in global value chains, the region is slightly outperforming South Asia but falling behind East Asia.²¹ However, these aggregated figures mask the reality of an overconcentration of international trade and investment flows in extractive industries, especially oil and other raw materials.

Not only does the Arab MENA suffer from a poor mode of global integration, it also shows remarkably low levels of regional amalgamation, once again expressed in terms of value chains. Intra-Arab MENA exchange has been predominantly in non-trade areas, through the exchange of capital and labor as part of the recycling of oil rents, as noted earlier.

MENA in the Global Development Discourse: The Why Question

There is an evident need to change key development questions to address the Arab MENA comprehensively. However, the rationale behind policy and institutional reform requires the intellectual positioning of the region within the global development discourse.

Prioritizing numerical growth and the attraction of foreign direct investment and export promotion, once known as the “Washington consensus fetishes” according to Dani Rodrik,²² came at an expense of the majority. Most importantly, continuous rounds of neoliberal reforms have not significantly altered the development trajectories undertaken by the countries in the region.

The paradigm of well-being equity is at the center of the present discussion. Emphasizing equity as the distribution of well-being implies two things; first, the distribution question should be held as a criterion for the success or failure of the development model rather than an after-the-fact, secondary concern. Second, equity concerns the absence of systematic, unnecessary, and preventable differences in well-being across groups in society.²³

20 Zaki, Rethinking Diversification and Regional Integration: Prospects for the MENA Region

21 Zaki

22 Rodrik, Dani. “Globalization and growth—looking in the wrong places.” *Journal of Policy Modeling* 26, no. 4 (2004): 513-517.

23 Hoda Rashad’s paper “A New Framing of social Policies: Why, What and How?”

• Emerging Policy Challenges

Prioritizing State Security and Human Security

The above assessment presents Arab states and societies with a diverse array of challenges that pose a threat to both national and human security. The reciprocal relationship between the two categories is nowhere more pronounced than in the Arab World. Threats to human security often translate into national security threats and vice versa.

State Security and Human Security Intertwined

National security refers to addressing threats to the territorial integrity and vital interests of the state and is often framed in complex military and security terms. Yet, the concept is broad enough to encompass a wide array of threats to the state's survival and the prosperity and well-being of its people.

In this report, state security is stressed on the level of both individual states and the region as a whole. As some Arab MENA countries face the threats of collapse and disintegration, others are encountering threats of poor governance, terrorism, political instability (rooted in the chronic crisis of legitimacy), and threats posed by rival states. More recently, issues such as environmental rights have grown in significance due to the burgeoning threats of climate change and resource deterioration.

A Conflict Resolution Policy Deficit

Amidst the regional security crises, Arab approaches to those conflicts have been marked by a pronounced "policy deficit," defined as a lack of initiative to manage and resolve regional disputes with a cohesive framework and according to the real Arab interests. Most of the current attempts to resolve the unfolding conflicts in the Arab World are proposed by external actors. Furthermore, the record shows that the region's overall approach vis-à-vis these "policy deficit" initiatives is fragmented and lacks coherence. Most notably, the GCC did not manage to engage with the 5+1 negotiating process of the Iran nuclear deal. Furthermore, Arab involvement in supporting the UN-led mediation efforts in Syria, Yemen, and Libya has been uneven. Remarkably, the Russian-led Astana and Sochi process for Syria included Turkey and Iran without any Arab presence.

The Absence of Regional Security Frameworks

The deteriorating security situation in the Arab MENA region is most evident in the significant weakening of the traditional regional and sub-regional cooperation frameworks. The League of Arab States (LAS), the Gulf Cooperation Council (GCC), and the Arab Maghreb Union (AMU) suffer from internal divisions and structural shortcomings. Since the 2000s, several alternative regional arrangements have been proposed by foreign powers.

Thus, the absence of regional security frameworks is a fundamental policy challenge for envisioning alternative security futures for the Arab World and the broader MENA region.

Different Notions of Regional Security: State Security and Human Security

Regionally, the disintegration of state authority and proliferation of violence has exhausted natural resources, created a food crisis, as we have seen in Yemen, and threatened the safety of civilians. Dimensions such as economics, health, personal well-being, political affairs, food, environment, and community should be incorporated to reverse the lasting, devastating impacts of conflicts on human security and aim to stabilize the situation.

Arms Control and Disarmament

Growing levels of militarization have engendered an arms race dynamic that threatens to further destabilize the region's already volatile security environment. To counter this trend, serious consideration must be given to developing regional arms control approaches that can mitigate militarization. Notably, the proposal to establish a zone free of weapons of mass destruction in the Middle East emanated from a regional initiative proposed by Egypt that is now universally adopted by the international community.

Poor Governance and Economic Crisis as a Catalyst for Regional Insecurity

Poor governance is another aspect contributing to state weakness in the region. In the context of growing political unrest and geopolitical threats, weak governance presents several implications.

In some cases, steps towards democratization have stalled while states prioritize mitigating the threat of economic collapse or terrorism. In other cases, the state's ability to address the basic needs of its citizens, make the necessary efforts to fight corruption, or consolidate the rule of law and stability is severely hampered.

Terrorism and Radicalization

The rise of ISIS highlighted the overall security deterioration in the Arab World. The potency of the radical ideology espoused by the Islamic State was evident far beyond the region as different groups affiliated with ISIS threatened Western interests, of which the Paris attacks in November 2015 are a prominent example. These attacks, in turn, further encouraged international intervention in the region. Furthermore, terrorism and counterterrorism have become intersecting factors within the Arab conflicts, as ISIS and other terrorists proved able to inspire and provide support across borders.

The history of radicalization in the Arab MENA region suggests that the remains of ISIS and Al-Qaeda can reemerge in different forms. For example, in Yemen, Al-Qaeda affiliates are still active and in the process of localization and socialization within the context of the ongoing conflict. Meanwhile, the counterterrorism operation against the ISIS-affiliate group in Sinai is open-ended. In Libya, ISIS was defeated in Sirte and moved south.

Escalating Humanitarian Crises

The MENA region has the world's highest numbers of refugees and internally displaced persons (IDPs). As a result of the volatile security situations in Iraq, Libya, Syria, and Yemen, the region

has produced the most severe refugee crisis in decades, which affects both the original and host countries and communities, particularly in neighboring states.

Children are the most affected and the most in need of humanitarian assistance. According to UNICEF, in addition to other ongoing emergencies in Libya, Sudan, and the State of Palestine, there are about 70 million people in need of humanitarian assistance across the MENA region, including 27 million children. Furthermore, 50 million of those in need live in conflict-affected countries, including about 24 million children.²⁴

Neglecting such simmering human crises will only exacerbate regional insecurity. Already vulnerable to physical dangers and psychological trauma, refugees and IDPs could be subject to the abuse of criminal networks, which already control their trafficking routes.

Resource Scarcity and Climate Change

The Arab MENA is one of the most resource-stressed areas on the planet, especially in terms of water security.²⁵ It has 6 percent of the world population but a mere 1 percent of its water resources. Moreover, climate change is exacerbating this resource scarcity. The nexus of energy-food-water is at the heart of climate change implications.²⁶

Furthermore, the region is on the verge of facing the dual threats of water scarcity and food shortage. According to the 2008 United Nations Intergovernmental Panel on Climate Change (UNIPCC), the region will suffer a decline in rainfall of 10 to 25 percent, a decrease in soil moisture of 5 to 10 percent, deterioration in water runoff of 10 to 40 percent, and an increase in evaporation of 5 to 20 percent by the end of the century.²⁷ While affluent Arab societies can, at least in the short term, afford the consequences of such a situation, the majority, be they in conflict or economic need, cannot.

Impact of Covid-19 on the Arab MENA

Last but not least, an allusion to the Covid-19 situation in the Arab MENA, and the world more generally, is necessary. Even though this report's socioeconomic working group held their discussions before Covid-19 struck, the social and economic repercussions of the pandemic have emphasized many of the points previously made by the authors cited and their commentators and discussants.

The pandemic has displayed deep inequalities and inequities within and between the nations of the region. It revealed the impact of informality and workers' precariousness and how decades of austerity and welfare retrenchment affected the ability to both resist the pandemic and to mitigate its negative effects on the most vulnerable social groups.

24 UNICEF The MENA: Humanitarian Response, <https://www.unicef.org/mena/humanitarian-response>

25 Abd El-Galil, Tarek, New Data Shows Water Scarcity is Increasing in the Arab World, Stirring Discussion, Al-Fanar Media, 2 September 2019 <https://www.al-fanarmedia.org/2019/09/new-data-show-water-scarcity-is-increasing-in-the-arab-world-stirring-discussion/>

26 Jagerskog, Anders, Water, Food and Energy in the Arab World: A Collective Challenge, The World Bank Blogs, 20 November 2018 <https://blogs.worldbank.org/arabvoices/water-food-and-energy-arab-world-collective-challenge>

27 Jarvis, Lovell S. & Petraud, Jean Paul, Climate Change and Increasing Aridity: the fate of Agriculture and Rural Communities in the Middle East and North Africa, <https://ucanr.edu/sites/rosenbergforum/files/313045.pdf>

• **Future Pathways: Regional Security Scenarios for the Arab World**

Much of the preceding analysis points to a regional future marked by deepening political instability, heightened geopolitical competition, and greater overall volatility of the regional security landscape. However, such a conflict-ridden future is not inevitable. The region faces several different pathways to alternative futures less prone to regional instability.

Scenario building is a useful tool in envisioning alternatives for the region. It presumes that a future(s) is an interaction between trends, mainly probabilistic factors and uncertain events. Scenario building is not meant to be predictive but rather used to explore possible alternatives and assess available policy approaches for realization. Applying this method to the possible futures of a new regional security complex in the MENA region, the working group formulated four scenario archetypes, each with a specific plot or logic:

- a) Continuation: current trends continue in the future without significant change;
- b) Collapse: current trends fail in achieving the growth and development goals which may result in greater regional instability, conflict escalation, instances of state collapse, region-wide geopolitical competition, and potentially, regional armed conflict;
- c) Steady change: balanced trends with limited manageable conflicts, resulting in stabilization;
- d) Transformation: a desired scenario as the region moves toward a more stable and integrative regional system, with successful progress in furthering conflict resolution and conflict management processes.

Implications for Alternative Policy Approaches:

One of the more pronounced implications of these scenarios is that the region is not actually on the brink of collapse as it is equipped with numerous assets that can be used to reverse the possible track of ongoing deterioration. However, the “collapse” scenario, entailing region-wide breakdown, remains a distinct possibility and should serve as a warning signal for policymakers and those who are concerned with the region’s future. Although its signals are weak, efforts should be focused on how to best avoid this outcome.

The “transformation” scenario is premised on a region-wide shift towards robust processes of regional conflict resolution, geopolitical de-escalation, and concrete steps toward an inclusive regional security architecture. Although desirable, this scenario remains unlikely as it is predicated on a fundamental reversal of current regional trajectories. Not only are the signals that point to this scenario weak, the type of regional and international leadership required to realize this future remains noticeably lacking. Comparative historical experiences suggest that such transformation takes decades to actualize, taking for example the efforts of Indochina and Southeast Asia to escape the violent legacy of decolonization or the Balkans in the aftermath of the post-Yugoslavia wars.

The scenario of “steady change” towards regional stabilization remains possible but nevertheless challenging. Terrorism and radicalization are likely to stay ever-present factors of the regional security landscape. Similarly, ever-higher levels of arms purchases will continue to rise, and thus the current trend toward greater militarization will continue to form the backdrop to regional security dynamics. However, realizing this scenario is heavily dependent on pursuing alternative policy approaches than those currently adopted. Specific actions geared toward stabilization, such as conflict management and arms control, can be tailored toward mitigating the negative effects of militarization and conflict escalation. If successful, such policy approaches can consolidate trends toward stabilization and help the region move toward a potential transformation scenario in the future.

• Policy Recommendations

The following policy recommendations are derived from the comprehensive discussions of the Regional Security and Socioeconomic Working Groups. It is based on the assessment of overall trends of potential economic and political scenarios as considered earlier:

Recommendations for Regional Socioeconomic Policies:

- i. The region needs to free market space for autonomous socioeconomic actors, which is possible in sectors not occupied by powerful, politically-connected interests.
- ii. Market-freeing reforms can thus be pursued in some areas of the economy in many Arab MENA countries where:
 - a) the political resistance to the removal of specific market barriers is minimal;
 - b) the cascading impact on the market is high²⁸ and;
 - c) the potential to generate a new social and economic constituency is the strongest.
- iii. The growth of small- and medium-sized enterprises (SMEs) should be encouraged by offering better access to financial and physical capital and technology. The rise of robust SME strata would likely strengthen inter-firm linkages on the national scale, and potentially regionally as well. These strata need not contradict the interests of already powerful and connected actors either, as SMEs often operate in more labor-intensive sectors, unlike large enterprises. Moreover, SME growth can provide opportunities for the creation of supply chains for larger firms in productive sectors.
- iv. Previous experience has revealed that markets do not automatically generate market actors; they emerge from sociopolitical processes that allow them to possess the capacity to produce and grow. Therefore, SME-development is ultimately part of a sociopolitical project that promotes an enabling environment in which to invest in the potentials of youth and women, the redress of structural inequalities, and the opening of prospects for development and mobility.
- v. Improved national economic integration along the lines prescribed above is commensurate with a larger potential for regional integration. As a matter of fact, recently many Arab leaders mentioned regional integration as part of long-term development schemes and/or regional security arrangements, for example Saudi Arabia-Egypt-Jordan coordination in the Red Sea as well as the recent rapprochement between Egypt, Jordan, and Iraq. The real issue, however, seems to lie in the approach to regional integration rather than the lack of the long-sought-after political will or the failure to recognize the importance of the issue.
- vi. The Arab MENA countries need to abandon the shallow trade liberalization approach they have followed in the past, which primarily focused on tariff reduction. A deeper form of integration, preferably on a sectoral basis, is a better alternative.
- vii. Trade policies must be tied with industrial strategies to allow deeper forms of integration and the creation of regional value chains, a clear departure from the neoliberal stress on a minimal state role.

28 Cascading impact refers to a chain of events that are triggered by a change in the system leading to further positive or negative changes in other related systems. Here, cascading implies positive changes in the overall market that would go beyond the sectors where market-freeing took place.

- viii. Economic integration is a political endeavor on a regional scale. It is hard to imagine such a long-term and complex process in the absence of its strategic prioritization by the ruling incumbents in concerned nations. Despite the dampening past experiences in the Arab World, there might be room for the emergence of some regionalism in the wake of recent developments.
- ix. Similarly, there is an opportunity to push for reform through the processes of economic reconstruction in war-torn and war-affected countries in the Arab MENA. By necessity, economic reconstruction is more encompassing than postwar stabilization. It would include not only the rehabilitation of basic services and infrastructure destroyed during war, but also the creation of a basic macro- and microeconomic institutional and policy framework necessary for the emergence of a viable economy providing employment opportunities allowing citizens to make a decent and licit living.

Recommendations for Alternative Security Policy Approaches

i. Prioritizing National and Human Security

As a result of the complexities of the current regional security landscape, national security and human security are, in fact, inseparable. This reciprocal relationship is nowhere more pronounced than in the Arab World. Threats to human security often translate into national security threats and vice versa.

To reverse the lasting, devastating impacts of conflict on human security, the following dimensions should be incorporated in the stabilization process:

- 1) Economic: ensuring that people are free from want by providing employment and decent incomes with functioning infrastructure.
- 2) Health: providing basic and universal health services, especially to the victims of violence, and establishing programs of rehabilitation.
- 3) Personal: ensuring the safety of citizens by reducing violence and crime.
- 4) Political: raising the level of political participation within an inclusive framework, ensuring basic human rights, and removing discrimination based on ethnicity, race, or political orientation.
- 5) Food: ensuring enough nutritious food is always available and accessible for all people.
- 6) Environmental: mitigating threats posed by the deterioration of natural resources and the consequences of an increasingly hazardous environment on the food security and safety of people.
- 7) Community: ensuring the integrity of local communities.

ii. A Holistic Approach to Post-Conflict Stabilization and Reconstruction

The challenges of post-war reconstruction have become both more apparent and more pressing. Four countries caught up in conflict—Syria, Libya, Yemen, and Iraq—will face the urgent task of post-conflict reconstruction in the face of current domestic, regional, and international power dynamics. Reconstruction is not a process of the physical rebuilding of infrastructure. It is, by design, a political process, and the interplay between political and economic factors is essential in determining the prospects for post-war stabilization and reconstruction, especially in the MENA region's competition environment.²⁹

29 Adly, Alaraby and Awad, *Conflict by Other Means: Postwar Reconstruction in Arab States*, Malcolm H. Kerr Carnegie Middle East Center, February 2021 <https://carnegie-mec.org/2021/02/05/conflict-by-other-means-postwar-reconstruction-in-arab-states-pub-83824>

iii. Addressing the Arab Conflict Resolution Policy Deficit

Amidst the multiple regional security crises facing the region, Arab approaches to regional conflicts have been marked by a pronounced “policy deficit,” and thus lack the initiative to devise conflict resolution processes within an Arab framework, or to contribute effectively to international conflict resolution processes. As a result of the inability of the region to address the region’s multiple conflicts within an “Arab” framework, the initiative was ceded to regional and outside actors.

Therefore, most current initiatives aimed at resolving the unfolding conflicts in the Arab World are proposed by external actors. The “Arab” region needs greater constructive engagement with regional and international conflict resolution processes, and to eventually anchor such processes in robust regional frameworks.

iv. Integrating the Practice of Arms Control as a Tool of Conflict Management

To counter the trend of growing militarization in the region, serious consideration must be given to developing regional arms control approaches. As a policy tool, arms control is predicated on achieving security at lower levels of armament by delinking areas of mutual agreement on different arms categories from broader conflicts between states.

v. Devising Regional Security Frameworks

The absence of regional security frameworks can thus be identified as a major policy challenge for envisioning alternative security futures for the Arab World and the broader MENA region. Most significant in this regard is the need for a region-wide security framework that includes both the countries of the Arab World and those that comprise the non-Arab Middle East: Israel, Iran, and Turkey.

The core approach behind devising a stable Middle East security architecture is anchored in a set of norms, operational procedures, and conflict resolution mechanisms as well as a gradually-evolving process based on the experience of the Organization for Security and Cooperation in Europe (OSCE) and the ACRS process referenced above. The following principles would constitute the elements of such a framework:

- 1) Giving priority to disarmament, arms control, and attempting to prohibit nuclear and other weapons of mass destruction;
- 2) A reorientation of the relations between the conflicting regional powers and the design of confidence-building measures to limit conflicts and enhance cooperation;
- 3) Development of general guidelines for regional practices of both security and political natures. These could include combating terrorism; the illicit arms and drugs trade; noninterference in the internal affairs of others; and ensuring good neighborly relations;
- 4) Designing a Middle Eastern common human rights declaration to protect human security, predicated on the idea that the well-being of the individual will lead to the well-being of the community;
- 5) Middle East countries must reach agreements toward a joint regional security agenda while considering regional and international threats;
- 6) Establish proactive diplomatic and conflict resolution missions to settle the conflicts within the region in order to stabilize regional security and prevent superpowers from using the region as a proxy battlefield.

vi. Preserving the Tenets of the Two-State Solution

The continuing stalemate in the Israeli–Palestinian peace process, including the potential total demise of the prospects for a two-state solution to the conflict, continues to be a major source of regional instability. The current status quo is deceptive and, simultaneously, unsustainable. Consequently, it is the recommendation of the working group that the major focus of Arab efforts be toward preserving the tenets for a viable two-state solution. The unfortunate but realistic assessment finds that the conditions for such a solution are not currently present, and the prospects for their revival are remote in the near term. However, this should not preclude concrete policies seeking to preserve the tenets of the two-state solution as a minimal objective.

1) Leveraging the Abraham Accords to revive the 2002 Arab Peace Initiative

The numerous cooperation agreements enacted in the context of recent normalization agreements between Morocco, the UAE, Bahrain, Sudan, and Israel in the fields of energy, commerce, and security constitute valuable leverage that can be utilized toward reviving the prospects of a negotiated solution. In particular, the focus should be on reviving the 2002 Arab Peace Initiative (API). At the heart of the API was an approach predicated on providing regional security guarantees for Israel within the context of a just and lasting settlement to the conflict based on ending Israel's occupation of Arab territories; the establishment of a Palestinian state in the West Bank and Gaza strip with its capital in East Jerusalem; and a just settlement of the Palestinian refugee problem.

2) Reinforcing the Diplomatic Parameters of the Two-State Solution:

The prolonged absence of any negotiation process between Israel and the Palestinians highlights the urgency of reinforcing the basic tenets of the two-state framework diplomatically to foreclose the prospect of future diplomatic initiatives that would seek to accommodate the “prevailing realities on the ground”, as was the case with the Trump plan. Such an effort could take the form of different steps, including:

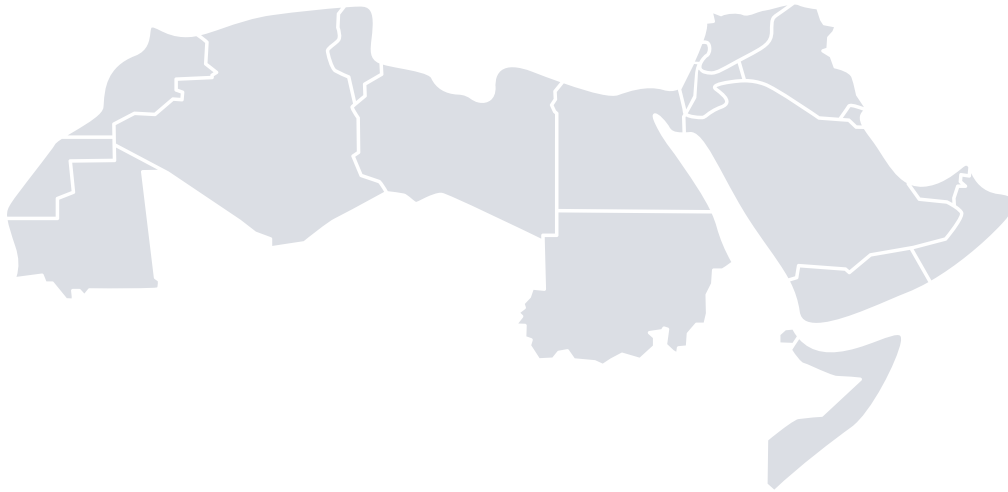
- Introducing a new UN Security Council Resolution restating the fundamental principles of a two-state solution. This can be done via the UAE during its upcoming tenure as a non-permanent member of the Council;
- A new League of Arab States resolution reinforcing the principles of the API;
- Pressuring the Biden administration to rectify the decision to relocate the U.S. embassy to Jerusalem. At a minimum, the United States should commit to opening a consulate in East Jerusalem at the earliest possible date.

3) Supporting Efforts Toward Palestinian Reconciliation

The ongoing division within the Palestinian national movement between Fatah and Hamas, mirrored in the territorial division between the West Bank and Gaza, constitutes one of the greatest obstacles toward a two-state solution. Various Arab and international efforts, on the part of Egypt in particular, have thus far failed to overcome this division. Greater Arab political support should be provided in order to increase the prospects of success for such efforts.

REPORT OF THE SOCIOECONOMIC *Working Group*

Resetting the Arab MENA's Future Research and Policy Agenda



- **MENA in the Global Division of Labor: What, How, and How Much?**
- **Human Development with Little Social Empowerment or Participation**
- **Weak International, Regional, and National Integration**
- **MENA in the Global Development Discourse: The “Why” Question**
- **Conclusions and the Way Forward: Resetting the Research and Policy Agenda**

REPORT OF THE SOCIOECONOMIC

Working Group:

Resetting the Arab MENA's Future Research and Policy Agenda

This report aims at synthesizing the arguments, findings, and recommendations forwarded by the authors of the four following research papers developed for the second round of the AlMostaqbal project (2019/2020):

- 1) Chahir Zaki (Nov. 2020), "Rethinking Diversification and Regional Integration: Prospects for the MENA Region";
- 2) Samir Makdisi (Nov. 2020), "Arab Development, Oil Wealth, and Governance: Issues for Discussion";
- 3) Hoda Rashad (Nov. 2020), "A New Framing of Social Policies: Why, What, and How?" and;
- 4) Adeel Malek (Dec. 2020), "Market Control or Market Reform? Pathologies and Possibilities for Private Sector Development in the Middle East."

The synthesis also captures and represents the gist of discussions in the working group throughout the two rounds of the project. The ultimate goal of this intellectual exercise is two-fold: to rethink socioeconomic development in the Arab Middle East and North Africa (MENA) and to reset the future research and policy agenda on the topic. The four papers serve as parts of a whole. The synthesis magnifies the conceptual, theoretical, and empirical complementarities between the four pieces and extends their arguments to their logical policy and political-economic conclusions. In a sentence, the synthesis is aimed at making the sum of the whole greater than its parts.

Methodologically, as part of AlMostaqbal project this piece, along with the four papers it synthesizes, is empirically-based, academically-informed and, simultaneously, policy-oriented. As a whole, the project navigates through three dimensions: empirical, theoretical, and normative.

- Empirically, it captures the statistically-expressed details of socioeconomic development. This aims at grounding the debate on solid findings and also helps capitalize on the state-of-the-art literature while critically engaging with it.
- The theoretical dimension aggregates the details into a broader picture by depicting the patterns and pathways taken by both the region and the nations that constitute it in the past six decades. This transcends the mere descriptive task of empirics, which captures how things are, and instead explains why these patterns came about in the first place; why socioeconomic development followed certain trajectories instead of others; and, above all, how these patterns can be changed. This dimension also links the past with the future by tracing the present to historical factors while also investigating pathways out of the current impasse in which the region is caught.
- The normative dimension goes beyond the construction and analysis of patterns and raises questions about the very concept of socioeconomic development: which objectives ought to be pursued in the first place, and how should they be pursued and practiced?

All three dimensions of the project converge on inviting stakeholders, epistemic communities, civil society actors, and policymakers to rethink the development paradigm in the Arab MENA. The AlMostaqbal project wishes to contribute to the debate within the region, as well as beyond, by making its discussion part of the global search for an alternative normative and programmatic development paradigm. It is about time to move away from the policy models inspired by neoliberalism and enforced by international conditionality and the needs of global creditors and investors. As Rashad pinpoints in her paper, the large disparities in the region are not merely a side effect or byproduct of bad governance. They are rather “one of its root causes that leads to the denial of social justice and the ineffective whole-of-government policies”. Both a value and a paradigm shift recognizing the centrality of fairness for well-being, and for achieving national development, is a must at this stage for social peace and political stabilization in the future.

Whether such a debate is possible at all in authoritarian settings is a problem in its own right. At least academic and expert circles, such as those involved in the AlMostaqbal project, can stir such a discussion with power holders or inform the few remaining pockets of Arab civil society and the limited public sphere. It must be remembered that there is no lack of demand for major socioeconomic and political reform in the region, despite the present difficulties in channeling these reforms or translating them into policy and institutional changes.

Last but not least, alluding to the Covid-19 situation in the Arab MENA, and the world more generally, is necessary. While the Socioeconomic Working Group held its two rounds of discussion before Covid-19 hit, the social and economic repercussions of the pandemic have emphasized many of the points previously made by the authors of the papers and their commentators and discussants. The pandemic has displayed the deep inequalities and inequities within and between the nations of the region, revealing the impact of informality and workers’ precariousness as well as the effects of decades of austerity and welfare retrenchment on the ability to resist the pandemic and to mitigate its negative effects on the most vulnerable social groups. Above all, the pandemic, and the situation it has unleashed, has confirmed the emphasis this project has placed on well-being as a broad social criterion that transcends public health and healthcare provision and encompasses the basic features of the socioeconomic and political orders.

MENA in the Global Division of Labor: What, How, and How Much?

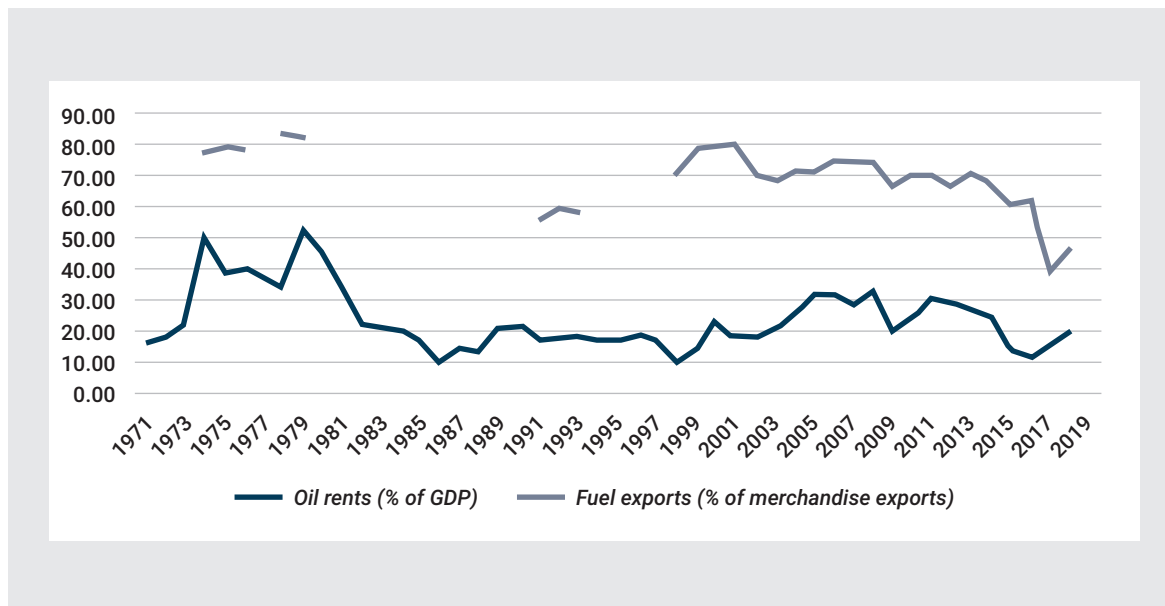
A common denominator of all three empirical, theoretical, and normative dimensions of the ALMostaqbal project is the investigation of the position the Arab MENA occupies—and should occupy—in the world. The four papers and this synthesis reflect research on the region from *within* the region but not in isolation from the rest of the world. Conversely, it engages extensively with the extra-MENA economic, geopolitical, and intellectual context. The point of departure is the conceptualization of the world economy as a hierarchy where better positioned regions, nations, and firms produce and exchange higher value-added goods and services.¹ Accordingly, socioeconomic development is worrying *vis-à-vis* the region's position and its constituent countries in this global hierarchy of value.

The position the region as a whole and its countries occupied in the global division of labor has been both a cause and an effect of socioeconomic underperformance when compared to other regions of the world that could redefine their mode of specialization into higher-value niches (i.e. East Asia). Nevertheless, they have offered some opportunities for major human development achievements compared to other parts of the world, especially South Asia and different subregions in Africa other than North Africa. This is crucial in putting socioeconomic development in a global perspective and thus denying any explicit or tacit assumptions about uniqueness or exceptionalism of the Arab MENA, which have infected much of the scholarship on the region.

The interplay between global, regional, and national processes, flows, and actors was not merely material but also intellectual. Much of the developmental and political-economic outcomes in the region have resulted from ideational linkages and forces, of which the hegemony of neoliberalism since the late 1970s is one staggering case. Beyond description, and instead through analysis and recommendation of the historical and ongoing situation in the Arab MENA, questions of normative framing are thoroughly tackled. The synthesis of the four papers was completed with the goal of thinking about the region from within while engaging critically with global ideational and ideological forces at play. This reflective dimension went beyond what is and what could have been, and into what should be. By pushing for complementarity between the papers and stressing the wholeness of the project, this normative exercise was conducted actively with the empirical and theoretical research on questions of socioeconomic development. Thus, the normative debate is grounded in reality and avoids preoccupation with minute details at the risk of missing the bigger picture.

The position occupied by the Arab MENA countries in the global division of labor raises two interrelated but conceptually separate questions. First, what does the Arab MENA produce for exchange with the rest of the world? This entails the descriptive questions of how the Arab MENA is tied to the global economy: what does it sell to the world, and what does it import? How intensively are MENA-based firms integrated into global value chains? Second, how much does MENA benefit from its position in the world economic hierarchy, and how does this explain its socioeconomic development record thus far?

1 Evans, Peter B. *Embedded autonomy: States and industrial transformation*. Princeton University Press, 2012, 5

Figure 1: Oil rent and fuel exports in MENA (1970–2020)

Source: World Bank, World Development Indicators:

<https://data.worldbank.org/indicator/NY.GDP.PETR.RT.ZS?locations=ZQ> and; <https://data.worldbank.org/indicator/TX.VAL.FUEL.ZS.UN?locations=ZQ>

It is no secret that the Arab MENA's position in the global division of labor has revolved around oil and natural gas since the end of World War II. The figure above reveals a persistently high share of fuel exports, which represented a massive 81.93 percent of total exports in 1979 and remained at 70.13 percent in 2013. This clearly indicates a continued dependence of the Arab MENA on fossil fuels as its mode of insertion into the global economy over the past four decades.

The recent drop in the share of fuel exports gives a false impression of successful export diversification. In fact, given the paramount and persistent importance of fuel exports, the decline in the value of oil exports due to falling international prices was often accompanied by a decline in total merchandise exports as opposed to a rise in value of non-oil exports. Indeed, throughout its contemporary history, the Arab MENA has been subject to the vagaries of fluctuating international energy prices. Prices plunged sharply in 2014 and dropped further in 2020–2021 due to the Covid-19 pandemic. This might prove to be a long-term low equilibrium rather than a transitory level given the environmental transitions in the global economy away from fossil fuels and the stark technological advances accelerating such changes.

Consequently, the current and anticipated drop in international energy prices would lead to a contraction in overall exports of the region rather than non-fuel product diversification. Moreover, the heavy dependence on fuel exports expressed in the figure above is not just a result of the inclusion of the oil-rich, high-income countries of the Gulf Cooperation Council (GCC)—Saudi Arabia, Kuwait, Qatar, and the UAE—which supply the greatest share of fuel exports in the region to the world. If one observes the share of fuel exports in the MENA region excluding these high-income GCC members, it becomes clear that the rest of the region is as dependent on fuel exports (68 percent of total exports compared to 70 percent in 2013) as indicated by the World Development Indicators cited above.

Notably, these figures do not capture the indirect dependence of non-oil-rich countries in the MENA region on fuel exports via intergovernmental aid and large inflows of workers' remittances. The latter has been especially central for countries like Egypt, Syria, Yemen, Tunisia, Jordan, and Lebanon. Massive recruitment of expatriate workers from labor-surplus Arab countries (as well as South and Southeast Asia) into the capital-surplus (and often labor-scarce) ones in the GCC, Iraq (in the 1980s), and Libya (before 2011) took place.

There has been little redefinition of the position of the region in terms of the global division of labor throughout the past fifty years. There has been a general inability to upgrade into higher value-added manufactured goods or services. According to the World Bank, the share of high-tech exports in MENA countries has remained negligible, indicating weak industrial policies and poor educational outcomes. Between 2007 and 2018, the ratio of high-technology exports to total manufactured exports averaged 5.9 percent for MENA, compared to 29.76, 13.74, 7.48, and 6.07 for East Asia, Latin America, South Asia, and different subregions in Africa other than North Africa.²

However, the inability to diversify the MENA region's mode of insertion into the global economy did not hinder significant economic (albeit not export) diversification within the region, as expressed in the continuous decline of the share of oil rents in the region's GDP. Noticeably, this was not confined to the non-oil-rich nations of the region. Rather, it extended almost equally to the high-income, oil-rich countries of the GCC, which, since the 1970s, have witnessed a significant expansion of primarily service sectors leading to the rise of diversified economic structures.

However, there were two main issues with these diversification efforts. On the one hand, they had little impact on redefining the niche the Arab MENA occupied in the world economy. While these efforts did reduce the dependence on fossil fuels for the vast majority of countries, the MENA region witnessed no significant upgrade into higher value-added sectors when compared to other regions, such as East Asia. Conversely, the MENA region showed a peculiar drive for diversification compared to almost all other regions of the Global South. In the MENA region, the level of industrialization remained relatively lower than other regions of the world, including South Asia and Africa (minus North Africa).³ This is likely a feature of the heavy, persistent dependence on oil rent that enabled diversification through the recycling of rents into the service sector, including bloated state bureaucracies and intermediary and speculative activities.

It is well established in the literature that oil is, at best, a mixed blessing and, at worst, a curse.⁴ Economically, the specific mode of insertion of the region enabled some human development but impeded diversification and upgrading while posing serious challenges to social cohesion, inclusiveness, and equity.

2 World Development Indicators (2021)

3 Arrighi, Giovanni, Beverly J. Silver, and Benjamin D. Brewer. "Industrial convergence, globalization, and the persistence of the North-South divide." *Studies in comparative international development* 38, no. 1 (2003): 3-31, p.12

4 See Ross, Michael L. "The political economy of the resource curse." *World politics* 51, no. 2 (1999): 297-322; Chaudhry, Kiren Aziz. "The price of wealth: business and state in labor remittance and oil economies." *International Organization* 43, no. 1 (1989): 101-145; and; Deacon, Robert T. *The Political Economy of The Natural Resource Curse: A Survey of Theory and Evidence*. now, 2011.

Human Development with Little Social Empowerment or Participation

Being rich in raw materials, however, did not prove to be an all-encompassing curse. As a matter of fact, the Arab MENA witnessed impressive improvements in human development indicators, including life expectancy, educational attainment, and per capita income, as Makdisi demonstrates comprehensively in his paper. Overall, among the regions of the Global South, the MENA region falls in the middle. On almost all human development indicators, it fared better than South Asia and different subregions in Africa (other than North Africa) but fell behind Latin America and East Asia.

Despite these human development gains, they are unequally distributed and their quantitative bias, which ignores the quality of education and healthcare, should not be overlooked. Likewise, these indicators should also cover war-torn countries in the region such as Syria, Libya, Iraq, and Yemen, which have witnessed significant deterioration in almost all aspects of human and physical development during the past decade.

The particular mode of insertion of the Arab MENA as a supplier of raw materials, namely fossil fuels, did pay off somehow. It also indicates that some processes of redistribution of income took place between and within the MENA countries that enabled this general absolute, as well as relative, improvement since independence in the 1950s and 1960s. States could deliver basic health and educational services to a bulk of their populations. In oil-rich GCC countries, this was carried out on a large scale, rendering their small populations among the most affluent in the world. Much of the distribution of oil rent occurred in order to maintain political allegiance and to prevent dissent. In countries with larger populations, and therefore smaller relative oil wealth, the records of human development were less impressive, but by no means trivial.

Overall human development gains often masked significant disparities between, as well as within, MENA countries. It goes without saying that the Arab MENA is home to some of the countries with the highest per capita income in the world, such as Qatar and the UAE. It also hosts some of the poorest, like Yemen and Sudan. Given the scarcity of accurate and comprehensive data, it is hard to discern the precise extent of income and wealth inequality within the MENA countries. However, there is considerable evidence of major disparities along class, gender, generational, subnational, and ethno–sectarian lines in most of them.

In addition, many of the human development gains in areas such as education, public health, and life expectancy failed to translate into improved employment, socioeconomic empowerment, or social participation on the national or local levels. Critically, access to high-quality employment is also closely tied to the distribution of income and wealth as well as prospects of social mobility and inequality. The situation of women in the region offers a stunning example. Paradoxically, higher educational attainment and skill acquisition did not lead to greater shares of women in labor markets. This paradox often intersected with generational marginalization where educated youths, with an overrepresentation of women, were excluded from labor markets and political representation and participation. Today, the Arab MENA hosts the highest rate of educated youth unemployment in the world.

Unsurprisingly, the Arab MENA's development path has been associated with resilient authoritarian rule and higher intensities of international and civil conflict since independence. Authoritarianism added another dimension of political exclusion. Sociopolitical and economic exclusion could explain the high incidence of popular revolts and insurgencies, as well as

subsequent civil wars and several instances of state collapse from 2011 to the present. The particular mode of insertion into the world's economic and geopolitical system since the end of the Cold War perpetuated those exclusionary dynamics.

The high involvement of foreign powers in the Arab MENA region, especially the historical role of the United States since the end of World War II, is hardly unconnected to the ensured supply of oil flowing out of the region, among other factors related to the region's geopolitical importance. Even with the seeming decline in importance of the MENA region's oil in recent years, influential international powers are still engaged politically and militarily, including the United States, France, and Russia. The Arab MENA also occupies a prominent position in China's Belt and Road Initiative. This suggests that the geopolitical and economic importance of the MENA region transcends its role as a supplier of raw materials.

Socioeconomic exclusion was often a cause and an effect of authoritarianism, poor governance, and conflict, creating a vicious circle that proved quite hard to escape, as revealed by post-2011 dynamics.

Throughout the past decade, the Arab MENA has experienced the highest concentration of conflict between and within nations in the world. The MENA region has also been the seat of significant international protracted conflict, most notable of which is the Palestinian cause and Arab–Israeli conflict. However, it also includes the three Gulf wars, including the Iraq–Iran war (1980–1988), the second longest war in the twentieth century.

In the same vein, social and economic inequalities were exacerbated by decades of neoliberal reforms, especially in oil-poor countries, which resulted in the further concentration of wealth and income into the hands of a few, often politically connected elites at the expense of the majority. Rounds of neoliberalization did not produce competitive markets. Instead, earlier reforms were captured by well-positioned elites in highly authoritarian and unaccountable regimes. Divested and privatized state-owned assets gave rise to private monopolies, rent-seeking, and state capture. Meanwhile, successive rounds of austerity led to the dismantling of earlier quasi-welfare arrangements, accompanying the creation of nation-states after independence with the ultimate outcome of undermining social cohesion. Many of the constituencies created by state-led development programs found themselves on the losing end. Demographic pressures, frustrated expectations, and unproductive economic structures coalesced to create the conditions for the perfect storms of the past decade.

The string of revolutions, coups, and civil wars that affected the Arab MENA has exacerbated the structural weaknesses of the region, leading to worsening economic conditions, especially in war-torn countries and their immediate neighbors.

Moreover, ongoing regional and global geopolitical and military rivalries do not promise comprehensive or speedy reconstruction processes. Worse still is the lack of stable democratic systems following revolutionary commotion. Almost everywhere across the region, revolutionary processes degenerated into state collapse and protracted civil war, which precipitated intensive global and regional involvement or the restoration of authoritarian rule. Many of the already downtrodden populations of the region have found themselves face-to-face with severe austerity measures under the aegis of the International Monetary Fund, promising adversarial economic outcomes for the majority after having previously suffered from years of economic stagnation and macroeconomic instability.

Weak International, Regional, and National Integration

The analysis above clearly asserts that the Arab MENA has been inserted into the global division of labor through the extraction and export of raw materials, where the region has been stuck despite the evident shortcomings and negative repercussions of such a mode of international integration. The persistence of this suboptimal situation has been both a cause and an effect of the inability to upgrade in global value chains. Zaki's paper (Appendix D) demonstrates that the MENA region "is still not integrated in regional or global value chains like other regions".

Using the World Bank Enterprise Survey to estimate the position the MENA region occupies in global value chains, Zaki finds that the MENA region slightly outperforms South Asia but is falling behind East Asia. However, these aggregate figures mask the reality of an overconcentration of international trade and investment flows in extractive industries, especially oil and other raw materials. Generally, the Arab MENA occupies low-value positions in global value chains as a supplier of raw materials. As a whole, other productive sectors are weakly integrated in these chains. Similarly, most foreign companies are active in regional extractive industries, resulting in a sectoral and national concentration (i.e. in oil-rich countries). Thus, the bigger picture portrayed above is complemented; on one hand, there is deep inequality within the MENA region, and on the other, the strong association between the level of development and the mode of integration into global value chains is confirmed.

Not only does the MENA region suffer from a poor mode of global integration, it also shows remarkably low levels of regional integration, expressed once again in terms of value chains. Intra-MENA exchange has been focused predominantly in nontrade areas, and as noted earlier, through the exchange of capital and labor as part of the recycling of oil rents. Despite the positive redistributive and developmental impacts of these mechanisms, they did not help in the creation of backward and/or forward linkages between productive manufacturing, agricultural, and service sectors in the region, thus making it harder to upgrade the position of the region in global value chains in both labor-intensive and higher-value added sectors. Conversely, it denied these highly productive sectors from exploring the vast MENA markets. Zaki cites many policy and institutional failures to explain this persistent inability to push for higher levels and improved modes of regional integration, ranging from trade policy choices of shallow integration to conflicting political agendas. In doing so, he develops a dynamic analysis of the structural features observed by Makdisi.

Last not but not least are the low levels of national economic integration in many MENA countries. The bulk of private sector enterprises are micro-sized and suffer from low levels of capitalization and access to skills and technology. Much of the extant literature has corroborated the "missing middle" syndrome, where productive Arab sectors are deeply divided between a few concentrated, high-productivity firms that are often politically connected and an ocean of microenterprises that are born tiny and remain so. This dismal situation often translates into the absence of backward and forward linkages between large private and public firms on the one hand and the broad base of the private sector on the other. The latter is where most of the employment is created in low-tech, low-productivity, and usually highly informal establishments in labor-intensive sectors. It becomes clear (though not always intuitive) that low levels of international integration reveal and reinforce low levels of regional and national integration, which is explored in Adeel Malik's paper on market making in the MENA region.

The above factors and processes have been both a cause and an effect of the MENA region's inefficient and largely exclusionary market making in the past three or four decades. Malik maintains that market making in the MENA region has been more about market control than

reform. The spaces created through rounds of deregulation, privatization, and liberalization of trade and capital movement, often under the auspices of international financial institutions in non-oil-rich countries, have created markets captured by political elites and their cronies and associates. Intuitively, these captor market actors were neither willing nor capable of moving up in global or regional value chains. Conversely, they clustered in domestically-oriented activities where they enjoyed rent through protectionism, generous subsidies, and monopolistic positions and practices.

This process was more possible in non-tradable sectors such as construction, financial services, and other intermediary activities. This analysis provides a political-economy background of the dismal record of policy and institutional reforms recounted by Zaki. It also helps in offering a dynamic mechanism to explain the perpetuation of the chosen development path of MENA countries since their independence, and especially in the past four decades, as Makdisi presents in his paper.

MENA in the Global Development Discourse: The “Why” Question

The four policy papers make it clear that much needs to change for key development questions to be addressed in the Arab MENA. However, the rationale behind policy and institutional reform requires the intellectual positioning of the region within the global development discourse. Throughout the past four decades, most of the MENA countries lived under the neoliberal sun, which constituted a hegemonic ideological force worldwide.

Not only were neoliberal transformations reinforced by international conditionality, growing capital markets, and globalization of trade and investment, but they also came to dominate the normative agenda. Prioritizing numerical growth, attraction of foreign direct investment, and export promotion—once held as the “Washington Consensus fetishes”, according to Dani Rodrik⁵—came at the expense of the majority. Most importantly, continuous rounds of neoliberal reforms have not changed much of the development trajectories taken by the countries in the region. As Adeel Malek details in his paper, market making was captured by vested interests that stifled the creation of free market competition at home and undermined the chances of upgrades and diversification on the global scene. Despite the erosion of neoliberal normative power in the Global South since the late 1990s, and especially in the wake of the 2008 meltdown, the Arab MENA has seen attempts at reasserting its hegemony in recent years.

The dire need to access capital on international markets for countries like Egypt, Tunisia, Jordan, and Morocco has invited the return of international financial institutions with their strict conditionality, austerity measures, and preoccupation with financial discipline regardless of the social cost. “Reform” has been recast in the neoliberal light once again.

This intellectual task is by no means a call for invoking any sense of exceptionalism, authenticity, or uniqueness of the region. Rather, people from the region need to engage proactively and critically with a development discourse that is almost always imposed upon them by their governments, and even more so by their international sponsors, creditors, and consultants. Furthermore, the question of policy and institutional reform needs to be revisited from the angle of critical development discourse.

Hoda Rashad’s paper “A New Framing of Social Policies: Why, What, and How?” centers the

5 Rodrik, Dani. “Globalization and growth—looking in the wrong places.” *Journal of Policy Modeling* 26, no. 4 (2004): 513517-.

paradigm of well-being equity. Stressing equity as the distribution of well-being implies two things: first, the distribution question should be held as a criterion for the success or failure of the development model rather than an after-the-fact secondary concern; and, second, equity concerns the absence of systematic, unnecessary, and preventable differences in well-being across groups in society. This includes groups defined on a class and gender basis but also extends to distribution among subnational regions and ethnosectarian groups, which often overlap and intersect with class and gender dynamics. This stress on equity is central in debating what development is and should be about ten years after the Arab Uprisings and given the extremely high concentration of conflict in the MENA region.

This provides the intellectual and ideological ammunition for a repositioning of the societies of the region in the development discourse. Moreover, it allows the redefinition of the question of development to be linked with ongoing struggles for sociopolitical and economic inclusion or incorporation. Needless to say, the primacy of equity takes a critical stance against financial restructuring and macroeconomic discipline as the end rather than the means.

Conclusions and the Way Forward: Resetting the Research and Policy Agenda

The AlMostaqbal project is an attempt at tackling the issues that face the Arab MENA from within the region. However, it is a very extroverted venture, one that has been preoccupied since its inception with the position the Arab MENA occupies and should occupy in the world with regard to geopolitics and security; socioeconomic development; and thought, ideas, and ideologies. The ultimate goal has been to provide a forum for informed debates between intellectuals, experts, and practitioners and to develop a new paradigm in the wake of the deep changes that have affected the region throughout the past decade. In this vein, the four research papers synthesized here are all part and parcel of a coherent and meditated endeavor on the future of socioeconomic development in the MENA region.

Since independence, the Arab MENA has witnessed major, albeit uneven, strides in human development. The peoples of the region benefited from its raw material riches and the recycling of oil rent through labor–capital exchange. However, this mode of insertion incurred its own costs and limitations. No developmental breakthrough took place in the MENA region, unlike in East Asia, Southeast Asia, or Central Europe. This mode of insertion also came with a higher propensity for international and civil conflict and the persistence of an authoritarianism characterized by extremely poor governance; unlike other authoritarian orders that could deliver development for the bulk of their populations. as was the case in China, East Asia, and Southeast Asia.

This situation in the Arab MENA took its toll on the development potential of the region. Moreover, dependence on exporting and extracting raw materials undermined the chances for economic integration regionally as well as nationally. It also exaggerated the unequal distribution of income and wealth within and between the countries of the region and the uneven positions that different sectors and national economies occupied in relation to the global economy.

Additionally, the overall suboptimal niche the Arab MENA occupied in global value chains as primarily a supplier of raw materials reinforced weak levels of regional and national integration.

Here, many of the policy and institutional transformations in the past four decades, which led a more market-based and private sector-led development model, hindered rather than enabled global competitiveness and upgrading into higher-value-added sectors. Stifled markets, dominated by vested interests tied to authoritarian, predatory, and unaccountable regimes, emerged, which offered little prospects for better global competitiveness and improved global

insertion. These factors combined might also explain the socioeconomic underpinnings of protest and civil conflict in most of the region's highest-populated countries.

Neoliberalism, as the hegemonic economic development ideology, was not the cause of all problems. However, definitively, it was not, in any part, a solution either. Not only have rounds of "reform" inspired by neoliberalism and neoliberal institutions failed to deliver positive outcomes for a majority in the Arab MENA, they have also exacerbated many of the social and political root causes of exclusion. The following subsection draws some advice and guidelines for future policy and institutional reform in the Arab MENA from the four papers.

Given the policy-oriented character of the AlMostaqbal project, the following paragraphs explore not only the reforms needed, but also how they can be pursued. This exercise aims to find the potential for change depicted in the empirical realities in the region instead of drafting a wish list. Building on the previous point, all four authors discuss the strong demand for reform in the Arab MENA, the scene for massive popular uprisings in 2011 and 2019 which touched almost all the countries in the region. Even though the immediate results of these revolts did not produce more inclusive orders, neither politically nor economically—with a few partial and dubious exceptions—the continuous demand for inclusion by sizable constituencies suggests room for long-term change on policy and institutional levels.

• **Looking for Free Spaces to Move In**

Adeel Malik identified several areas where "concessions" could be given by ruling incumbents to social and economic actors, even if the aim is the stabilization of authoritarian rule or the relaunch of national economies in the immediate term. The region desperately needs to free market space for autonomous socioeconomic actors, which Malik sees as possible in sectors not occupied by powerful politically connected interests. Market-freeing reforms can thus be pursued in some areas of the economy in many Arab MENA countries where "(a) the political resistance to the removal of specific market barriers is minimal; (b) the cascading impact on the market is high⁶ and; (c) the potential to generate a new social and economic constituency is the strongest".

These freed market areas can encourage the growth of small- and medium-sized enterprises by offering better access to financial and physical capital and technology. The rise of robust SME strata would likely strengthen inter-firm linkages on the national scale, and potentially regionally as well. This should address the problem of weak national integration in the medium-term. It needs not contradict the interests of already-powerful and connected actors either, as SMEs often operate in more labor-intensive sectors unlike large enterprises. Moreover, SME growth can provide opportunities for the creation of supply chains for bigger firms in productive sectors. Such institutional and policy reform would broaden the social constituencies benefiting from market making and thus contribute to mitigating social conflict (or at least making it more manageable).

Many Arab governments have recently adopted SME-supportive programs on the organizational, managerial, and financial fronts. These programs were often sponsored by international donors and development banks and institutions. However, the engagement with civil society actors, the intelligentsia, and other stakeholders in a healthy public debate addressing the complex and multifaceted question of socioeconomic transformation seems to be missing. This is what

⁶ Cascading impact refers to a chain of events triggered by a change in the system, leading to further positive or negative changes in other related systems. Here, "cascading" implies positive changes in the overall market that go beyond the sectors where market freeing took place.

AlMostaqbal hopes to address by changing the approach to economic inclusion to be more encompassing and better aware of the political prerequisites and repercussions.

It is worth noting that the development of a vibrant and viable SME stratum is essentially a distributional challenge given its need for an active state role in the direct and indirect provision of physical, financial, and human capital to market (or to-be market) actors. From a political-economic angle, SME development is much more than the typical neoliberal prescription of leveling the playing field or extending channels for microfinance. Access to opportunities is subject to considerations of social equity and fairness and not isolated under technical or economic guise. In fact, past experience has revealed that markets do not automatically generate market actors.

Conversely, market actors emerge from sociopolitical processes that allow them to possess the capacity to produce and grow. Hence, SME development is ultimately part of a sociopolitical project concerning the promotion of an improved enabling environment which invests in youth and women's potentials; redresses structural inequalities; and reveals prospects for development and mobility. Such transformations would require the reconfiguration of state-society and state-market relations, directly affecting social cohesion and national integration.

• **Regional is the New National**

Improved national economic integration along the lines prescribed above is commensurate with a larger potential for regional integration. This is a point of intersection between the papers of Makdisi, Zaki, and Malik. All three authors view regionalism⁷ as a path not taken in the MENA region's modern history despite many—though ultimately unsuccessful—attempts. Part of the hopeful contribution of AlMostaqbal project is to not only reiterate the significance and developmental potential of regional economic integration, but to also tackle how it can be pursued. As a matter of fact, many Arab leaders recently addressed regional integration as part of long-term development schemes and/or regional security arrangements, examples of which are Saudi Arabia-Egypt-Jordan coordination in the Red Sea as well as the recent rapprochement between Egypt, Jordan, and Iraq. The real issue, however, lies in the approach to regional integration rather than the lack of the long sought after political will or the failure to recognize the importance of the issue.

Thus, Zaki and Makdisi propose that the Arab MENA countries need to abandon the shallow trade liberalization approach primarily focused on tariff reduction that they have followed in the past. A deeper form of integration, preferably on a sectoral basis, is a better alternative. Notably, this sectoral approach is in harmony with Malik's proposition for piecemeal reform that would address certain sectors before others, as is more propitious from a political-economic angle.

Zaki emphasizes that trade policies must be tied to industrial strategies to facilitate deeper forms of integration and the creation of regional value chains, a clear departure from the neoliberal stress on a minimal state role. This has both policy- and institutionally-related dimensions. On the policy front, Zaki discusses targeting non-tariff barriers through the adoption of agreements for conformity assessment and acceptance as opposed to the traditional focus on tariff reduction. Institutionally, deeper coordination between the Arab MENA countries requires the creation of institutions on the national and regional levels that would advocate for, oversee, monitor, and coordinate the implementation of such non-tariff commitments.

7 Regionalism can be defined as a sustained political project for economic integration through institutional policy and coordination. For more details, see: Aarts, Paul. "The Middle East: a region without regionalism or the end of exceptionalism?" *Third World Quarterly* 20, no. 5 (1999): 911-925.

On a regional scale, economic integration is a political endeavor. It is hard to imagine such a long-term and complex process in the absence of its strategic prioritization by the ruling incumbents in concerned nations. Despite the muted past experiences in the Arab World, there might be room for the emergence of moderate regionalism in the wake of recent developments. On the one hand, the Arab MENA has long been a region with weak regionalism, rife with flows of people as migrants, workers, tourists, and investors; flows of trade; and above all the massive movement of capital across the region in many forms, from aid to investment to workers' remittances. However, these flows were seldom governed by well-established and institutionalized rules. Capitalizing on these could precipitate a more institutionalized form of economic regionalism.

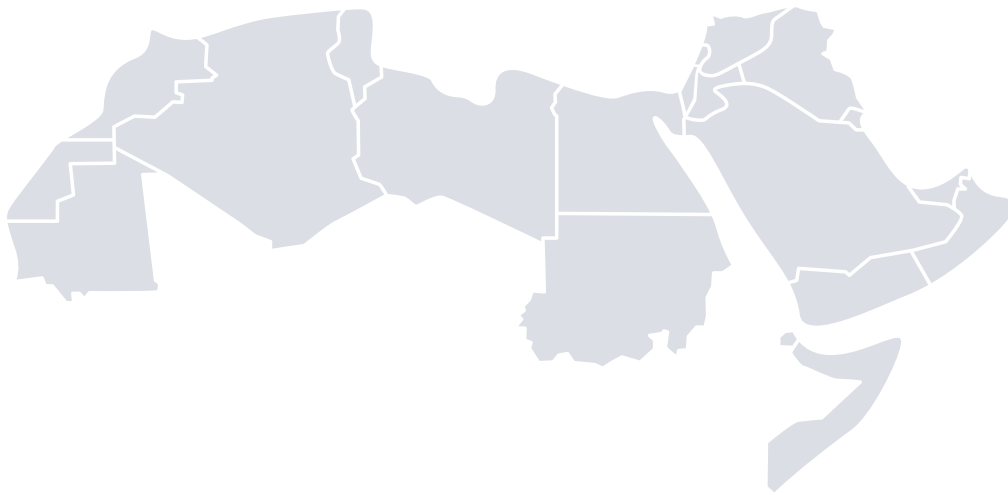
This can be conducted bilaterally or multilaterally among the most prominent trade partners within the region (e.g. Egypt and Jordan; Saudi Arabia and the United Arab Emirates; and Tunisia, Morocco, and Algeria, and possibly Libya in the future). Counterintuitively, the current regional turmoil might provide the incentive for ruling incumbents to cement regional blocs through economic integration with the aim of solidifying regional alliances and preserving internal stability.

Tapping into the region's large markets can complement the development of SMEs and the consolidation of national value chains in the medium-term by bringing in more domestic suppliers to producers enjoying favorable policy and institutional positions, not only nationally, but regionally.

Similarly, Makdisi spots an opportunity to push for reform through the processes of economic reconstruction in war-torn and war-affected countries in the Arab MENA. He asserts that "economic reconstruction is necessarily more encompassing than postwar stabilization... It would include not only the rehabilitation of basic services and infrastructure destroyed during the war, but also the creation of a basic macro- and microeconomic institutional and policy framework necessary for the emergence of a viable economy, one that would provide employment opportunities allowing citizens to make a decent and licit living".

It goes without saying that this broader and more inclusive approach to reconstruction should be complementary to social and political stabilization efforts in the long-term, thus pushing for nation-building and social reconciliation. Reconstruction can also be regional in character by including countries that are indirectly affected by the ongoing conflicts rather than only those which are war-torn. Primary examples of this would be Lebanon, Jordan, and Turkey in relation to Syria, or Egypt and Tunisia with regard to Libya. Not only is a regional mechanism necessary for funding reconstruction, but the processes themselves can invite further integration as a means for managing regional rivalries and creating prospects for a win-win situation.

REPORT OF THE REGIONAL SECURITY & CONFLICT *Working Group*



- Assessment of the Arab Regional Security Landscape
- Future Pathways: Scenarios for the Arab World
- Implications of Alternative Policy Approaches
- Alternative Policy Approaches

Report of the Regional Security and Conflict

Working Group

The Middle East and North Africa region is one of the most fragmented regions of the world in terms of security. The region is plagued by a security deficit and is lacking security structures that can promote cooperation and mitigate common threats. The Arab World has been particularly affected by this prevailing regional instability. For decades, the Arab World has been undergoing several transformations, oftentimes violent and chaotic, leaving the region more vulnerable to growing instability and insecurity.

The region today is caught in a vortex of intertwined armed conflicts in Syria, Libya, and Yemen; geopolitical competition; regional and international interventions; weakness of the Arab states vis-à-vis their substate ethnic and sectarian loyalties; the threat of nuclear proliferation; identity politics; and rising humanitarian crises. Furthermore, these trends are compounded by the specters of terrorism, looming environmental crises, and poor governance. Rarely has the Arab World experienced such a confluence of regional security threats and strategic disarray.

In addition to the prevailing security deficit, the Arab World is also suffering from what can be described as a “future deficit”.¹ There is a pronounced absence of future-oriented visions for the region. The emphasis has been on near-term pressing objectives of maintaining stability, avoiding state collapse, and addressing civil wars. All of these are worthy objectives, but come at the expense of formulating pathways to achieving alternative and potentially transformative visions for regional security. For these reasons, exploring the future of regional security in the Arab World within the wider context of the MENA region has become more pressing and urgent. Foresight, rather than prediction, is needed in order to anticipate unexpected shifts and provide a sound basis for alternative policy approaches.

Launched in November 2018 by the American University in Cairo, the AlMostaqbal project is an ambitious attempt to address this deficit. Along with the socioeconomic working group, the Regional Conflict and Security Working Group (RCSWG) is mandated with assessing the trajectory of the regional security situation as it affects the Arab World and formulating policy approaches that can chart alternative futures for the region.

The RCSWG brings together a distinguished group of Arab statesmen, intellectuals, and academics to thoroughly assess the regional security challenges and opportunities that the Arab World is expected to face through 2030 and offer recommendations for alternative policy approaches as a means to enhance the region’s overall security.

The focus of the RCSWG is to address regional security as it affects the Arab World while recognizing that this is embedded in broader regional security trends affecting the wider MENA region as well as the global security context. Working toward a more stable, benign regional security environment should be based on a shared notion of security interdependence and cooperative mechanisms to mitigate common security challenges.

1 Salem, Paul, *Thinking Arab Futures*, The Cairo Review of Global Affairs, Spring 2019, <https://www.thecairoreview.com/essays/thinking-arab-futures/>

Based on this notion, the RCSWG has been mandated to address the following questions:

- What are the significant trends affecting regional security in the Arab World, and how do these relate to changes in the broader regional security landscape affecting the MENA region?
- What policy approaches can be considered to affect the trajectory of these trends towards a more benign and stable, and potentially cooperative, regional security environment?
- How can these policy approaches be anchored in alternative visions for regional security for the Arab World and the MENA region more broadly?

This report presents a synthesis of the major findings and thematic discussions of the working group with respect to its mandate as identified above. It examines the major trends affecting regional security in the Arab World and the broader MENA region, assessing emerging threats and opportunities. The report offers suggestions for different policy approaches with the purpose of charting alternative regional security futures for the region.

ASSESSMENT OF THE ARAB REGIONAL SECURITY LANDSCAPE

This section provides an overview of the assessment of the working group on the major trends affecting regional security pertaining to the Arab World and more broadly to the MENA region.

• OVERALL REGIONAL SECURITY TRENDS

The Weakening of the “Arab Core”

Several historical developments contributed to the weakening of the Arab core—comprised of Egypt, Syria, and Iraq—that constituted the major pillar upholding the Arab regional order. The onset of the Arab Uprisings in 2011 in particular would have major repercussions in this regard, having broken out against a backdrop of an already unstable regional security situation resulting from the U.S. invasion of Iraq.

The inability to forge a negotiated political compact to address social grievances, and the attempts by regimes to meet the uprisings with force, ultimately led to the uprisings being militarized, with several of them devolving into civil wars as in Syria, Libya, and Yemen. The violent turn of the uprisings gave rise to transnational terrorism; external intervention in Arab regional and domestic politics; and the intensification of geopolitical rivalries, all further exacerbating the endemic weakness of Arab states. The consequent erosion of the Arab core was reflected in the following regional shifts:

- Arab nationalism has ceased to be the dominant ideational framework for Arab governments or the aspiration of the Arab peoples, and has gradually been superseded by a transnational ideology of Islamism, sectarianism, subnational loyalties, and state-based nationalism. This shift paved the way to the legitimization of Turkish and Iranian intervention in different parts of the Arab World.
- The Arab focus on resolving the Arab–Israeli conflict, and in particular ending Israel’s occupation of the Palestinian territories, has been gradually replaced by a greater focus on Iran and its regional proxies and allies.
- The inability of Arab regional and subregional frameworks to address regional conflicts, which has resulted in greater regionalization and internationalization of these conflicts and conflict resolution processes.
- Many of these developments have prompted a greater regional assertiveness on the part of member states of the Gulf Cooperation Council (GCC). With the benefit of greater financial resources, Saudi Arabia and the UAE in particular have pursued more proactive regional policies to advance ambitious goals and counterbalance the influence of Iran. Moreover, Qatar, by providing financial and political support for several Islamist groups in the region, has grown more influential in the region’s power dynamics while forging a closer security relationship with Turkey and maintaining a close working relationship with Iran, in addition to its traditional security relationship with the United States. These contradictory policies came into conflict, resulting in a schism within the GCC and thereby more destabilization in the region.
- The particular dynamics of the subregions have become more pronounced. As part of the fragmentation dynamics, the Arab World’s sub regions such the Maghreb (North Africa), the Mashreq (the Arab East), the Levant, and the Nile Basin have developed their own security imperatives. For example, the regional dynamics in the Mashreq and the Levant revolve around

heightened concerns regarding growing Iranian influence and how to best address it, especially with respect to the Gulf states. In the Maghreb, on the other hand, security threats posed by terrorism, human trafficking, and organized crime in the Sahel region are more pressing, in addition to the continued tension between Algeria and Morocco. Furthermore, Arab states in the Horn of Africa are still struggling with the legacy of state collapse in Somalia and the threat posed by Al-Shabaab. Although Egypt is still engaged with the security dynamics in the Levant, especially the Palestinian issue, the lack of resolution with respect to the Grand Ethiopian Renaissance Dam (GERD) continues to present a major challenge to Egypt's water security. The same is true for Sudan, which is also grappling with the challenges associated with democratic transition following the overthrow of the Al-Bashir regime in April 2019.

The erosion of the Arab core, in turn, has been a major factor in the fragmentation of the regional security landscape, resulting in the rising role of non-Arab regional powers (Turkey, Israel, Iran), greater regional and international interventionism in ongoing conflicts, and a weakening of the normative "Arab framework" that underpinned the regional security order that prevailed throughout the last half-century, even while acknowledging the fragility of that order.

The Challenge of the Non-Arab Middle Powers

The failure to provide "Arab" solutions to the burgeoning security deficit has ceded the diplomatic, military, and political initiative to the non-Arab periphery comprising Israel, Iran, and Turkey. The three countries have had long and complex historical relations with the Arab World. Taking advantage of the deterioration of the Arab regional order, these middle powers turned the resulting security deficit into a geopolitical advantage to further their own distinct regional interests.

The nature of the challenge posed by the three countries is both geopolitical and ideational. As they seek to create domains of influence in the Arab region and beyond, they aim to replace the old Arab order with new frameworks. For Iran, this framework is based on "resistance" to both Israel and the West, in particular the United States, and Shiite Islamic militancy. Turkey's regional project is predicated on neo-Ottomanism and a Sunni Islamist ideological framework. For its part, Israel is giving priority to normalizing relations with Arab countries with the aim of transcending its conflict with the Palestinians and pressuring its primary adversaries: Iran, Syria, Hezbollah, and Hamas.

The growing challenge posed by these powers has been manifested into several trends.

Increasing Resort to Military "Hard Power"

Previously, this feature was confined to Israel. Yet, in their attempt to create their sphere of influence, Iran and Turkey have increasingly resorted to the use of military power in their interventions in the Arab World. Iran has deployed the Iranian Revolutionary Guard Corps and allied proxy forces in conflict zones throughout the region². The Turkish response to the challenge posed by the rise of Kurdish People's Defense Units (YPG) in northern Syria and the constant influx of refugees from the Syrian conflict was manifested in a series of military campaigns between 2016 and 2020 that led to the Turkish occupation of northwestern Syria.³ Turkey's military intervention in Libya on the side of the Government of National Accord (GNA)

2 IISS, *Iran's Networks of Influence in the Middle East*, IISS Dossier 2019.

3 Khayrallah al-Hilu, *The Turkish Intervention in Northern Syria: One Strategy, Discrepant Policies*, Middle East Directions, 14 January 2021 <https://cadmus.eui.eu/bitstream/handle/1814/69657/Khayrallah%20al-Hilu%20-%20The%20Turkish%20Intervention%20in%20Northern%20Syria%20One%20Strategy%20Discrepant%20Policies.pdf?sequence=1&isAllowed=y>

challenging the prevailing hydro–political regime that has governed the Nile Basin, whether with respect to the existing treaties governing water use and dam construction or the existing water use by downstream countries, namely Egypt and Sudan. The implications are especially serious for Egypt as the country of one hundred million people grapples with the challenges of growing water demand, population growth, climate change, and environmental impacts.⁶ Furthermore, the decade-long negotiations over the GERD between Egypt, Sudan, and Ethiopia have not produced a viable solution to the dispute and have reached a deadlock, which may open the door for more instability in the region.

Realignment of Great Power Intervention

Contrary to popular belief, the United States is not withdrawing from the Middle East, but is rather militarily and diplomatically withdrawing from the region's conflicts to a large extent. Doubts have grown among allies and adversaries alike about the U.S. commitment to this vital but turbulent region and the continuity of U.S. policy, especially in the wake of the U.S. withdrawal from Afghanistan. For decades, the United States defined its enduring interests in the region as ensuring energy security; maintaining the flow of oil from the region to the global market; securing international sea-lanes; countering violent extremism and the spread of weapons of mass destruction; and protecting the state of Israel.⁷

The global strategic focus of the United States is gradually shifting east toward Asia, which is fast becoming the primary locus of global investment and trade, in addition to the rise of China as a peer competitor to American primacy. These developments have diminished the strategic value of the Middle East for American national security interests. Today, the United States imports more oil from Mexico than it does from Saudi Arabia. Its investments in shale are heralding a new era of energy geopolitics, which makes the region of less significance.⁸ Also, Israel's security is not being jeopardized by any serious threat, particularly after it has normalized relations with several Arab governments in the GCC as well as Sudan and Morocco.

The changing U.S. role in the region has contributed significantly to compounding the security deficit in the region. This is not to say that the U.S. role in regional security has been a benign one all along. Much of the fragmentation that the region is undergoing can be attributed to the dire consequences of the destructive war in Iraq; the mismanagement of the post-war occupation; ignoring Arab interests in the Iran nuclear deal, then withdrawing from it; escalating confrontation with Iran; and failing to broker sustained peace in Palestine while departing from the tenets that have guided U.S. policy to achieve a two-state solution under the Trump administration.

This shift in the U.S. posture can be seen as part of a broader trend signifying a realignment of great power interests towards the region.

6 Abdelhadi, Magdi, Nile Dam Row: Egypt Fumes as Ethiopia Celebrates, BBC, 30 July 2020, <https://www.bbc.com/news/world-africa-53573154>

7 Salem, US General Middle East Interests & Policy Priorities, the Middle East Institute, March 2021, <https://www.mei.edu/sites/default/files/2021-03/The%20Biden%20Administration%20and%20the%20Middle%20East%20-%20Policy%20Recommendations%20for%20a%20Sustainable%20Way%20Forward.pdf>

8 Hulsman, John, How the US shale Revolution Changed the face of Geopolitics, City A.M., 8 July 2019 <https://www.cityam.com/how-the-us-shale-revolution-changed-the-face-of-geopolitics/>

The Growing Role of International Powers

China is pursuing a steady policy of geoeconomic engagement in the region, strengthening political and economic ties with major regional powers: the GCC, Israel, and Iran. Within the framework of the Belt and Road Initiative, China is investing heavily in infrastructure, the energy sector, and maritime links through the Gulf of Aden, the Red Sea, and the Mediterranean. Additionally, the region is still the major source of China's energy imports, which makes it even more vital in the near future for Chinese development and economic growth.⁹

Signs have been accumulating to suggest that China may develop security interests in the region, such as establishing a military base in Djibouti,¹⁰ raising its contribution to the peacekeeping operations in certain conflicts, and operating joint drills with Iran in 2019, where Beijing highlighted its readiness to cooperate with Tehran in the area of maritime security in the Indian Ocean. Moreover, Chinese arms companies are planning to increase their exports to the MENA region, and already Chinese drones such as CH-4 and Wing Long are operating in several regional conflicts.

Nevertheless, China's policy in the region is restrained by Beijing's doctrine of noninterference, and it is heavily emphasizing economic development as the primary tool of its regional engagement in contrast with the interventionist policy of the West.¹¹ This doctrine means that China is not seeking to replace Western dominance or advocate a specific developmental or political model for countries of the region. Moreover, when it comes to Chinese national security, the MENA region is far less important for Beijing than East Asia and the South China Sea.

Russia is advancing its geopolitical interests and extending its competition with the United States and the North American Treaty Organization (NATO) alliance into the region. The Russian military intervention in Syria in 2015 was pivotal in shaping its present and future regional policy. Through this intervention, it consolidated its relations with Turkey and Iran and elevated its relationship with Israel. In managing these complex relationships, Moscow has positioned itself as the main power broker in the Levant. Also, in Libya, the Russian role was impactful in maintaining the delicate military balance between the Libyan National Army (LNA) and the GNA without taking sides while being active in pushing the ceasefire through multilateral collaboration.

Apart from the intervention in Syria, Russia has proved cautious in taking sides or deploying military force due to fears of overcommitment in the region. In fact, it avoids building alliances with regional powers because of the legacy of Western influence over the ruling elites and their reluctance to trust Moscow. The Russian contribution to Arab militaries, unlike that of the Soviet Union during the Cold War, is modest in comparison with the United States'. Yet, Moscow is showing more interest in economic opportunities, particularly in the energy sector. It is leading the region's investments in nuclear energy in Egypt and Turkey. Also, it has kept its eyes on the energy sectors in Iraq, Syria, and Libya.

9 Top 15 Cruel Oil Suppliers to China in 2020
<https://www.worldstopexports.com/top-15-crude-oil-suppliers-to-china/>

10 https://www.washingtonpost.com/world/africa/in-strategic-djibouti-a-microcosm-of-chinas-growing-foothold-in-africa/2019/12/29/a6e664ea-beab-11e9-a8b0-7ed8a0d5dc5d_story.html

11 Cook, Stephen & Green, James, China Isn't Trying to Dominate the Middle East, August 2021,
<https://www.foreignaffairs.com/articles/united-states/2021-08-09/china-isnt-trying-dominate-middle-east>

As for the European Union (EU): despite its important strategic interests in the MENA region, it has shied away from playing a sufficiently proactive role, particularly in the pursuit of settling the various conflicts across the region. The EU's strategic alliance with the United States has ensured that it has an economic role and participation in the multilateral negotiating tracks with Iran and the Palestine–Israel conflict. At a time when the United States is moving to recalibrate its regional posture, the EU has found itself facing mounting threats from terrorism, the influx of refugees, and nuclear proliferation. More importantly, it has been evident that the EU is struggling to formulate a unified policy toward the region. The divisions over the issues associated with refugee policy are a case in point. While some states tend to embrace a welcoming policy, others tend to take unilateral measures to stem the flow of illegal migration and refugees. The Libyan conflict also caused further division within the EU, where France attempted to provide support to the LNA against the Turkish-backed GNA forces and Italy saw the French moves as threatening its traditional sphere of influence.¹² Germany has attempted to bridge these differences through the Berlin negotiating track launched in 2020.

The Growing Role of Regional Powers

As mistrust and doubt grows among U.S. allies over the United States' security commitments, regional powers are taking more assertive actions to ensure their own security.¹³ This posture is reflected in the rise of a new generation of assertive leaders, particularly in the GCC. In some cases, this assertiveness has taken the shape of greater military interventionism in regional conflicts. Whereas this regional assertiveness has resulted in more escalation and general destabilization, it also suggests a positive transformation. Regional powers have been edging to a more independent posture, hedging their bets by establishing not only stronger relations with Russia and China, but in some cases with Israel as well as Iran.

• THREATS TO ARAB REGIONAL SECURITY

Intersecting Conflicts

The region's multiple conflicts and rivalries have become more interconnected, thereby complicating attempts at conflict management and conflict resolution. Civil wars are no longer internal affairs. Each conflict in the region has its spinoff effects that intertwine with other conflicts through regional, international, and nonstate actors. Intersecting conflicts in the Arab World are not new. The civil war in Lebanon (1975–1990), the Arab–Israeli conflict, and the Iraq–Iran war (1980–1988) have all been regionalized to various degrees, with different manifestations of regional involvement tying them to other zones of conflict.¹⁴ Nevertheless, the collapse of several Arab states—starting with Iraq in 2003 followed by the 2011 uprisings—and the growing role of external powers and nonstate actors have deepened and accelerated this phenomenon of regional conflict linkage.

12 EU divisions over Libya leaves gap for others, DW, 29 December 2019, <https://www.dw.com/en/eu-divisions-over-libya-leave-a-gap-for-others/a-51827131>

13 Tol, Gönül & Dumke, David (eds), *Aspiring Powers, Regional Rivals*, Turkey, Egypt, Saudi Arabia and the New Middle East, Middle East Institute, March 2020 https://www.mei.edu/sites/default/files/2019-12/Aspiring%20Powers%2C%20Regional%20Rivals_Dec.%2013%2C%202019.pdf

14 IPI, *Regionalism and Regionalization in the Middle East*, International Peace Institute, March 2013 https://www.ipinst.org/wp-content/uploads/publications/ipi_e_pub_regionalism_me.pdf

The Syrian civil war constitutes the most evident example in this regard.¹⁵ Although the conflict began as a local uprising inspired by the events in Tunisia and Egypt, the threat to the Assad regime invited intervention from its allies Iran and Hezbollah, while the armed opposition groups, including affiliate groups of the Muslim Brotherhood and other Islamist groups, were backed largely by Turkey, Saudi Arabia, and Qatar. These actors also received support from the United States and its allies in Europe. The civil war fomented the intra-Sunni radicalization that had already plagued Iraq. Iraqi jihadists, mainly affiliates of Al-Qaeda, fought in Syria, and so did Iraq's pro-Iran Shiite militias. Sunni jihadists mutated to form the Islamic State (ISIS), which declared its "caliphate" in 2014 after occupying a vast area that straddled the Iraqi-Syrian border. This inspired other jihadists in the region and beyond to pay allegiance to ISIS. Such groups exacerbate the security situation in the unfolding conflicts in Libya and Yemen. The Syrian war also had its ramifications on the fragile politics of Lebanon. As a result of jihadist infiltration along the Syrian-Lebanese border, Hezbollah was able to justify a more assertive posture as a counterweight against such groups. It also exacerbated the refugee crisis that has plagued Lebanon for decades. The geostrategic expansion of Iran and its military presence in Syria have opened a new axis of armed conflict between Israel and Iran in southern Syria. Furthermore, the growing role of the Kurdistan Workers' Party (PKK) Syrian chapter, known as the YPG, militarily supported by the United States, opened the door for direct Turkish military intervention in Syria. Turkey later used Syrian fighters, primarily from areas under its control or influence, as mercenaries in the Libyan civil war to support the GNA government in Tripoli starting late 2019. The spillover of the Libyan conflict can be tracked by examining the changing security dynamics across the Sahel, North Africa, and the Mediterranean.¹⁶

In a sense, intertwining conflicts reflect regional security interdependence; de-escalation and escalation dynamics are becoming more interlinked. Such linkages make the prospects for conflict settlement and post-conflict stabilization even more complicated, especially when it comes to involving nonstate actors in the process. Foreign fighters across the region moving from Iraq to Syria, and from Syria to Libya, are hindering any real settlement. Consider the security situation in Libya since the ceasefire agreement in October 2020.

Arab State Weakness

Although the Arab states had long suffered structural weaknesses since their independence,¹⁷ they did succeed for the most part in developing centralized power structures, formidable security apparatuses, and, to varying degrees, administrative structures that reinforced the ability of the state to exert social control. Most of the ruling regimes suffered from different forms of legitimacy deficits, which necessitated a growing dependence on repressive security apparatuses that dominated state institutions, thereby blurring the lines between the state and the regime. Nonetheless, states were able in the final analysis to deliver the basic public goods and services, above all security, defense, and asserting sovereignty. This situation prevailed until the 1980s, when these states reached their fiscal limits; they then had to painfully transition away from a social welfare state to a neoliberal model where the state could no longer be the national employer and national welfare provider, and attempted to cede much of these functions to the private sector.

15 For more on the dynamics of intersecting conflicts in the region, check J. Hiltermann, Tackling Intersecting Conflicts in the MENA region, International Crisis group, 15 January 2020
<https://www.crisisgroup.org/middle-east-north-africa/tackling-intersecting-conflicts-mena-region>

16 White, Wayne, Libya's Spillover Effects, the Middle East, 28 October 2014
<https://www.mei.edu/publications/libyas-spillover-effects>

17 Salem, Paul, the Arab State: Assisting or Obstructing Development, Carnegie Papers, 2010
https://carnegieendowment.org/files/arab_state_devt.pdf

While these deep-seated dysfunctions led to the uprisings, they also contributed to a situation of chronic permeability, in which states like Syria, Libya, Iraq, Lebanon, and Yemen witnessed a resurgence of substate loyalties, sectarian and ethnically-based intervention, geopolitical competitions, and transnational ideologies. Iraq after the 2003 U.S. invasion was beset with the same crises that became more profound and complicated. The consolidation of ISIS in Iraq for years was indicative of the failure of central government control. Post-Gaddafi Libya was on the verge of disintegration and division along the lines of pre-independence. While the Assad regime has been able to reassert its control over the majority of Syrian territory, including the major urban centers, it has lost control over significant swaths of territory to Turkish occupation and Kurdish autonomy, and in the process has lost control of vast tracts of its borders with Turkey and Iraq. Meanwhile, the central government in Yemen is exiled. The country is divided into regions dominated by the Houthis, the Southern Transitional Council in the south, Al-Qaeda, and ISIS enclaves in between.

State fragility is thus ubiquitous in the Arab World. Among the twenty-two members of the League of Arab States, only the UAE, Oman, Qatar, and Kuwait are marked as highly stable countries according to the Fragile States Index in 2020.¹⁸ Meanwhile, Yemen, Syria, and Somalia are marked as “very high alert”, among the most fragile states of the world along with South Sudan.

Table (1): Arab State Fragility, source: Fragile State Index 2020

State (Rank)	Fragility Score	Situation
Yemen (1)	112.4	Very High Alert
Syria (4)	110.7	Very High Alert
Sudan (8)	104.8	High Alert
Iraq (17)	95.9	Alert
Libya (20)	95.2	Alert
Morocco (79)	68.1	Warning
Tunisia (95)	71.2	Elevated Warning

On a regional level, the weakened structures of Arab states have consolidated the ties between nonstate actors and regional powers. These relations are being enhanced in a security vacuum resulting from the weakening of centralized state structures. This security vacuum, in turn, has reinforced the deepening of substate ethnic and sectarian loyalties, alongside the transborder war economies and networks of illicit economic exchange. In Libya, for instance, armed groups have taken advantage of the prevailing security vacuum to join or build profiteering networks, composed of members of the state administration, politicians, and businessmen. In any process of stabilization, it will take the central government a huge effort to reverse the security vacuum and reintegrate the armed nonstate actors. In northeastern Syria, the Syrian Democratic Forces, with support of the United States, are in control of the region’s agricultural and energy resources, whereas other armed groups are profiteering from controlling crossing points within areas under their control. Dismantling this war economy in both cases and others will be key in pushing efforts towards reconstruction.

18 Fragile States Index, the Fund for Peace, <https://fundforpeace.org/wp-content/uploads/2020/05/fsi2020-report.pdf>

Poor Governance and Economic Crises as Catalysts for Regional Insecurity

Poor governance is a fundamental factor contributing to state weakness in the region. In the context of growing political unrest and geopolitical threats, the state of weak governance presents a number of implications. In some cases, steps towards democratization have stalled while states' priorities are focused on mitigating the threats of economic collapse or terrorism. In other cases, the state's ability to address the basic needs of its citizens or in making the necessary efforts for fighting corruption or consolidating rule of law and stability is severely hampered.

Although an extreme case of state failure, Lebanon's ongoing economic and political crisis is indicative of how the state of governance endemic to the region can exacerbate regional insecurity. In addition to being trapped in a geopolitical standoff between Syria and Iran on one hand and Israel on the other, Lebanon has faced successive socioeconomic crises such as waste management, pollution, energy shortage, ongoing financial crises, and finally the onset of the Covid-19 pandemic. The devastating explosion in Beirut port in August 2020 was a painful but vivid example of the effects brought about by poor governance and corruption. Although these problems led to a renewed wave of political protests, the entrenched sectarian political system has blocked any serious attempt for accountability and addressing corruption.

Poor governance is a prescription for state fragility and, in extreme cases, state failure. This failure radiates across the MENA region, exacerbated by its unstable geopolitical setting. Poor governance, combined with corruption and the lack of freedoms, exacerbates political unrest and the economic alienation of large segments of the population. Furthermore, it invites greater regionalization of national politics, which is starkly evident in cases such as Lebanon and Iraq, where regional and international powers are manipulating situations to advance their own agendas. It is clear that regional security cannot be maintained by weak or failed states.

Escalating Humanitarian Crises

The MENA region has the world's highest number of refugees and internally displaced persons (IDPs). As a result of the volatile security situations in Iraq, Libya, Syria, and Yemen, the region is producing the most severe refugee crisis in decades. These crises not only affect these countries, but also the host countries and communities, particularly in neighboring states. National economies' public and social services; and in some cases natural resources, are stretched to their limits. According to the United Nations High Commissioner for Refugees (UNHCR), multiple complex and volatile humanitarian emergencies continue to cause human suffering in the MENA region.¹⁹ By the end of 2018, the region was home to almost twenty-one million people of concern, including 7.7 million refugees, thirteen million IDPs, and approximately two hundred thousand stateless persons.²⁰ The relatively improved situations in Syria and Iraq persuaded millions of refugees and IDPs to return home, but they were unable to meet their basic needs amid their devastated property and destroyed infrastructure.

Children are the most affected and the most in need of humanitarian assistance. According to the United Nations Children's Fund (UNICEF), in addition to other ongoing emergencies in Libya, Sudan, and the state of Palestine, there are about seventy million people in need of humanitarian assistance across the MENA region, including twenty-seven million children.

19 UNHCR, UNHCR Yemen: 2021 Country Operational Plan, <https://reliefweb.int/sites/reliefweb.int/files/resources/UNHCR%20Yemen%202021%20Country%20Operational%20Plan.pdf>

20 UNHCR, Regional Summaries: Middle East and North Africa, https://reporting.unhcr.org/sites/default/files/ga2019/pdf/Chapter_MENA.pdf

Furthermore, fifty million people in need live in conflict-affected countries, including about twenty-four million children.²¹ The UN has described the situation in Yemen as the world's worst humanitarian disaster. About 80 percent of the population requires humanitarian assistance and protection, some twenty million people need help securing food, and ten million are "one step away from famine". According to Save the Children Charity, eighty-five thousand children with severe acute malnutrition died between 2015 and 2018.²²

Neglecting such simmering human crises will only exacerbate regional insecurity. Already vulnerable to physical dangers and psychological trauma, refugees and IDPs could be subject to the abuse of criminal networks, which already control their trafficking routes. Most importantly, refugees provide potential pools of recruitment for violent terrorist groups. Furthermore, refugees face various forms of socio-cultural discrimination in their host communities. This may add to the human disaster, and thereby security threats. Providing aid and assistance alone will not mitigate the potential threats of these crises. National reconciliation and rehabilitation of refugees and IDPs are necessary for sustained peacebuilding at home and the region.

Resource Scarcity and Climate Change

The Arab region is one of the most resource-stressed areas in the world. This is especially true when it comes to water scarcity.²³ The region has 6 percent of the world's population but a mere 1 percent of its water resources. Most of the countries in the region rely on transboundary rivers emanating from outside the region, many of which are subject to geopolitical disputes; consider the 1990 Turkish–Syrian dispute over the Euphrates and the unfolding Ethiopian GERD crisis that is endangering the water and food security of Egypt and Sudan.²⁴

Climate change is also exacerbating this situation of resource scarcity. The nexus of energy, food, and water is at the heart of the climate change implications.²⁵ The MENA region is on the verge of facing the dual threats of water scarcity and food shortage. According to climate specialists, the region is already affected by extreme heat and water shortages. With 4°Celsius global warming, the mean summer temperatures can increase by up to 8°Celsius, water runoff could decrease by 75 percent, and land aridity could increase in many parts of the region by more than 60 percent.^{26,27}

21 UNICEF The MENA: Humanitarian Response, <https://www.unicef.org/mena/humanitarian-response>

22 Save the Children, Starvation in Yemen: 85, 000 Children May Have Died of Hunger, 21 November 2018 <https://www.savethechildren.org.uk/blogs/2018/starvation-in-yemen-85000-children-may-have-died-of-hunger>

23 Abd El-Galil, Tarek, New Data Shows Water Scarcity is Increasing in the Arab World, Stirring Discussion, Al-Fanar Media, 2 September 2019 <https://www.al-fanarmedia.org/2019/09/new-data-show-water-scarcity-is-increasing-in-the-arab-world-stirring-discussion/>

24 Saikal, Amin, Water Disputes will Compound Instability in the Middle East, The Strategist- Australian Strategic Policy Institute, 28 July 2021 <https://www.aspistrategist.org.au/water-disputes-will-compound-instability-in-the-middle-east/>

25 Jagerskog, Anders, Water, Food and Energy in the Arab World: A Collective Challenge, The World Bank Blogs, 20 November 2018 <https://blogs.worldbank.org/arabvoices/water-food-and-energy-arab-world-collective-challenge>

26 Waha, K., Krummenauer, L., Adams, S. et al. Climate change impacts in the Middle East and Northern Africa (MENA) region and their implications for vulnerable population groups. *Reg Environ Change* 17, 1623–1638 (2017). <https://doi.org/10.1007/s10113-017-1144-2>

27 Jarvis, Lovell S. & Petraud, Jean Paul, Climate Change and Increasing Aridity: the fate of Agriculture and Rural Communities in the Middle East and North Africa, <https://ucanr.edu/sites/rosenbergforum/files/313045.pdf>

The region is also plagued by food dependency on external sources. The world's top nine wheat importers are MENA countries. Around 50 percent of the region's demand for wheat and barley, 40 percent for rice, and nearly 70 percent for maize are met through imports. This dependency makes the region more vulnerable to world market fluctuations.²⁸

While affluent Arab societies can at least in the short-term afford the consequences of such a situation, the majority, be they in conflict or economic need, cannot. In addition to worsening economic crises, resource scarcity can induce conflicts. Research suggests that the initial Syrian uprising was motivated by a severe drought that hit Dara'a and the Syrian south.²⁹ Some research suggests that a rise in local temperature of 0.5°Celsius is associated with a 10–20 percent heightened risk of deadly conflicts.³⁰ This is a subject of research and debate. What is certain, however, is that poor governance in the Arab World will not provide the necessary tools to meet the challenges posed by such threats. It is mismanagement that can produce conflict and further destabilize the region.

The Erosion of the Two-State Solution to the Israeli-Palestinian Conflict

The two-state solution has been internationally recognized as the basis for a just and lasting settlement of the Israeli–Palestinian conflict. However, the prospects for realizing a two-state solution are rapidly fading. Little meaningful progress has been achieved in the peace process since the last attempt at negotiations undertaken by the Obama administration in 2016. Israel continues its unilateral measures of entrenching the illegal occupation of the West Bank and the Gaza Strip, amounting to *de facto* annexation of Palestinian territory: subjecting Palestinians to military rule and expanding settlements in the West Bank and Jerusalem, while controlling borders with Gaza, all of which endanger the prospects of a viable and geographically contiguous Palestinian state. The *de facto* inter-Palestinian division between Hamas in Gaza and the Palestinian Authority in the West Bank has further undermined the prospects for a two-state settlement.³¹

The marked shift of U.S. policy under the Trump administration has had the detrimental effect of facilitating the entrenchment of Israeli control over the Palestinians. In January 2020, The Trump administration released the long-awaited deal of the century, dubbed the “Peace for Prosperity Plan”, that was clearly in favor of sustaining the Israeli occupation while offering the Palestinians the possibility of a state with limited sovereignty.³² The Trump administration's decision to move the U.S. embassy to Jerusalem in June 2018, along with U.S. recognition of the Golan Heights as part of Israel, were manifestations of the departure in U.S. policy toward the Arab–Israeli conflict. Despite international opposition to Israeli annexation, there seem to be no concrete strategies for ending it. Prospects for serious international intervention to revive the peace process are minimal, with no indication that the Biden administration will renew serious

28 Abouelnaga, Mahmoud, Why the MENA region needs to better Prepare for the Climate Change, the Atlantic Council, 7 May 2019 <https://www.atlanticcouncil.org/blogs/menasource/why-the-mena-region-needs-to-better-prepare-for-climate-change/>

29 DW, How Climate Change Paved the Way to War in Syria, DW 26 February 2021 <https://www.dw.com/en/how-climate-change-paved-the-way-to-war-in-syria/a-56711650>

30 Hussona, Jake, How is Climate Change Driving Conflict in Africa, Reliefweb, 10 March 2021 <https://reliefweb.int/report/world/how-climate-change-driving-conflict-africa>

31 Brown, Nathan et al, Two States or One? Reappraising the Israeli- Palestinian Impasse, Carnegie Endowment for International Peace, 2018 https://carnegieendowment.org/files/CarnegieBaker_Palestine_Final1.pdf

32 Trump Releases Peace Plan that Strongly favors Israel, The New York Times, January 2020 <https://www.nytimes.com/2020/01/28/world/middleeast/peace-plan.html>

U.S. engagement toward a negotiated final status settlement.³³

The demise of the two-state solution remains a latent factor of regional destabilization. The breakout of another wave of violence in the occupied territories, as we have recently seen in the last confrontation between Hamas and Israel (May 2021); the ongoing unrest in Jerusalem; the ethnic clashes between Jews and Arabs in the mixed cities within Israel proper; the legitimization of radical discourse on the part of the “Resistance Axis” (Syria, Iran, Hezbollah); and the “externalization” of the conflict to neighboring Arab states, with Jordan and Egypt bearing the consequences of instability emanating from the West Bank and the Gaza Strip, all constitute potential sources of instability in the short- and medium-terms. Although other regional conflicts are perceived to have gained greater urgency, this has not altered the reality that the Israeli–Palestinian conflict constitutes the longest occupation of one state over another people in modern history, and continues to be an ever-present source of regional instability as well as a situation of profound injustice.

Covid-19

The onset of the Covid-19 pandemic coincided with other major challenges facing the Arab World. It may be premature to assess the regional security implications of the pandemic. Nevertheless, it has been evident that the pandemic has compounded the challenges of state fragility in the region, thereby magnifying their socio-economic and political implications. According to the United Nations Economic and Social Commission for Western Asia, by mid-2020, the pandemic resulted in the loss of \$152 billion in the real GDP of the Arab countries. Furthermore, around seventeen million people were affected by the loss of jobs and fourteen million people were pushed to poverty.³⁴ The pandemic has also exacerbated the decades-long challenges of inequality, poverty, inadequate social safety nets, poor governance, unresponsive institutions, and communal violence. In the cases of Lebanon and Tunisia, Covid-19 has compounded ongoing social and political crises.

New Arenas of Conflict: The Eastern Mediterranean and the Red Sea

One of the significant changes that brought about the region’s shifting security dynamics is the emergence of new arenas of geopolitical competition. In the Eastern Mediterranean, tensions are quickly escalating. Building on unresolved conflicts and longstanding claims, compounded by new and prospective hydrocarbon discoveries, and political frictions, the rivalry between Turkey and an array of Mediterranean countries, most notably Egypt, Greece, and Cyprus, is escalating into rhetorical and military muscle-flexing.³⁵

The competition around recently discovered natural gas resources in the Eastern Mediterranean is drawing in regional and international powers and has complex legal, political, and strategic dimensions. Escalating tensions in the region are for the most part a result of a shift in Turkey’s strategic posture, as it is increasingly relying on military force to uphold its energy and maritime claims. As Turkey increased its military intervention in Libya, disputes over gas and exclusive

33 International Crisis Group, Nineteen Conflict Prevention Tips for the Biden Administration, ICG, January 2021
<https://www.crisisgroup.org/united-states/b002-nineteen-conflict-prevention-tips-biden-administration>

34 UN, Policy Brief: The Impact of COVID-19 on the Arab Region: An Opportunity to Build Back Better, July 2020
https://unsdg.un.org/sites/default/files/2020-07/sg_policy_brief_covid-19_and_arab_states_english_version_july_2020.pdf

35 Hokayem, Emile et al, Competition in the Eastern Mediterranean: understanding the complex dimensions and multiple players, IISS, September 2020
<https://www.iiss.org/events/2020/09/eastern-mediterranean-complex-dimensions-multiple-players>

economic zones (EEZs) have intersected with regional rivalries between Turkey on one side and the UAE, France, and Egypt on the other.³⁶

The Red Sea also is witnessing growing competition that is intersecting with the international competition over influence in the Horn of Africa. Traditionally, international powers—the US, France, China, and Japan—were vying over influence in the Horn of Africa. Today, regional powers are extending their rivalries to the Red Sea, further reinforcing the emergence of the region as an arena of regional security competition. Vital to the world trade routes, the Red Sea is undergoing far-reaching changes in its security environment. Militarization of the region has been more pronounced. Nearly a dozen new military bases have been established on the eastern and western coasts of the Red Sea. Furthermore, the war in Yemen has drawn attention to the potential Iranian influence in the region, as Iran increased its support to the Houthis.

Militarization in both regions is heightening the risk of conflict and further endangering the Arab regional security environment. Expanding regional rivalry into such volatile and dispute-ridden regions is minimizing the possibilities of reaching a regional mechanism of security cooperation while increasing the possibilities of foreign intervention. Consider, for example, that the Eastern Mediterranean has NATO members and is part of the southern flank of the world's most formidable military alliance. One can also consider the heavy military presence of the international powers in the Horn of Africa. Indeed, rivalries have also threatened the stabilization and state-building in fragile states like Somalia, which is a member of LAS. The country is still divided into regions influenced by external powers and plagued by terrorism and violence.³⁷ A relapse into civil war will greatly destabilize regional security, as it did before in the 1990s and 2000s, and accordingly will further attract the intervention of regional powers. Similarly, the eruption of violence in the Eastern Mediterranean will put any stabilization process in Syria, Libya, and Lebanon at risk.

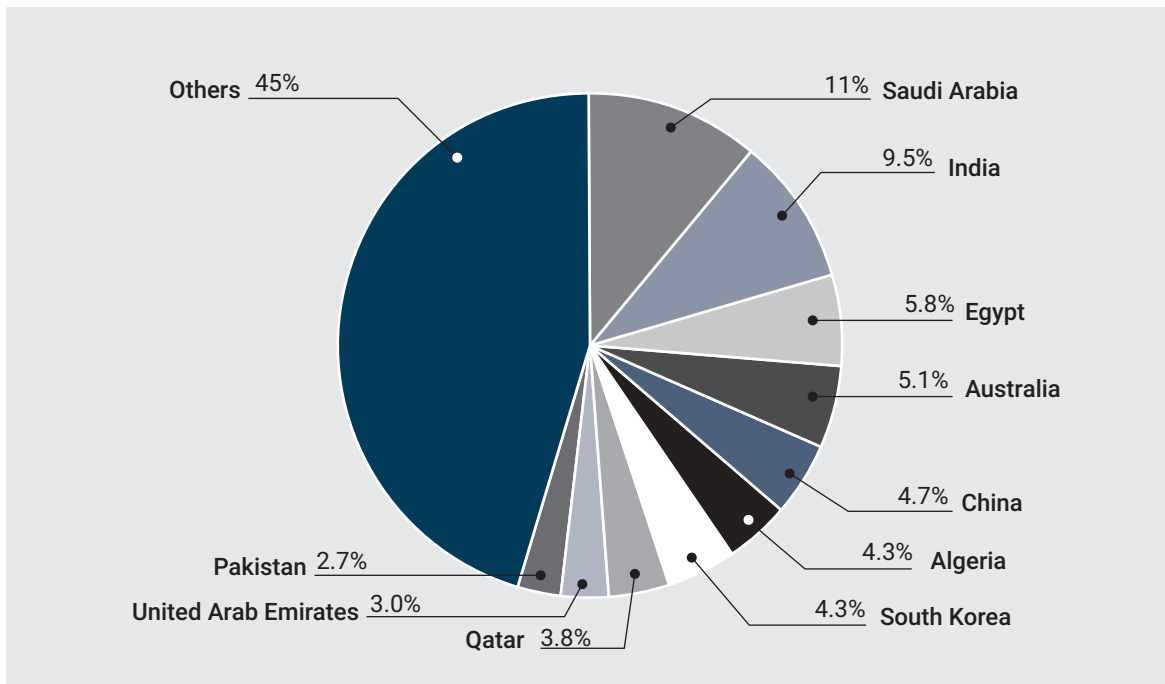
Growing Militarization

Militarization can be understood as both a cause and a result of the region's conflict and regional insecurity. Since the 1970s, the MENA region has been one of the most militarized regions in the world. Regional states have resorted to accumulating greater armaments to mitigate growing security threats and to maintain an often-fragile balance of power with their rivals. In some cases, greater militarization has been accompanied by a greater propensity for intervention in regional conflicts.

The region constitutes a major source of arms imports globally. According to SIPRI's recent report, arms imports by states in the Middle East were 25 percent higher in 2016-20 than in 2011-15. Four of the world's top 10 purchasers of weapons in 2016-20 were Arab states: Saudi Arabia, Egypt, Qatar, and the UAE. The US remains the region's biggest arms exporter, accounting for 52 percent of arms imports, followed by Russia at 13 percent and France at 12 percent.

36 Deep Sea Rivals: Europe, Turkey and New Eastern Mediterranean, European center for Foreign Affairs, May 2020
https://ecfr.eu/special/eastern_med/

37 Melvin, Neil John, the New External Security Politics of the Horn of Africa Region, SIPRI, April 2019
<https://www.sipri.org/publications/2019/sipri-insights-peace-and-security/new-external-security-politics-horn-africa-region>



Source: SIPRI Trends of Arms Transfer in 2020³⁸

Militarization induces escalation but does not necessarily bolster deterrence. Miscalculation can push disputes and rivalries to armed conflict, be it direct or through proxies. Absent problem-solving mechanisms or a regional security architecture, the risk of miscalculation is high. Furthermore, the military buildup is affecting the human and economic priorities of the states as more resources are allocated for defense at the expense of human development. Arms purchases divert substantial resources that might otherwise be spent on fundamental social needs, including education and health. Spending among MENA countries on healthcare, for example, tends to be about 3 percent of GDP, considerably less than the percentage of GDP spent on arms imports. At the same time, most countries in the region, including some of the wealthiest such as Saudi Arabia and Kuwait, continue to run structural budget deficits, a situation made worse by the downturn in global oil prices since 2014. As for other medium-income Arab countries, these deficits and economic inequalities could be more pressing. A further facet of the region's overall militarization is the proliferation of military bases aggravating regional geopolitical rivalries (see Table 2).

38 Wezman, Siemon, Wezman, Pieter & Kuimova, Alexandra, Trends in International Arms Transfers, 2020, March 2021 <https://www.sipri.org/publications/2021/sipri-fact-sheets/trends-international-arms-transfers-2020>

Table 2: The growing presence of military bases across the region

The Growing Presence of Military Bases in the Arab World

Foreign, mainly Western, military bases and facilities in the Arab World have been a feature of Western involvement in the region's security dynamics. The presence of U.S. bases in Gulf countries, especially after the 1991 Gulf War against Iraq, has been an essential component of the U.S. security strategy in the region. In spite of the diminishing geostrategic value of the region to American interests, the United States is still keen on retaining its military presence to confront threats posed by regional adversaries such as Iran and potentially global competitors such as China and Russia, as well as to secure global trade routes in the Gulf and the Indian Ocean. The United States thus continues to hold a network of military bases and facilities across the region in Bahrain, Oman, UAE, Jordan, Iraq, Djibouti, and other countries.¹ Furthermore, other Western powers, the United Kingdom and France in particular, have footholds in the region with military bases in Bahrain, the UAE, and Djibouti.

Russia's military base in Tartus in Syria reflects Russia's aspirations for warm waters. The eruption of the civil war allowed for Russia to expand its military presence with the establishment of a military air base in Khmeimim in 2015 to support the Russian military operation in Syria.²

The geopolitical competition between the regional powers has also fueled a base race. As part of cementing the Turkish–Qatari alliance, particularly during the 2017–2021 Qatari–GCC crisis, Doha allowed Turkey to establish a military facility in the Gulf in 2016.³ A year later, during the Qatari–Arab Quartet crisis in 2017, Ankara transferred thousands of troops as a token of support for its ally. According to the UN, the UAE developed its air base⁴ in eastern Libya to support the LNA in the fighting against the GNA and Turkish-backed Islamist militias.

The Horn of Africa has also been a focus area of this regional competition as Turkey, the UAE, and Saudi Arabia have rushed to establish military bases overlooking the Gulf of Aden and the Arabian Sea, thus intensifying military competition in a heavily militarized region.⁵ Turkey has established a military base in Somalia and planned to open a naval dock in Sudan, although the scheme was hindered by the collapse of the Al-Bashir regime in 2019. The UAE has established bases in Somaliland and ⁶ Eritrea in order to support its presence in southern Yemen. Saudi Arabia, for the same purpose as well as fending off against the Iranian presence in the region, has established two military bases in Djibouti and Eritrea.

Establishing military bases is a legitimate tool for capable states to maintain their national security and to advance the goals of their strategy. However, they are also a projection of power which may lead to greater escalation between the competing powers. Furthermore, building and maintaining a military base abroad is not a cheap venture; it is economically exhausting, especially for emerging economies such as those of the region.

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- 1 U.S. Military Bases and Facilities in the Middle East, the American Security Project, <https://www.americansecurityproject.org/wp-content/uploads/2018/06/Ref-0213-US-Military-Bases-and-Facilities-Middle-East.pdf>
 - 2 Suchkov, Maxim, Why is Russia seeking to expand its military bases in Syria? the Middle East Institute, 2020 <https://www.mei.edu/blog/why-russia-seeking-expand-its-military-bases-syria>
 - 3 Murdock, Heather, Turkey Opens First Mideast Military Base in Qatar, Voice of America, May 2016 <https://www.voanews.com/middle-east/turkey-opens-first-mideast-military-base-qatar>
 - 4 Lewis, Aidan Covert Emirati support gave East Libyan air power key boost: U.N. report, Reuters, June 2017. <https://www.reuters.com/article/us-libya-security-idUSKBN1902K0>
 - 5 Middle Eastern Base Race in North-Eastern Africa, Studies in African Security, August 2019 <file:///D:/Users/muhammad.musaad/AppData/Local/Temp/FOIMemo6809.pdf>
 - 6 The UAE in Eritrea was closed due to the deteriorating military situation in Yemen see <https://apnews.com/article/eritrea-dubai-only-on-ap-united-arab-emirates-east-africa-088f41c7d54d6a397398b2a825f5e45a>

Terrorism and Radicalization

The rise of ISIS and its affiliates in 2014 introduced a new dimension to the terrorist phenomenon in the region. For the first time, a terrorist group was able to control and administer huge territories astride regional borders. In addition to the security threats that this posed to the territorial integrity and sovereignty of Iraq and Syria, it also posed a grave security challenge to several regional states, thus severely weakening the essential pillars of the regional state system. ISIS established a quasi-state that managed its population through a fledgling security–bureaucratic apparatus, generating revenues from illicit trafficking in oil, goods, and people, alongside developing an intelligence apparatus composed of ex-Baathist officers.

Although this territorial state eventually collapsed and the organization was militarily defeated, the experience of the Islamic State constitutes a precedent that might be replicated in different forms. In Iraq and Syria, only splinter groups and tiny pockets remain active. Yet terrorism in the MENA region is far from defeated and remains deeply rooted in complex structural factors and drivers, including socioeconomic crises, political illegitimacy, social alienation, and induced communal and sectarian violence. It is therefore likely to remain a latent source of regional instability for the medium-term.

The rise of ISIS highlighted the overall security deterioration in the Arab World. The potency of the radical ideology espoused by the Islamic State was evident far beyond the region as different groups affiliated with ISIS threatened Western interests; the Paris attacks in November 2015 are a prominent example. These attacks in turn further encouraged international intervention in the region. Furthermore, terrorism and countering terrorism have become intersecting factors between the Arab conflicts, as ISIS and other terrorists proved able to inspire and to provide support across borders. For example, consider the role of the foreign fighters who belonged to ISIS and other radical armed groups moving from Iraq to Syria to Libya.

The history of radicalization in the MENA region suggests that the remains of ISIS and Al-Qaeda can reemerge in different forms. For example, in Yemen, Al-Qaeda affiliates are still active and are in the process of being localized and socialized within the context of the ongoing conflict. Meanwhile, the counterterrorism operation against the ISIS-affiliate group in Sinai remains ongoing. In Libya, ISIS was defeated in Sirte and moved south. Any failure of the ongoing political process may reactivate such groups and can push them to be integrated into the Sahel network of radicalized groups. Often, these groups operate through the crime–terror nexus as they merge with networks of human, drugs, and arms trafficking. Therefore, there is every reason to consider that the extended and transnational criminal networks fomented by war economy dynamics will continue to sustain terrorist groups across the region.

• ASSETS FOR A NEW REGIONAL SECURITY FRAMEWORK

Assessing the current security landscape of the Arab World reveals not only indicators of growing crises and instability, but also potential assets that can be utilized to bolster regional security.

Seeds for a New Regionalism?

Despite the rising tensions in the Eastern Mediterranean and the Red Sea, both subregions are witnessing significant steps towards establishing cooperation frameworks. In early 2019, Egypt led the initiative to establish the Eastern Mediterranean Gas Forum (EMGF) as a collective framework to leverage recent hydrocarbon discoveries in the Eastern Mediterranean to foster increased cooperation between Greece, Cyprus, Israel, Italy, the Palestinian Authority, and Egypt. In September 2020, the EMGF states signed a charter turning the EMGF into an intergovernmental regional organization. Recent overtures by Turkey, and in particular toward Egypt, may foster a more cooperative relationship among the countries in the Eastern Mediterranean.

In January 2020, Saudi Arabia led the initiative to establish the Council of Arab and African States Bordering the Red Sea and the Gulf of Aden. As its name indicates, the council is formed by the coastal states of the Red Sea, including Egypt, Jordan, Saudi Arabia, Yemen (the internationally recognized government), Sudan, Eritrea, Djibouti, and Somalia. The new council aims to increase cooperation between the countries and address the threats of piracy, smuggling, and other challenges to key international shipping routes. Thus far, only the charter has been signed by the Red Sea states and some key issues are still unaddressed, such as the membership of Israel and Somaliland.

The two initiatives highlight the role played by Arab powers in forums of cooperation that can constitute the basis for an emerging regionalism. Both the EMGF and the Red Sea Council can provide solid platforms for trust-building between Arab countries and non-Arab neighbors. Reaching agreements on functional areas of cooperation and creating mechanisms to handle disputes can potentially contribute to the stabilization of both subregions.

Tripartite Economic Cooperation: Egypt, Jordan, and Iraq

Economic cooperation between Cairo, Amman, and Baghdad is gradually increasing. Since 2019, the three countries have been seeking to consolidate cooperation and coordination in the framework of achieving Arab integration, which was reflected in several meetings between the three parties. Dubbed by Iraqi Prime Minister Mustafa Al-Kadhemi as “the New Mashreq Plan”, the grouping is predicated on taking advantage of the resources and assets in the three countries: Iraq’s oil wealth, Jordan as a crossing point, and Egypt’s infrastructure and manpower. Areas of cooperation include energy, electricity connectivity, transportation, port development, and others.³⁹ Kicking off this plan, the three countries established a land route in March 2021 to facilitate commercial and civilian movement. Also, both Jordan and Egypt are engaged in infrastructure and industrial projects in Iraq.⁴⁰

Except for combating terrorism, the grouping has not yet evolved to encompass full-fledged security cooperation. However, the growing alignment between these countries cannot be

39 Hosny, Hagar, Egypt seeks land route with Jordan, Iraq to boost trade, Al-Monitor, March 2021 <https://www.al-monitor.com/originals/2021/03/egypt-jordan-iraq-land-route-trade-economic-relations.html>

40 Soliman, Mohamed, Egypt seeks to support development efforts in Iraq as part of oil-for-reconstruction mechanism, Ahrām Online, February 2021 <https://english.ahram.org.eg/NewsContent/1/64/402659/Egypt/Politics-/Egypt-seeks-to-support-development-efforts-in-Iraq.aspx>

separated from the regional geopolitical context. Egypt is seeking a new active foreign policy in its traditional areas of influence in the Arab World and Africa.⁴¹ Iraq, under Kadhemi, is aiming to reestablish its relations with the Arab World, reach a more balanced relationship with Iran, and enhance its commercial ties with regional states through energy cooperation and regional investments to facilitate reconstruction. After consolidating cooperation and establishing an institutional framework, the next step of the project can potentially be an expansion to include other Arab states, with Syria as the most probable next candidate. If this project is able to get traction, it could acquire an important political role with far-reaching implications for regional security and stability.

The Abraham Accords

Between August and December 2020, Israel concluded a series of “normalization” agreements—brokered by the United States—with Bahrain, the United Arab Emirates, Sudan, and Morocco. These were the first formal agreements of recognition to be concluded between Israel and an Arab state since the Israel–Jordan peace treaty signed in 1994. The most immediate and visible consequence of the Abraham Accords has been the rapid commencement of overt economic and commercial relations, in particular between the UAE and Israel. However, there are also signs of possible security cooperation as well, potentially directed at countering Iran.

The recent steps toward normalization with Israel are subject to different assessments throughout the region. While some have criticized these agreements as having contravened the Arab consensus on Palestine as embodied in the Arab Peace Initiative of 2002, the argument can also be made that they open new channels between Arab societies and Israel, which can be leveraged for achieving progress in the peace process, and potentially lay the groundwork for new forms of regional security cooperation in the future beyond the focus on Iran.

Regional Humanitarian Relief Efforts

Recently, Saudi Arabia has undertaken extensive investments in the area of humanitarian relief. This assistance is delivered through a range of public and private mechanisms. Saudi organizations like the Saudi Red Crescent, the International Islamic Relief Organization, and the King Salman Humanitarian Aid and Relief Center (KSrelief) are primary components of the Saudi relief network, with a scope covering the Arab and Muslim worlds.⁴² The humanitarian catastrophe in Yemen has been the focus of the work of these organizations. According to KSrelief, the amount of aid provided by the Kingdom of Saudi Arabia to Yemen between 2015 and 2020 totaled \$17.3 billion, including support for the Central Bank of Yemen, the assistance provided to Yemeni refugees living in the Kingdom, and support to the Yemeni government.⁴³

Overlapping with other regional measures to provide humanitarian aid, such as those provided to Lebanon following the Beirut port explosion in 2020, this can constitute a nucleus for further regional humanitarian relief efforts. Noteworthy in this regard is Egypt’s pledge of \$500 million for civilian reconstruction in the Gaza Strip following the recent armed conflict between Israel

41 Ahram Online, Cairo aspires to maintain trilateral coordination with Amman and Baghdad, Sisi tells Jordanian PM, Ahram Online, February 2021 <https://english.ahram.org.eg/NewsContent/1/64/403875/Egypt/Politics-/Cairo-aspires-to-maintain-trilateral-coordination-.aspx>

42 Aluwaisheg, Abdel Aziz, Council of Red Sea and Gulf of Aden to play critical role, January 2020 <https://www.arabnews.com/node/1612471>

43 Arab News, Saudi aid agency continues relief projects in Yemen, Arab News, March 2021 <https://www.arabnews.com/node/1821481/saudi-arabia>

and Hamas. Such measures can potentially constitute a positive contribution by Arab states as effective players in the process of stabilization in conflict-ridden areas. Furthermore, they can also potentially be extended to other humanitarian relief efforts related to human security, such as famine relief and post-natural disaster recovery as well as post-war stabilization and reconstruction. If developed to their full potential, such efforts can have an overall stabilizing effect and can mitigate the consequences of conflict and geopolitical competition.

Conflict Stabilization and Regional Cooperation

Tentative signs toward de-escalation can be discerned in several regional conflict zones. First, the Astana/Sochi process under Russian auspices involving Turkey and Iran has contributed to de-escalating the civil war in Syria. This was followed by the Arab–GCC reconciliation with Qatar, which ended the rift in Arab politics that took place in 2017 between Qatar and the Arab Quartet comprising Egypt, Saudi Arabia, the UAE, and Bahrain.⁴⁴ If followed up with concrete steps from all parties involved, the reconciliation will contribute to stabilization across the region, and potentially open areas of cooperation between Arab countries.

Yet, the most significant development in stabilization was the regional cooperation for ending the Libyan conflict. The conflict reached a military stalemate in mid-2020 as Sirte became the frontline between the rival military camps of the LNA and the GNA. This created the conditions for the revival of the UN-sponsored peace process, supported by Egypt, Tunisia, and Algeria. Based on that support, the United Nations Support Mission in Libya (UNSMIL) managed to broker a permanent ceasefire agreement in October 2020, which led to reviving the long-suspended political process and the election of a new government of national unity (GNU) in March 2021. Although these developments are taking place in the context of a fragile security environment, they might lead to an inclusive and robust framework for stabilization as long as it is supported by a minimal regional and international consensus.

These developments have seemingly prompted a change in Turkey's regional conduct, the beginnings of a GCC reconciliation process, and Egypt exercising greater influence in Libya and the Eastern Mediterranean. This has the potential to end the rivalry between the Arab Quartet and the Qatar–Turkey alliance, and create new channels for coordination in Libya, Syria, the Eastern Mediterranean, Iraq, and other regional conflict zones.

44 Harb, Khaled et al., *The GCC Reconciliation: An Assessment*, Arab Center, 11 January 2021
http://arabcenterdc.org/policy_analyses/the-gcc-reconciliation-an-assessment/

FUTURE PATHWAYS: SCENARIOS FOR THE ARAB WORLD

Much of the preceding analysis points to a regional future marked by deepening political instability, heightened geopolitical competition, and greater overall volatility of the regional security landscape. However, such a conflict-ridden future is not inevitable. The region faces several different pathways leading to alternative futures less prone to regional instability. Realizing such alternative futures will greatly depend on the ability of the region's states and societies to formulate different policy approaches that can enable the region to develop in a different trajectory.

Scenario building is a useful tool in envisioning alternative futures for the region. It presumes the future(s) is an interaction between trends, mainly probabilistic factors, and uncertain events. Scenario building is not meant to be predictive, but rather to explore possible alternative futures and assess available policy approaches to realize these futures.

Applying this method to the possible futures of a new regional security complex in the MENA region, the working group formulated four scenario archetypes, each with a specific plot or logic:

- **Continuation:**
Current trends continue in the future without significant change.
- **Collapse:**
Current trends fail in achieving growth and development goals, which may result in greater regional instability, conflict escalation, instances of state collapse, region-wide geopolitical competition, and potentially regional armed conflict.
- **Steady change:**
Balanced trends with limited manageable conflicts, resulting in stabilization.
- **Transformation:**
A desired scenario as the region moves toward a more stable and integrative regional system, with successful progress in furthering conflict resolution and conflict management processes.

Scenario archetypes are **composed of probable trends and uncertain events**. While the former can be easily defined as presented in detail in the previous sections, the latter can be presented in weak signals that might include cracks within regimes that lead to state collapse, a potential region-wide economic downturn brought about by global factors such as the looming energy transition; the success and expansion of cooperative attempts at fostering greater regionalism; or systemic instability brought about by failures of crisis management: for example, a collapse of the negotiating process regarding Iran's nuclear program, resulting in region-wide proliferation.

Table 3: MENA Regional Security Futures

Future Scenario 1: Continuation / Managed Fragmentation	
DESCRIPTION	<ul style="list-style-type: none"> • Trends toward regional fragmentation continue, with similar patterns of competition between rival axes (resistance axis of Iran, Syria, Hezbollah, and the KSA–UAE axis). • The realignment of great power competition; decreased commitment on the part of the United States and greater interventionism on the parts of Russia, China, and France exacerbate the state of strategic disarray. • The lack of a coherent regional security framework maintains the level of increased militarization where states are seeking more security at the expense of regional stability. • However, threats posed by radical terrorist groups are still contained and, in some cases, manipulated by the ruling regimes. • Cautious steps toward post-conflict stabilization in Libya, Syria, Iraq, and Yemen are endangered by the inefficacy of the transitional arrangements and the fragility of ongoing conflict resolution processes, thus reproducing the same pre-conflict dynamics. • Prevailing poor governance exacerbates the challenges posed by climate change, Covid-19, and the deterioration of the overall human security environment.
TRENDS	<ul style="list-style-type: none"> • Continued shifts toward global multipolarity with the continued rise of China. • Realignment of great power competition in the MENA region. • Assertive interventionist posture by regional powers. • Continued instability affecting the “Arab core”. • Heightened militarization, regional geopolitical competition. • Continuing threat of a resurgence of terrorist-insurgent groups. • Worsening effects of climate change and resource scarcity, prevailing state weakness, the impact of generational change, and ongoing humanitarian crises.
WEAK SIGNALS	<p>This baseline scenario is mainly composed of trends where future shifts are less impactful, as the future mirrors the present.</p>

Future Scenario 2: Collapse / Regional Breakdown

<p>DESCRIPTION</p>	<ul style="list-style-type: none"> • Regional breakdown entails moving from militarization to nuclearization, from proxy wars to direct state-to-state war, and from state weakness to state collapse. • Further entrenchment of substate loyalties, maximizing the human costs of conflict. • A pronounced inability to adapt to the challenges of climate change and resource depletion. • An escalating spiral of conflicts, communal violence, and terrorism. • The lack of progress in reviving the Israeli–Palestinian peace process triggers further rounds of violence between Israel and Hamas, the outbreak of a third Intifada, and potential regional spillovers as politics on both the Israeli and Palestinian side is further radicalized.
<p>TRENDS</p>	<ul style="list-style-type: none"> • Previous trends enhanced: increasing fragmentation due to the lack of “collective security”; growing militarization and conventional arms race; open-ended conflict in Palestine/Israel; escalations in the Red Sea and the Mediterranean. • Inability to mobilize regional resources for post conflict reconstruction. • Severe impact of climate change and global warming coupled with poor governance and lack of social, political, and economic reform. • Significant rise in radicalization propelled by socioeconomic crises.
<p>WEAK SIGNALS</p>	<p>Signals pointing to this scenario are present to different degrees. Many of the region’s states continue to suffer from weak legitimacy, economic mismanagement, and autocratic politics.</p> <p>This in turn may lead to another wave of the popular uprisings, but in more violent forms. There is little to suggest that these challenges will be well managed, thus contributing to greater instances of state collapse and fragmentation.</p> <p>Regional spillover effects from current conflicts are ever present; Lebanon, the Iranian nuclear program, Yemen, and potentially Syria.</p> <p>In such a scenario, groups like ISIS and Al-Qaeda can be reincarnated to recruit more radicalized adherents, gaining greater control over territory while feeding off existing sectarian and tribal grievances. The international response to this development is likely to be marked by incoherence and a lack of resolve, contrary to the previous U.S.-led coalition against ISIS.</p>

Future Scenario 3: Steady Change Toward Regional Stabilization**DESCRIPTION**

- Greater regional and international efforts toward conflict management succeed in mitigating the most severe aspects of the region's ongoing civil wars in Libya, Yemen, and Syria.
- Regional spillover effects are averted, and the humanitarian toll of conflicts is significantly diminished.
- Attempts at conflict settlement are halting, and sometimes fragile. However, there is no relapse into full-scale civil war.
- Post-conflict stabilization in Libya, Syria, Iraq, and Yemen succeeds in rebuilding the basic institutions of central government, but still faces challenges as it evades the deep-rooted causes of turmoil.
- This is coupled with a marked shift toward regional de-escalation. The negotiations between the P5+1 and Iran succeed in reaching an interim agreement on freezing Iran's nuclear weapons program and negotiations are ongoing on a follow-up agreement.
- Hedging against the repercussions of open confrontation with Iran, and the effects of U.S. disengagement from the region, the Gulf states deepen their outreach to Iran. Turkey and Egypt reestablish relations based on a modus vivendi regarding Libya, the Eastern Mediterranean, and Turkey's withdrawal of support for the Muslim Brotherhood. Although Israel and Iran continue to engage in low-level armed clashes in southern Syria, the frequency of such confrontations is diminished.
- Subregional frameworks such as the GCC, the Maghreb Union, and the Eastern Mediterranean Gas Forum shift towards greater institutional forms of cooperation. Regional states initiate ambitious projects for energy connectivity between the GCC, the Levant, North Africa, Turkey, Egypt, Jordan, Palestine, and Iraq. Budding attempts are made at regional cooperation on effective strategies to mitigate the effects of climate change.
- Greater Arab engagement with Israel following the Abraham Accords results in active steps to revive the Israeli–Palestinian peace process under U.S. auspices, but without achieving great progress.

<p>TRENDS</p>	<p>Previous trends mitigated.</p> <ul style="list-style-type: none"> • De-escalation of conflicts in Syria, Libya, and Yemen, even though settlements remain elusive. • The absence of a regional security architecture is mitigated by deeper outreach efforts between regional rivals (the Gulf states and Iran, Egypt, and Turkey). • Trends toward militarization continue but are mitigated by regional confidence building measures. • The looming impact of climate change prompts a number of countries in the region to reformulate their development models. • Although the root causes of radicalization linger, the terrorist threat to regional security is contained. The region does not witness the reemergence of an ISIS-like group, and the scope of the threat posed by various terrorist groups is increasingly localized. • Although the deep-seated deficiencies in governance persist, the region avoids a reoccurrence of another wave of Arab uprisings, allowing space for gradual economic modernization and social liberalization efforts to continue.
<p>WEAK SIGNALS</p>	<p>Recent GCC reconciliation with Qatar and tentative diplomatic outreach to Iran can have a constructive impact on the ongoing conflicts as inter-Arab and regional polarization declines.</p> <p>Turkey's shift toward a more compromising posture vis-à-vis both Iran and Egypt further contributes to regional de-escalation.</p> <p>Increasing Arab engagement with Israel may pave the road toward a new peace process on the basis of the Arab Peace Initiative of 2002.</p> <p>The growing cooperation between the regional powers as manifested in the August 2021 Baghdad Conference can achieve inroads in security cooperation and collaboration over reconstruction.</p> <p>In the same vein, the tripartite cooperation between Egypt, Jordan, and Iraq may expand to include Syria in conjunction with its reintegration into the Arab fold.</p> <p>Steady progress towards modernization programs and social liberalization enables certain Arab states to strengthen bonds of citizenship and blunt the trends toward subnational identities of sectarianism and tribalism.</p>

Future Scenario 4: Regional Transformation / Arab Revival

<p>DESCRIPTION</p>	<ul style="list-style-type: none"> • Greater engagement between regional powers through direct diplomacy, regional cooperation, and deeper forms of ‘regionalism’ result in entrenching norms of sovereignty, noninterference, attempts at devising frameworks for regional security, and a greater sensitivity to aspects of human security. • This gradual process results in mechanisms for early warning, conflict prevention, and resolution. Over years of rapprochement, the region moves toward deeper cooperation on functional issues such as energy, post-war reconstruction, and climate change. • Political change within both Israel and the Palestinian Authority revives the prospect of a serious diplomatic process toward a negotiated two-state settlement.
<p>TRENDS</p>	<p>Both the trends and signals on which this scenario is predicated remain weak, and in some instances remote. In many ways, the realization of this scenario remains aspirational rather than realistic.</p> <p>Much would depend on how the region reacts to the trend of U.S. disengagement. Current efforts toward de-escalation and regional cooperation can be greatly expanded, thus diminishing the salience of regional conflicts, even if such conflicts are not settled completely. Growing forms of regionalism in technical issues may expand beyond its scope to include security and economic cooperation.</p> <p>Current modernization efforts underway in several Arab states (Saudi Arabia, the UAE, and Egypt) can shift toward a greater emphasis on institutional governance, which in turn can foster gradual opening for political participation and eventually democratization.</p> <p>Realizing the need for a form of democratic and just governance can enable Arab states to break away from a state of endemic legitimacy crisis. The growing awareness among the youth and governmental agencies of the consequences of climate change may produce robust national and regional policies.</p>

IMPLICATIONS OF ALTERNATIVE POLICY APPROACHES

One important thing to keep in mind when considering these scenarios is that the region is not actually on the brink of collapse, and there are numerous assets that can be brought to bear to reverse the possible track of deterioration. However, the scenario of region-wide breakdown remains a distinct possibility, and this should serve as a warning for policymakers and those who are concerned with the region's futures. Even though its signals are weak, efforts should still be focused on how to best avoid this eventuality.

The "transformation" scenario is premised on a region-wide shift toward robust processes of regional conflict resolution, geopolitical de-escalation, and concrete steps toward an inclusive regional security architecture. Although desirable, this scenario remains remote, as it is predicated on a fundamental reversal of current regional trajectories. Not only are the signals pointing to this scenario weak, the types of regional and international leadership required to realize this future remain noticeably lacking. Comparative historical experiences suggest that such a transformation takes decades to actualize. For instance, it took Indo-China and Southeast Asia decades to come to terms with the violent legacy of decolonization, the destructive war in Vietnam, the genocidal regime in Cambodia, and foreign intervention. Similarly, regional transformation in the Balkans was the result of decades-long processes that unfolded in the aftermath of the post-Yugoslavia wars.

The scenario of "steady change" toward regional stabilization remains possible, but nonetheless challenging. Stabilization is not predicated on fundamentally reversing current regional trends. Terrorism and radicalization are likely to remain ever-present factors of the regional security landscape. Similarly, ever higher levels of arms purchases will continue, meaning that the current trend toward greater militarization, in both qualitative and quantitative terms, will continue to form the backdrop to regional security dynamics. However, realizing this scenario is heavily dependent on pursuing alternative policy approaches than those currently adopted. Available assets can be leveraged to constitute a basis to move toward a more stable pattern of regional dynamics. Furthermore, specific policies geared toward stabilization, such as conflict management and arms control, can be tailored to mitigate the negative effects of militarization and conflict escalation. If successful, such policy approaches can consolidate trends toward stabilization and hopefully lay the foundation for the region to move towards a potential transformation scenario in the future.

It is this particular scenario that informs the suggested policy approaches laid out in the final section of this report.

ALTERNATIVE POLICY APPROACHES

The following policy approaches are derived from the overall discussions of the working group, based on the assessment of overall trends and potential scenarios as presented above. What is presented is framed in terms of “policy approaches” rather than specific actionable policy measures. Policy approaches are meant to denote broad ranges of specific strategies and actions tailored to particular security issues. Given the complexity of the myriad regional security challenges facing the Arab World, as well as the broad scope of the working group’s mandate, it was felt that formulating the report’s recommendations in the form of general “policy approaches” is a more fitting response to the overall findings and conclusions entailed in this analysis.

The objective of the working group is to highlight both the need and the urgency to chart alternative policy approaches toward issues of regional security. It is hoped that the following recommendations can constitute a basis for further debate and dialogue among a broad range of stakeholders engaged with issues of regional security in the Arab World; practitioners, researchers, opinion-leaders, policy analysts, and civil society activists. Such a dialogue will hopefully foster a more specific policy focus to address the different political, economic, social, operational, legal, and ethical aspects of policy directed at particular regional security challenges.

As previously mentioned, the policy approaches formulated in this report are intended to focus on the realization of the “steady change” scenario highlighted in the preceding section. The intent is to wean the region away from a potential scenario of continued escalation, and thus possible region-wide breakdown, toward a more positive trajectory of stabilization.

Prioritizing National and Human Security

The above assessment presents Arab states and societies with a diverse array of challenges that pose a threat to both national and human security. Although often framed as distinct and often mutually exclusive categories of security, it is clear that the complexities of the current regional security landscape mean that national security and human security are in fact inseparable. Nowhere is this reciprocal relationship more pronounced than in the Arab World. Threats to human security often translate into national security threats, and vice-versa (See Table 4).

Table 4: State Security and Human Security Intertwined

National security refers to addressing threats to the territorial integrity and vital interests of the state. It is often framed in military and hard security terms, yet the concept is broad enough to encompass a wide array of threats to the state's survival and the prosperity and well-being of its people. In this report, national security is stressed on both the levels of specific security challenges facing individual states as well as challenges emanating from the overall condition of regional instability. As some Arab countries are facing the threats of collapse and disintegration, others are encountering the threats of poor governance, terrorism, and political instability (rooted in the chronic crisis of legitimacy), in addition to threats posed by other rival states.

Human security is a conceptual framework that seeks to redress the overemphasis on state-centered security in the realm of policymaking. It encompasses a wide range of interconnected issues that affect the political, economic, and cultural rights of individuals, as well as their overall well-being in terms of material and physical security. Most recently, issues such as environmental rights have grown in significance due to the burgeoning threats of climate change and resource scarcity. In the Arab World, such issues have been marginalized, with much of the focus devoted to addressing threats to national security, and by association "regime security". Yet, it has been obvious that issues like human trafficking; migration and refugees; climate change; and deprivation resulting from armed conflict have significant implications for human security as well as national and regional security.

Given the linkages between both human and national security, it would be unrealistic to explore the various possibilities of the region's conflicts and security without including both aspects in an integrative policy approach. Furthermore, examining the threats to Arab human security can indicate areas of cooperation and collaboration between regional adversaries provided that most of these threats, especially those of the environment, are transnational in nature.

As wars have raged across the region for over a decade, the threats to human security have multiplied. Since 2011, there has been a tragic reversal of the human security gains that had been achieved in the Arab World in the preceding two decades. It was in the twenty or so years prior to 2011 that the number of people living in a state of chronic hunger decreased and states were able to launch developmental programs to enhance the lives of a significant proportion of their populations.

To reverse the lasting devastating impacts of conflicts on human security, the following dimensions should be incorporated in the stabilization process:

- **Economic:** Ensuring that people are free from want by providing employment and decent incomes with functioning infrastructure.
- **Health:** Providing basic and universal health services especially to the victims of violence and establishing programs of rehabilitation.
- **Personal:** Ensuring the safety of citizens by reducing violence and crime.
- **Political:** Raising the level of political participation within an inclusive framework and ensuring basic human rights and removing discrimination based on ethnicity, race, or political orientation.
- **Food:** Ensuring that enough nutritious food is available and accessible at all times for all people.
- **Environmental:** Mitigating threats posed by the deterioration of natural resources and the consequence of environmental degradation on food security and the safety of the people.
- **Community:** Ensuring the integrity of local communities.

Whereas several of these aspects are to be tackled by the individual concerned states, some of them can be achieved through regional coordination, such as economic aid, technical assistance, and collective measures; consider for example transnational aspects of environmental deterioration and terrorism.

The myriad challenges to both human and national security thus touch on a number of emerging policy issues, each of which needs to be addressed through a carefully considered approach in order to begin to envision alternative futures for regional security. Incorporating human security dimensions in policymaking on the state level can thus provide for a broader concept underpinning regional security policies. The need to harmonize notions of human security and state security has become more pressing given the escalating human cost as a result of state-centric regional security approaches.

A Holistic Approach to Post-Conflict Stabilization and Reconstruction

As conflicts in the Arab World turn toward de-escalation and hopefully toward a political settlement, the challenges of post-war reconstruction have become more apparent and more pressing. Four countries caught up in conflict—Syria, Libya, Yemen, and Iraq—will face the urgent task of post-conflict reconstruction in light of the current power dynamics domestically, regionally, and internationally. Reconstruction is not a process of physical rebuilding of infrastructure. It is by design a political process, and the interplay between political and economic factors is essential for determining the prospects for postwar stabilization and reconstruction, especially

in an environment of regional competition like that of the MENA region.⁴⁵ Most importantly, reconstruction must be integrated into a holistic approach to reconcile the war-torn countries and to address the root causes of conflict, be it ethnic strife, economic marginalization, or political discontent.

Even oil-rich countries such as Libya and Iraq will probably not be able to utilize their resource wealth for an effective reconstruction process unless they address basic institutional questions. These include ensuring the unity and integrity of national bodies responsible for oil production and revenue management. High levels of corruption, security fragmentation, and the persistent dynamics of a war economy can become insurmountable. In Libya, for instance, the conflict between the east and west has virtually paralyzed the oil sector for extended periods of time. Similarly, in Iraq, discord between Baghdad and the autonomous Kurdistan Regional Government hinders the exploitation and management of Iraqi oil resources for reconstruction.

The challenge of post-war reconstruction is more acute in the case of oil-poor countries such as Syria and Yemen, where resources are not readily available. Those countries will require more substantial institutional and political reforms, including putting in place credible law enforcement bodies that can enhance individual security and protect property. Such measures make possible a sustained post-war recovery, which both countries are not likely to achieve in the absence of a political process.

The most probable sources of financing for major regional construction efforts are the GCC and the EU, the former being the more important politically and economically. In this regard, a distinction needs to be made between Syria, Yemen, and Libya. If it succeeds in fulfilling its current mandate, the ongoing political process in Libya can create a mechanism in which the GCC and the EU would be involved, but the cost would ultimately be borne by Libya itself, which can self-finance its reconstruction in the long run. Saudi Arabia will be expected to largely finance Yemen's reconstruction. The situation in Syria is different, however. While the EU has conditioned financial assistance for post-war reconstruction on an inclusive political settlement, the GCC has greater flexibility in this regard. Should there be sufficient political will, the GCC can spearhead the reconstruction efforts in Syria. However, this needs to be done within the context of a package of interlinked and sequenced economic and political measures to fully implement UN Security Council (UNSC) Resolution 2254.

Addressing the Arab Conflict Resolution Policy Deficit

Amidst the multiple security crises facing the region, Arab approaches to regional conflicts have been marked by a pronounced "policy deficit", thereby lacking the initiative to devise conflict resolution processes within an Arab framework or to contribute effectively to international conflict resolution processes. This is evident in the overall deterioration of the regional security landscape, as well as concerning specific conflicts and conflict resolution processes. This inability to address the region's multiple conflicts within an "Arab" framework has resulted in ceding the initiative to regional and outside actors and the absence of effective Arab input, including with respect to those conflicts that have a direct bearing on the overall regional security of the Arab World; the conflicts in Syria, the negotiations on the Joint Comprehensive Plan of Action (JCPOA), and the ongoing situation in Lebanon providing the clearest examples.

45 Adly, Alaraby and Awad, *Conflict by Other Means: Postwar Reconstruction in Arab States*, Malcolm H. Kerr Carnegie Middle East Center, February 2021
<https://carnegie-mec.org/2021/02/05/conflict-by-other-means-postwar-reconstruction-in-arab-states-pub-83824>

Most of the current initiatives to resolve the unfolding conflicts in the Arab World are thus proposed by external actors. Furthermore, the record shows that the region's overall approach vis-à-vis these initiatives has been fragmented and lacking in coherence. Most notably, the GCC did not manage to engage with the 5+1 negotiating process of the Iran nuclear deal. Had there been robust Gulf engagement in the JCPOA process, it would have turned into a stabilizing factor across the region. Arab involvement in supporting the UN-led mediation efforts in Syria, Yemen, and Libya has been uneven. Remarkably, the Russian-led Astana and Sochi process for Syria included Turkey and Iran without any Arab presence.

This does not mean that the Arab World is a passive actor in the area of regional conflict resolution and conflict management. Indeed, Arab regional politics has several historical and recent examples of conflict resolution and conflict management efforts:

- ***The League of Arab States Arab Deterrence Force (ADF):***

Deployed in Beirut in 1976 during the initial stage of the Lebanese Civil War, the joint force was proposed during the Riyadh summit in the same year. Predominantly led by the Syrian army, it was composed of token contributions from Sudan, the UAE, Saudi Arabia, and Libya. The ADF was mandated to deter the conflicting sides from resorting to conflict again, including the tasks of maintaining ceasefire, collecting heavy weapons, and supporting the Lebanese government in maintaining its authority. Later, as Arab forces withdrew, the Syrian army in Lebanon was the only force in the ADF and was heavily involved in the conflict.

- ***The Taif Agreement, or the Lebanese National Reconciliation Accord, 1989:***

This was the agreement that officially ended the Lebanese Civil War and laid the groundwork for the post-conflict reconciliation process. The agreement was negotiated by representatives of Lebanese sects and political parties, but it was sponsored and enforced through joint Saudi–Syrian efforts with support from other Arab and international actors.

- ***Egypt's Mediation Efforts in the Palestine–Israel Conflict:***

Egypt assumed an active role in the Israeli–Palestinian peace process, being actively involved in every major Israeli–Palestinian agreement in the context of the Oslo process. In addition, Egypt has continued to play a major role in negotiating ceasefire settlements between Hamas in Gaza and the Israel Defense Forces in 2009, 2012, and 2014. Furthermore, since the inter-Palestinian division started in 2007, Cairo has led the efforts to help reach national Palestinian reconciliation.

- ***The GCC Initiative in Yemen, 2011:***

This intervention by the GCC led by Saudi Arabia was an attempt to manage the transition in Yemen. Signed in Riyadh in November 2011, the accord ended the thirty-three-year rule of Ali A. Saleh. Supported by the UNSC and accompanied by a transitional implementation plan, the initiative tackled several issues in the political transition such as fighting corruption, reforming security sectors, and addressing tribal grievances. Although the Houthi takeover of Sanaa violently ended this process, the initiative was an example of a regionally-led conflict settlement process.

The short-lived Arab observer mission in Syria (December 2012–January 2013) was the only independent Arab initiative on Syria. The goal of the mission was to separate government forces

from the armed opposition in order to pave the way for a political settlement. Regrettably, the precipitous withdrawal of the mission, only three weeks after its introduction, contributed to the exacerbation of the armed conflict.

Even though these initiatives operated with varying degrees of success, they provide important precedents for regional activism in the area of conflict resolution and conflict management. Such precedents can potentially provide the basis for a more constructive engagement by the Arab region with international conflict resolution processes, and eventually anchor such processes in robust regional frameworks.

Integrating the Practice of Arms Control as a Tool for Conflict Management

As identified in the assessment of regional security dynamics in the previous section of this report, the increasing militarization of regional conflicts and regional security competition constitutes a profound challenge that must be addressed. Growing levels of militarization have engendered an arms race dynamic that threatens to further destabilize the region's already volatile security environment.

To counter this trend, serious consideration must be given to developing regional arms control approaches that can mitigate the trend toward militarization. As a policy tool, arms control is predicated on achieving security at lower levels of armaments by delinking areas of mutual agreement on different categories of arms from the broader conflict between states. This process is supported by a series of technical and political instruments that enhance the prospects of success of such processes and their sustainability, including verification, confidence-building measures, and greater transparency with respect to qualitative and quantitative aspects of weapons systems, as well as military and security doctrines. As such, arms control is a tool of conflict management; states engage in a political and technical process to mitigate the effects of militarization without necessarily resolving the core differences between them, the JCPOA negotiations between the P5+1 and Iran being a primary example in this regard.

The Middle East region does have some limited experience with arms control processes. It is noteworthy that the proposal to establish a weapon of mass destruction-free zone in the Middle East emanated from a regional initiative proposed by Egypt, and is now universally adopted by the international community as the framework for addressing the region's proliferation challenge⁴⁶.

This underscores how serious regional initiatives to address the myriad security challenges facing the Arab World, and more broadly the MENA region, can be advanced to galvanize broad regional and international support. The JCPOA process involved a highly complex set of negotiations addressing the political, technical, legal, and financial aspects of the Iranian nuclear program, and the sanctions regime imposed by the international community against Iran. The Arms Control and Regional Security (ACRS) working group (1992-1995) as part of the Madrid peace process involved serious discussions on arms control measures and confidence and security building mechanisms.

However, to date, most regional states have not integrated the practice of arms control into their regional security policy, confining their engagement in this realm mainly to the multilateral framework of the global nonproliferation regime. Among other factors, this policy deficit in arms control practice accounts for why the most recent international effort to address the threat of

46 WMD-Free Middle East proposal at a Glance, Arms Control Association, December 2018
<https://www.armscontrol.org/factsheets/mewmdfz>

weapons of mass destruction in the region to deal with the challenge of Iran's nuclear program—the JCPOA—emerged without any serious Arab involvement.

As a result of this policy deficit, the region has been without any viable processes to mitigate the trend towards ever greater levels of militarization, both conventional and unconventional, and the resulting implications for greater regional instability and destructive conflict. This highlights the urgency of developing credible regional approaches that address the many complex technical, political, legal, and regional security aspects of arms control, nonproliferation, and disarmament.

Devising Regional Security Frameworks

The deteriorating security situation in the region is most reflected in the significant weakening of the traditional regional and sub-regional frameworks of cooperation in the Arab World. The League of Arab States (LAS), the Gulf Cooperation Council, and the Arab Maghreb Union (AMU) are suffering from internal divisions and structural shortcomings. Since the 2000s, several regional arrangements have been proposed by foreign powers. The Union for the Mediterranean was proposed by France in 2008, and the United States proposed the Middle East Strategic Alliance (MESA) in 2017, or the U.S.-led Combined Maritime Forces (CMF) to secure navigation in the Arab Gulf in 2019.

These proposals and arrangements suffer from significant shortcomings. The AMU excludes a large proportion of Arab countries, specifically the GCC and Iraq, plus Iran. The MESA proposal put forward by the Trump administration had as its primary objective countering Iranian regional influence. The CMF is an ad hoc mission that is narrowly focused on maritime security. Most importantly, such initiatives highlight the pressing need to address the vacuum left by the absence of a region-wide security framework, and the weakness of existing frameworks to address the region's chronic security deficit.

The absence of regional security frameworks can thus be identified as a major policy challenge for envisioning alternative security futures for the Arab World and the broader MENA region. Most significant in this regard is the need for a region-wide security framework that brings together the countries of the Arab World with those countries that comprise the non-Arab Middle East: Israel, Iran, and Turkey. Many of the sources of regional instability and geopolitical competition derive from the fault-lines that divide the Arab and the non-Arab Middle East.

As was previously addressed in this report, the roots of these divides are complex and deep-seated. The objective behind devising some form of regional security framework is not to solve the root causes of these conflicts, but to create a basis to stabilize the dynamic of geopolitical conflict between these states through a more predictable pattern of strategic interaction.

The core approach behind devising a stable Middle East security architecture is anchored in a set of norms, operational procedures, conflict resolution mechanisms, and a gradual evolving process based on the experience of the Organization for Security and Cooperation in Europe (OSCE) and the ACRS process referenced above. The following principles would constitute the elements of such a framework:

- Giving the priority to disarmament, arms control, and attempting to prohibit nuclear and other weapons of mass destruction.
- A reorientation of the relations between the conflicting regional powers and design confidence-building measures to limit conflicts and enhance cooperation.

- The development of general guidelines for regional practices of both a security and political nature. These could include combating terrorism, the illicit arms and drugs trade, non-interference in the internal affairs of others, and ensuring good neighborly relations.
- Designing a Middle Eastern common human rights declaration to protect human security (the well-being of the individual will lead to the well-being of the community).
- The ME countries need to reach agreements to reach a joint regional security agenda while considering the regional and international threats.
- Establishing proactive diplomatic and conflict resolution missions to settle the conflicts inside the region, stabilizing regional security, and not allowing superpowers the chance to use the region as a proxy battlefield.

Preserving the Tenets of the Two-State Solution

As was highlighted in the assessment section of this report, the continuing stalemate in the Israeli-Palestinian peace process, potentially bringing about the total demise of the prospects for a two-state solution to the conflict, continues to be a major source of regional instability. The current status quo is deceptive and at the same time unsustainable. The absence of another round of widespread violence since the second Intifada (2000-2005); the outbreak of regional conflicts that have garnered international and regional diplomatic attention (Syria, Yemen, Libya), thus seemingly eclipsing the urgency of reviving the Israeli-Palestinian peace process; and the recent normalization agreements between Israel and the UAE, Bahrain, Sudan, and Morocco, should not lull the region or the international community into complacency.

To the contrary, the continued erosion of the two-state solution as a result of the ever-deeper entrenchment of Israel's occupation of the Palestinian territories of the West Bank and Gaza threatens to transform the nature of the conflict in ways that will only increase the humanitarian toll for Israelis and Palestinians alike, as well as heighten the destabilizing effects of the conflicts for regional security. This was revealed in the latest round of conflict (May 2021), which featured the outbreak of another round of armed clashes between Hamas and Israel; the continuing Israeli-Palestinian violence in East Jerusalem; and the simultaneous outbreak of violent clashes between Jews and Arabs in Israel's mixed cities. Together, these developments point to the ongoing trend of the gradual transformation of the conflict from an Israeli-Palestinian national-territorial conflict over the occupied territories of the West Bank and Gaza, to one marked by an ethnic Jewish-Arab conflict over the entire territory between the Mediterranean and the Jordan river. The potential regional destabilizing effects of these trends are profound.

Based on this assessment, it is the recommendation of the working group that the major focus of Arab efforts be toward preserving the tenets for a viable two-state solution to the Israeli-Palestinian conflict. The unfortunate but realistic assessment is that the conditions for such a solution are not present at the moment, and the prospects for their revival are remote in the near term. However, this should not preclude concrete policies that would seek to preserve the tenets of the two-state solution as a minimal objective, until such time that the conditions allow for the resumption of a serious negotiating process aimed at a resolution of the conflict hopefully in the not-too-distant future.

The suggested elements of this approach are as follows. Together, these elements provide the basis for a collective Arab approach, involving different Arab countries as the key stakeholders with respect to various aspects of the conflict.

Leveraging the Abraham Accords to Revive the (2002) Arab Peace Initiative

As has been mentioned in this report, the Abraham Accords elicited mixed regional reactions, between those who saw it as undermining the Arab consensus on Palestine and those who viewed it as a novel approach for engagement with Israel. It should be noted that the primary declared objective behind the UAE-Israel agreement—which is arguably the most significant of the recent normalization agreements—was the prevention of Israeli steps towards annexation of the West Bank.

This highlights the potential for leveraging the Abraham Accords to further the prospects of peace. The numerous cooperation agreements that have been enacted in the context of the recent normalization agreements between Morocco, the UAE, Bahrain, Sudan, and Israel in the fields of energy, commerce, and security constitute valuable leverage that can be utilized towards reviving the prospects of a negotiated solution. In particular, the focus should be on reviving the 2002 Arab Peace Initiative (API). At the heart of the API was an approach predicated on providing regional security guarantees for Israel in the context of a just and lasting settlement to the conflict based on ending Israel's occupation of Arab territories, the establishment of a Palestinian state in the West Bank and Gaza Strip with its capital in East Jerusalem, and a just settlement of the Palestinian refugee problem. As such, the API continues to constitute a viable regional framework for a two-state solution to the conflict.

Reinforcing the Diplomatic Parameters of the Two-State Solution

Perhaps the greatest detriment of the Trump peace plan was that it created a precedent whereby a serious U.S.-backed peace proposal was predicated on a fundamental departure from the basic tenets of a viable two-state solution for the settlement of the conflict. Although notionally based on the two-state formula in that it would entail the establishment of a Palestinian state alongside Israel, the specific provisions of the plan with respect to the territorial aspect, security, Israeli settlements, Palestinian refugees, and Jerusalem contravened the basic parameters of a settlement as enshrined in numerous UN resolutions and the fundamental principles of international law.

The prolonged absence of any negotiations process between Israel and the Palestinians thus highlights the urgency of diplomatically reinforcing the basic tenets of the two-state framework in order to foreclose the prospect of future diplomatic initiatives that would seek to accommodate the “prevailing realities on the ground” as was the case with the Trump plan. Such an effort could take the form of different steps including:

- Introducing a new UN Security Council Resolution restating the fundamental principles of a two-state solution. This can be done via the UAE during its upcoming tenure as a non-permanent member of the Council.
- A new League of Arab States resolution reinforcing the principles of the API.
- Pressing the Biden administration to rectify the decision to relocate the U.S. embassy to Jerusalem. At a minimum, the United States should commit to opening a consulate in East Jerusalem at the earliest possible date.

• Supporting efforts toward Palestinian reconciliation:

The ongoing division within the Palestinian national movement between Fatah and Hamas, mirrored in the territorial division between the West Bank and Gaza, constitutes one of the greatest obstacles towards a two-state solution. Various Arab and international efforts, in particular on the part of Egypt, have thus far failed to overcome this division. Greater Arab political support should be provided in order to increase the prospects of success for such efforts.

• Stabilizing Gaza:

Currently, Gaza represents the only active front of armed conflict between Israel and the Palestinians. The various Israel-Hamas wars in Gaza since 2008 represent a repeated pattern of conflict caused by Israel's continued siege of the Gaza Strip and the resulting humanitarian toll that this has inflicted on the Palestinian residents of Gaza. Addressing the structural factors related to Israel's policy of closure is imperative not only for relieving the dire humanitarian situation in the Gaza Strip, but also to stabilize the situation of armed conflict that exists between Israel and Hamas. Such efforts should focus on the following steps:

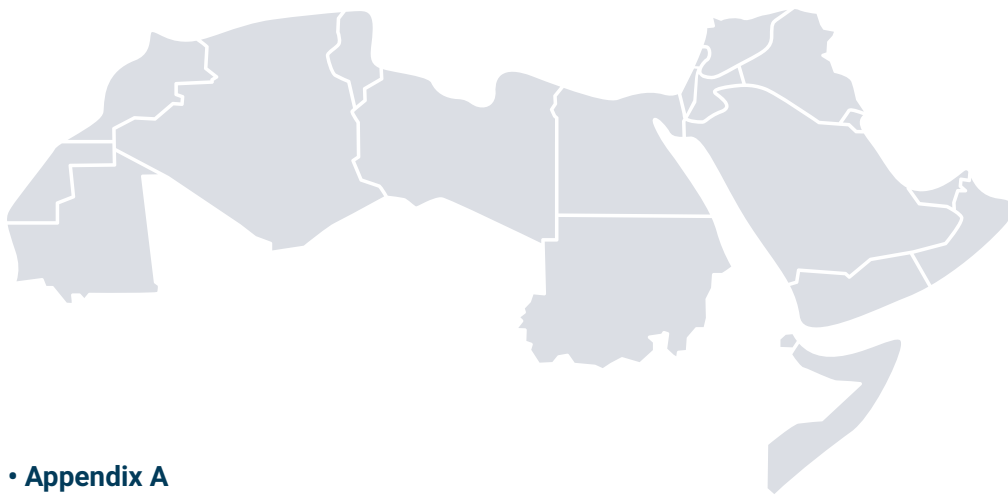
- Supporting Egypt's ongoing efforts towards a permanent ceasefire between Israel and Hamas.
- Augmenting current relief efforts to ameliorate the humanitarian situation in Gaza.
- Supporting a regional push to engage with Israel in order to establish the necessary infrastructure to enable Gaza's commercial engagement with the outside world; the establishment of the Gaza port, industrial zones between Egypt and Gaza, and a territorial link between Gaza and the West Bank.

• Sustaining Palestinian communities in East Jerusalem:

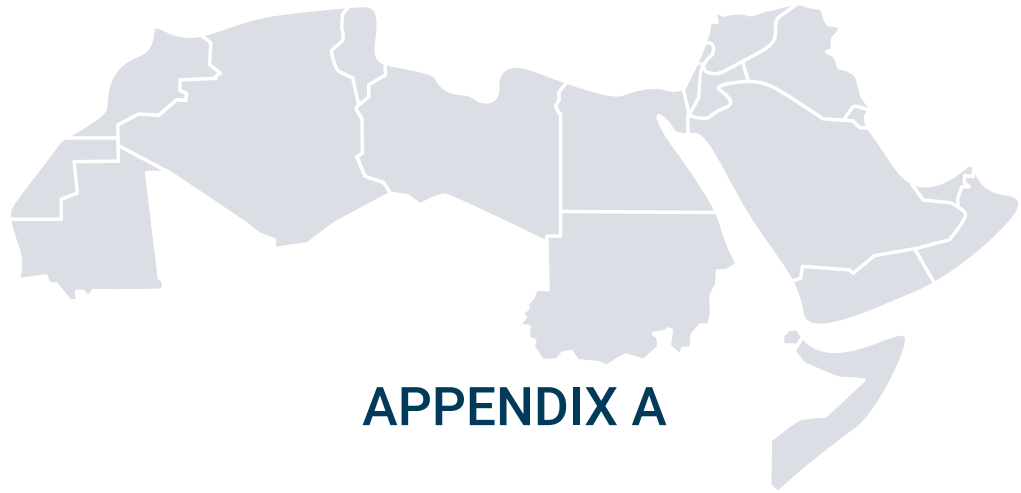
The ongoing low-level violence between Israelis and Palestinians in East Jerusalem is a reflection of the transformation of the nature of the conflict as mentioned above. Much of the source of the violence derives from Israel's concerted efforts to uproot Palestinian residents from their homes as part of its longstanding mission to ensure the proliferation of Jewish settlements in East Jerusalem, the recent spate of evictions in the Sheikh Jarrah neighborhood being only the most recent example of this trend.

Sustaining the Palestinians' presence in East Jerusalem is important not only for humanitarian reasons, but also for preserving the Palestinian claim to a capital in the city as part of a two-state solution. Jordan and Morocco have played an important role in this regard. Such efforts require increased support as part of a collective Arab effort to bolster the resilience of Palestinian communities in East Jerusalem through greater humanitarian relief, political and diplomatic support, and financial and legal assistance.

APPENDICES



- **Appendix A**
Market Control or Market Reform? Pathologies and Possibilities for Private Sector Development in the Middle East
- **Appendix B**
A New Framing of Social Policies: Why, What, and How?
- **Appendix C**
Arab Development, Oil Wealth, and Governance: Issues for Discussion
- **Appendix D**
Rethinking Diversification and Regional Integration: Prospects for the MENA Region



APPENDIX A

23.11.2019

A Note for the AlMostaqbal Conference: The Middle East Looking Forward

November 24-25, 2019

Cairo, Egypt

Market Control or Market Reform? Pathologies and Possibilities for Private Sector Development in the Middle East

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INTRODUCTION

After a hiatus of eleven years, the Arab street is mobilizing again. Like the Arab Uprisings in 2010, the current wave of protests in the Middle East are mainly aimed at corruption, unemployment, and lack of social service delivery. The targets of these protests are not just individual rulers, but the underlying political regimes that have supervised a governance model that looks increasingly outdated and incapable of meeting the demands of citizens. It is clear that the mere ouster of rulers or close members of ruling circles will not deliver Arab societies from misrule. It requires a new way of imagining the relationship between the state and society.

Markets sit at the heart of this relationship. It is impossible to discuss the nature, organization, and persistence of regime power without considering the control of markets for political purposes. In reality, Arab societies do not just face political repression, but also the repression of their markets. By such market repression I do not mean the direct intervention of governments to steer markets in ways that serve larger economic purposes for society. Instead, Arab markets are repressed in the sense that they lack the two overriding principles of market functionality acceptable to both liberal philosophers and Muslim intellectual tradition: autonomy and participation. Markets are neither autonomous from political influences nor are they open to participation by all.

Arab markets are important objects of political control. Most rulers fear the emergence of independent economic actors who could initiate political action. This creates the need for a private sector that is only “private” in name. An overriding political objective is to keep economic actors dependent and loyal. Where countries inherited a strong merchant class, such as in Syria, it was imperative for the ruler to replace it with a new private sector that is a shadow image of the state. Historically, Arab states have played a more active role in economic activity. But even when fiscal pressures compelled them to implement donor-supported stabilization and structural adjustment programs, economic activity came to be indirectly controlled through what political scientist Steven Heydemann calls “Networks of Privilege”. The period of economic reform has therefore produced a growing concentration of economic power among a handful of actors tied to the regime.

While this growing overlap between economic and political power is well known, we have limited knowledge of the precise way in which cronyism is organized, how it functions, whether it takes different forms across countries, and how it connects with different political settlements. Discussions of this subject remain highly general and impressionistic. Taking cue from a recent volume I have edited with my colleagues Ishac Diwan and Izak Atiyas, “Crony Capitalism in the Middle East”, I summarize below the core findings of this volume. This will help situate the discussion in the region’s concrete empirical realities. Having set this background, I will proceed to discuss the possibility of transiting out of crony capitalism to a more open and competitive private sector.

Crony Capitalism: What Do We Know, and Why Does It Matter?

The volume on crony capitalism brings together twenty of the top political economists working on the Middle East. Our objective was to empirically map the nature of political connections among the private sector in key Middle Eastern states and to probe their impact on prosperity through such outcomes as the growth and productivity of firms; employment generation; reliance on subsidies and credit; and sectorial exposure to trade protection, to name a few. Capturing variation across countries, firms, and sectors, we looked at several dimensions of crony capitalism.

We focus on how political connections shaped business performance in Middle Eastern economies during and after the period of economic liberalization. Each chapter offers new insights on the subject that are based on rich empirical analysis and rigorous research design. In the scholarly tradition of Mara Faccio, most papers considered a company as politically connected if the company's shareholders or management included members of parliament; holders of ministerial positions; or were closely related through ties of kinship. In some cases—such as Egypt and Tunisia—such information was more easily available after the Arab Uprisings, when companies owned by the Ben Ali family were confiscated and insider links in Egypt came under public spotlight. In others, such as Lebanon and Turkey, the identification of politically-connected firms or sectors had to rely on indirect procedures.

The resulting analysis affords a more fine-grained picture of the extent, variation, and impact of cronyism in selected Middle Eastern economies. We show that about 50 percent of the sectors in Egypt were exposed to politically-connected firms. The corresponding ratio was 40 percent in Tunisia and 22 percent in Lebanon. In general, we find that cronies tend to conglomerate in sectors that are sheltered from competition and susceptible to policy manipulation through various entry barriers. Connected firms tend to conglomerate in nontradable sectors that service the domestic economy, such as the banking, real estate, tourism, distribution, and telecommunications sectors.

Standing out in terms of growth and profitability, these sectors were often selectively opened in the wake of liberalization through discretionary licenses, which were typically awarded to political insiders. There is also evidence to suggest that cronyism has intensified since the liberalization era. Since the late 1990s Egyptian manufacturing has seen a growing exposure to cronyism. While in 1996, there was, on average, less than one crony operating in a typical sector, this number had doubled by the late 2000s. Morocco witnessed a similar upward shift. Since 1993, there has been a steady shift away from sectors facing international competition to sectors that are more easily controlled through discretionary use of regulations.

Crony firms commonly rely on preferential access to finance, energy subsidies, licenses, regulatory capture, non-tariff measures, and privileged access to land. In Egypt, crony firms disproportionately benefited from energy subsidies. Firms owned by the Ben Ali clan had a disproportionately greater presence in sectors that were closed to foreign direct investment and required licenses to operate. Another important mechanism used to privilege insider firms is preferential access to credit. Of the total loans extended to the Egyptian private sector, 92 percent of the loans were extended to politically-connected firms. This extraordinary concentration of credit contributed to the inefficient deployment of capital, starving the rest of the economy from capital.

Finance played a particularly salient role in the Lebanese political economy, where the ruling class directly controlled the ownership of local commercial banks in Lebanon. By contrast, the control of the banking system is more indirect in Morocco, where the regime used indirect corporate governance instruments such as board membership to appoint men close to the ruling circle. Connected actors were also able to capture the privatization process. In Tunisia, the Ben Ali family was able to acquire many privatized firms, and it was mainly these newly acquired firms whose profits witnessed a huge increase after privatization; the non-Ben Ali privatized firms did not enjoy similar profitability. Evidence suggests that the greater profitability of Ben Ali firms was largely attributable to their privileged and protected status after privatization. Connected firms are also often shielded from global competition through tariffs and non-tariff measures (NTMs).

The clearest evidence of the cost of cronyism in terms of lost growth comes from Egypt, where national job creation in the formal sectors in the absence of cronyism could have been

heightened by 25 percentage points over a ten-year period. Connected firms in Egypt tend to be larger in size, more indebted, capital-intensive, and reliant on subsidies. In 2010 such firms derived 60 percent of net corporate profits but generated only 11 percent of employment. The overall estimated effects are quantitatively large; employment in the formal sector could have been 25 percent larger in an ideal world of perfect competition.

Evidence from Tunisia is similarly instructive. Firms owned by the Ben Ali clan produced around 5 percent of all private sector output and derived 15 percent of all net private sector profits. The very large firms were hugely profitable. For instance, the top ten Ben Ali firms accounted for approximately 4 percent of economy-wide output and 10 percent of gross profits in the economy. Connected firms represented a paltry 0.1 percent of all firms in these protected sectors but accounted for 10 percent of all jobs, 39 percent of output, and 53 percent of net profits. In Lebanon, the bulk of job creation takes place through large firms who employ around 16 percent of the total labor force. However, on a net basis, job creation is also constrained by the dominance of political connections, as in Egypt. On average, the presence of an additional crony firm in a sector is associated with 6.8 percent fewer jobs being created in that sector.

Clearly, cronyism has imposed significant costs on Middle Eastern economies. Our empirical findings underscore a perverse trade-off between privileges and jobs; while connected firms receive a disproportionate share of privileges, employment is largely concentrated among informal firms. This disconnect represents a key paradox of development in the Middle East.

The Problem of Transition: Moving Toward a Productive, Just, and Inclusive Economic Order

The mere existence of politically-connected firms is not the overriding challenge of private sector development in the Middle East. The nexus between business and politics is both a pervasive and ubiquitous feature of emerging economies. Even developed economies are not immune to the pitfalls of cronyism. Why is cronyism so harmful for the Middle East? The answer partly lies in the inability of the connected private sector to generate jobs and its ability to pose entry barriers for other firms. Another distinguishing feature of Middle Eastern cronyism is the sheer scale of exclusion. Middle Eastern regimes use blunt instruments for exclusion. Independent businesses are not tolerated. For a firm to thrive it needs to establish partnership with one of the regime insiders. Unlike other countries where cronyism is often an outcome of a two-way relationship between the state and organized business sector, in the Middle East it is borne out of political control of the private sector.

Cronyism is thus fundamentally connected with the political objective function. It is the outcome of a highly politicized structure of the economy where market closure is needed to create economic rent for members of the ruling coalition. This rent is particularly crucial for regime stability in the relatively resource-scarce countries of the Middle East, where rent from natural resources is insufficient to sustain ruling elites and their entourage. Economic institutions are deployed to structure political power. In this milieu, pro-competition reforms and a genuine leveling of the economic playing field can be politically disruptive. It is thus unsurprising that, when faced with the compulsion to institute economic reform, authoritarian regimes have pursued reform in a selective, controlled, and hesitant manner. The overriding objective was to neutralize the political effects of economic reform.

It is common for Western donors to make repeated calls for private sector development through a set of highly technocratic reforms. However, the donor understanding of private sector development is both ahistorical and apolitical. The closest a donor has ever come to understanding the problem of private sector development in the Middle East is when the World Bank issued two key analytical reports: *From Privilege to Competition* (2009) and *Jobs*

or Privileges: Unleashing the Employment Potential of the Middle East and North Africa (2015). However, neither of the two reports make any concerted attempt to situate the analysis in the politics of development. The reason is obvious: The World Bank's mandate restricts it from situating economic outcomes in underlying political settlements.

While the narrative pursued by donors is apolitical, the public discourse is equally limiting, as it is fixated on an analysis of symptoms. Public commentary in news outlets and think tank pieces bemoan the persistence of authoritarianism, corruption, and lack of job creation. There is limited, if any, discussion of how a transition can be made from an economic order that works for the insiders and pushes everyone else to the margins to an economic order that is productive, just, and inclusive. It would be unfair to blame the public discourse for this lack of attention to transition dynamics, since even political economy as a discipline has little to offer on the subject. We know very little about how societies make a transition from extractive to inclusive institutions, and from a limited to an open access economic order. What we do know for sure is that the process of institutional change is messy, takes a long time, and involves the alignment of elite interests with desirable outcomes.

The question of transition holds special relevance in the Middle East, where the overthrow of authoritarian regimes is unlikely to usher economic change unless the underlying rules of the game are rewritten. This requires a more sophisticated political economy understanding, a new discourse on reform, a focus on elite incentives, the creation of new bargaining structures that force ruling elites to grant concessions, and the creation of state capacities needed for inclusive growth. The discussion below offers some concrete pointers in this regard.

• **Ruler Incentives**

Rarely has institutional change taken place without rulers being incentivized to deliver some concessions. When do actors and institutions that hold de facto power agree to surrender their privileges? The dominant political economy literature would suggest that rulers are more likely to cede control when there is fire under their feet. Noted political economists Daron Acemoglu and James Robinson describe this as the "revolutionary constraint on elite preferences". What shapes ruler incentives, and how can this be understood within the specific context of Middle Eastern political economies? In broaching the subject of institutional change, the political economy literature considers the role of exogenous events, such as external shocks, and the role of technologically-induced organizational change.

In the Middle Eastern context, a key external driver for change comes from global oil price shocks, which can impose fiscal constraints and fire public dissatisfaction. It is not surprising the current wave of Arab protests are happening in a low-oil price environment. In both Algeria and Iraq, developments in oil markets are directly relevant as they determine the overall resource envelope and the ability of regimes to satisfy distributional demands. In other countries, oil price shocks indirectly pose economic constraints by shaping capital inflows linked with oil, such as foreign capital and remittances.

International finance plays a particularly perilous role in ensuring regime resilience. International capital, whether in the guise of foreign currency deposits by rich Gulf neighbors; U.S. military and development assistance; International Monetary Fund bailouts; or the variety of technical assistance grants, shore up foreign exchange reserves and prevent total economic collapse without which there is "no fire under the feet of rulers". While fragmented under different categories, such foreign support collectively acts as a form of regime bailout. Many oil-poor regimes in the region will not survive without cash handouts from rich neighbors and assistance

from bilateral and multilateral donors. External powers who hold the regime's purse have significant leverage in shaping its ruler's incentives, but have rarely used this leverage beyond seeking geopolitical concessions. Even an arguably more "neutral" donor, such as the European Union, insists more on a political and human rights agenda than an explicit demand to free up markets by revoking established privilege.

Another pressure point for change emanates from the street. With the second major wave of generalized mobilization having been seen in many Arab countries, it is useful to highlight the high costs of collective action traditionally faced by Arab societies. The region is known for its high levels of repression and weak associational life. While in some countries public sector trade unions possess better organizational capacity, political and civic organizations in the Middle East are either weak or captured by regime interests. This is one reason why the recent wave of protests in Algeria, Iraq, and Lebanon remains leaderless and is happening outside the fold of formal civic organizations. Not only is mass mobilization leaderless in a narrow political sense, it is also shorn of a distinct intellectual direction. Protests are driven by broad grievances around corruption, lack of public service delivery, and economic exclusion.

The need to free up markets from the stifling control of privileged actors is noticeably absent from the public discourse on reforms. This is not surprising in the Arab context. Private sector development is the most *despised* as well as the most *desirable* aspect of economic reform. It is the most *despised* element since discussions of private sector development are often associated, in the public imagination, with neoliberal discourse and a pretext for crony capitalism. Business in the Arab World is more associated with predation than production. Private economic activity is allowed to thrive mainly under the shadow of the state. It is also at once the most *desirable* aspect of reform because, without a private sector that is genuinely "private", job creation is likely to remain only a paper aspiration. And the demand for jobs and justice will remain hollow without addressing the employment challenge.

• *Discourse*

In reality, the Middle East lacks not just a strong private sector, but also a vibrant constituency for private sector development. In the period after independence, many Middle Eastern states lacked a well-grounded private sector that could effectively articulate its interests. Horizontal alignments between private economic actors remain weak. Business associations are sometimes empty shells, used mainly to complement vertical structures of control. With large parts of the population directly or indirectly employed by the public sector, there are few stakeholders for private sector development. The prime manifestation of the Middle East's weak business constituency lies in segmented labor markets. In Gulf countries, it takes a particularly extreme form through a perverse division of labor: nationals are predominantly employed in the public sector, and non-nationals command the highest share of private sector employment. Effectively, this obstructs avenues for class-based politics. Even outside the Gulf Cooperation Council (GCC) countries, the default welfare model operates through provision of subsidies and jobs by the public sector. This overwhelming reliance on the state for job creation creates dependent and immobilized middle classes. As Omar Razzaz put it so aptly, there is a continuous addition to the wish list without an expansion of the resource envelope (or a serious discussion of the underlying trade-offs). As a result of this institutionalized disconnect between private incomes and public aspirations, ordinary people in even resource-scarce countries demand a revival of the more generous Nasserite social contract. Thus, releasing competitive space in the markets rarely figures up as a public demand.

For considerable time the Arab public discourse has been divided along the binaries of the

market and the state. The ideological struggle between the proponents of a strong state and those of neoliberal market reforms has suited regimes who have found it easier to malign markets—and thereby control them for political ends—and use state institutions to bind citizens and elites in distributional commitments that rob them of any political agency. Global research is now calling attention to this false divide between the state and the market. A strong market requires a more capable state. And, without independent and competitive markets, the state will remain perpetually dependent on foreign cash injections.

Thus, rather than talking about business and the state as separate categories, there is need for a fresh discourse on the business–state relationship and on ways to nudge it into a trajectory that is consistent with socially desirable outcomes. Intellectually, it is supremely important to address this contested narrative on the private sector. For one, it is easily capitalized upon by the constituencies of the status-quo and by those who wish to revive and strengthen the old “interventionist–distributive” model of development with rentier states and dependent private sectors. Such a discourse needs to be grounded in the specific cultural and local realities of the Middle East. With its strong insistence on private commerce, free trade, and concern for social justice, Islamic moral economy can be a crucial partner in this endeavor.

In short, while overcoming the state’s repressive infrastructure and weak conditions of collective action, the Arab World’s mass mobilizations offer a crucial reminder to the region’s ruling oligarchies that existing modes of governance have passed their expiry date. However, without a new intellectual consciousness, street protests can only bring us this far. To cross the tipping point, there is need for a dynamic intellectual discourse centered around specific economic concessions that can lay the groundwork for genuine political and economic change.

Let me then conclude this discussion with the larger point I wish to emphasize: regardless of the specific influencer of ruler incentives—whether public mobilization, external support, shocks, or intra-elite competition—private sector development is only likely to be realized when economic prosperity becomes a central concern for regime survival and gets aligned with ruler interests.

• **Concessions**

The Arab uprisings of 2011 and 2019 have not yet resulted in any genuine economic concessions. The Arab Spring resulted in the departure of regime figureheads but the rentier structures they supervised have remained in place. Even in Tunisia, which has witnessed relatively successful political transitions, radical economic reforms are still to be introduced. For a moment let us abstract from whether regimes are prepared to grant concessions or not. Instead, let us pontificate on the types of economic concessions that would be most desirable. Of course, this is likely to differ according to the individual country contexts. But let me highlight three possible areas with the hope of triggering a discussion on the subject.

The first key area for concessions lies in pro-competition reforms through the removal of entry barriers. It is unlikely that political actors will agree to an overnight and complete removal of market barriers, but a change on the margins can open the window for reform. This could be selectively pursued in areas where the political resistance to the removal of specific market barriers is minimal; the cascading impact on the market is high; and the potential to generate a new social and economic constituency is the strongest. The region badly needs reforms that free up the market and create a new class of beneficiaries who have a vested stake in open and competitive markets. We need to think more creatively about the kind of reforms that will meet the above criteria in individual country contexts.

A second potentially important area of attention is inter-firm linkages. Middle Eastern firms are known to have weak linkages with other firms. This means that, even when connected firms receive economic privileges, they do not filter down to the rest of the economy. Imagine a scenario in which when large, connected firms are tied through supplier relationships with many medium-sized firms the growth of connected firms can lift the fortunes of these firms too. This can foster the emergence of new constituencies that could ultimately exercise countervailing power in the firm space. Thus, policies designed to improve inter-firm linkages can be a step towards greater dynamism in firm space with potentially important consequences for private sector development.

The third dimension for seeking concessions relates to the small and medium enterprises (SME) sector, which has remained an area of focus for donors and governments but requires a deeper understanding of why there are so few medium-sized firms and why the preponderance of firms remain small. The SME is also a very aggregate category that lumps together small and medium enterprises in one sweep, whereas these different sizes may be located in very different political economies. Often surviving at the margins of the economy, small informal firms face a high fixed cost of formality. There is need for a more holistic understanding of the institutional ecosystem that influences the survival and growth of these firms. It is not merely access to finance and registration that hinders their growth, but also a series of interlinked challenges, including the ownership of land, interface with petty state officials, competition from cheap Chinese goods, market access, and the like. An important aspect of this firm space is the near absence of an effective political articulation of the interests of the SME sector. How can this sector be collectively organized so that its interests are articulated in a manner that rulers do not find politically threatening? Can rulers be incentivized to view this crucial segment as a potential support base?

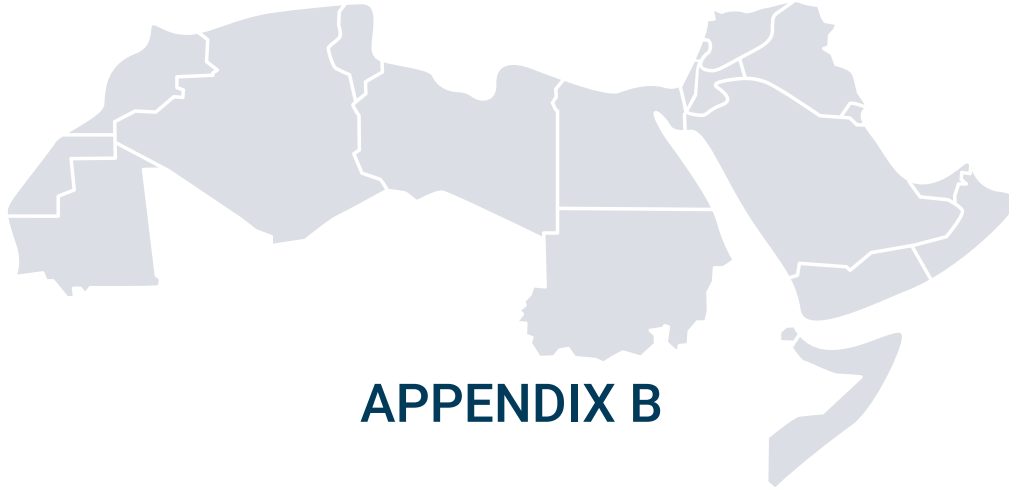
The fourth concession I wish to suggest relates to the creation of new and inclusive bargaining structures between the state and society. A good starting point would be to open new lines of communication on the state's development vision. From Egypt to Saudi Arabia, Arab regimes are launching grand development schemes with a view to addressing the region's socioeconomic challenges. These development strategies are, however, being pursued in a top-down manner. It is surprising that in conceiving and implementing these development strategies there has been relatively limited engagement with domestic stakeholders. Opening new lines of communication with key unrepresented segments of society can therefore help to create bargaining structures that can act as safety valves that will only lend greater credibility to the rulers' development strategies. Moreover, establishing formal processes to receive feedback from below will also be essential for the success of these grand schemes as well.

Relatedly, a fifth area of focus should be steps to improve capacities of the state that have a direct bearing on private sector development. Bureaucracies in the Arab World were built to distribute rent, provide basic social services to the largest number of people, and to establish a minimum level of state centralization. While these capacities were important for the state building project in the middle of the 20th century, the state needs to redefine its purpose to address the new social and economic grievances that have taken root since the late 1990s. What kinds of capacities are needed, and how can they be created? This is a vast subject in its own right and requires a detailed enquiry. However, one reform that seems particularly important is to collect and disseminate fine-grained data on households and firms. Such data can be crucial for governments to stay abreast of micro-level dynamics in economy and society and could allow the construction of a new discourse on development.

A final concession that should become a rallying cry of the street is the need for regional economic integration. Regionalism has remained a permanent item on the policy agenda but

has received relatively insufficient attention in the wider popular discourse. The Middle East is stuck in a vicious development cycle. To convert it into a virtuous cycle, the region needs a larger development vision that sees the whole as larger than the sum of its parts. Today, we see vivid reminders of how some of the region's gravest challenges are interlinked.

This requires a new cooperative equilibrium. Unfortunately, neither domestic power holders nor external stakeholders have any genuine commitment to fostering greater regional economic linkages. In fact, regionally integrated markets could pose a threat to their interests. The idea of regionalism is therefore a political impossibility for the moment; but, it must firmly remain part of intellectual consciousness, since the region has little hope to imagine a new future without breaking the many barriers that divide its markets.



APPENDIX B

23.11.2019

A Note for the AlMostaqbal Conference: The Middle East Looking Forward

November 24-25, 2019

Cairo, Egypt

A New Framing of Social Policies: Why, What, and How?

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This issue paper argues for the need for governance and public policy reforms that are anchored in “well-being equity” and that adopt fairness in the social patterns of well-being as a measure of development and social success.

Well-being equity is defined as: “the absence of systematic, unnecessary, and preventable differences in well-being across groups in society classified according to a social stratum”. The definition recognizes that not all social differences in well-being are inequitable. The equity definition is confined to differences that are shaped by causes that are not distributed fairly across social groups. A clear example of inequity is a distribution of well-being that shows systematic differences across geographic or ethnic classifications. Such differences do not lend themselves easily to explanations of generic geographic or ethnic differences. Such differences are more readily explained by differential allocations of opportunities by geographic areas or differentiated treatment by ethnic compositions.

The adoption of fairness in the social patterns of well-being as a measure of development and social success relates to the incorporation of the inclusiveness concept as a criterion for development. A country that suffers from unfair differences in well-being by social groups is now no longer seen as developed. Furthermore, these unfair systematic differences signal a non-cohesive and malfunctioning society. It manifests failures on the social fronts.

The justification for governance and public policy reforms draws on a growing appreciation of the centrality of the well-being equity paradigm in international development thinking and on a recognition of the invisibility of this paradigm in the Arab region and the price paid by such invisibility. A more detailed explanation for this justification is provided in the first part of this issue paper.

The second part discusses the policies and actions that need to be adopted. The third touches on prerequisites and enablers for the proposed reforms.

This issue paper is meant to start a debate on the future of social policies, and to serve as the basis for future research and publications by the working group.

The Rationale for Policy Reforms: The “Why?”

• *The centrality of well-being in international development thinking*

The internationally-adopted vision for development places people’s well-being at the center and acknowledges their aspirations for dignity and human rights. Such a vision pledges to “[leave] no one behind”.

This lofty vision was translated, through a participatory process, into a set of sustainable development goals (SDGs 2030)¹.

The key elements that speak to such a development vision in the SDGs are:

- The wide spectrum of goals that are introduced as anchors for people’s well-being and for the realization of their human rights. These range from basic human rights goals related to alleviation of the burden of vulnerability (poverty, disease, harsh living conditions) to broader ones for provision of empowering opportunities (employment, education, health, decent livelihoods).

¹ United Nations. Transforming our world: The 2030 Agenda for sustainable development. A/RES/70/1; 2015. Accessed 15 October 2019.

- Incorporating good governance and social inclusiveness as key components of these development goals.
- The introduction of a standalone goal, SDG 10, as a reflection of the importance of addressing inequalities and “leaving no one behind”.

These elements and their related goals are not conceptually separated from each other. Their integration and self-reinforcement are principles that have been emphasized.

It should be noted, however, that the SDGs’ discourse did not manage to differentiate between goals that are foundational goals and those that are impact goals. There is now an emerging well-being equity paradigm and a growing call for placing the goal of health and well-being (SDG 3) as an end impact goal for all the other SDG goals. The emerging paradigm moves health and well-being equity from just a sectoral public health challenge to the realm of government responsibility.

The well-being equity paradigm entails three interconnected and self-reinforcing features:

1) Pushing health and well-being to the forefront

The underpinning of the movement of health and well-being from just one goal to becoming an end goal can be traced back to Aristotle, who noted that “wealth is not the good we are seeking, it is useful only in as much as it allows the acquisition of another goal”.

More recently, this move was adequately articulated in the United Nations General Assembly resolution which recognized well-being as the end objective of all policies, and invited countries to measure the happiness of their people and to use this to help guide public policies.²

The same move underlies the many calls for Health in All Policies (HiAP), which “places responsibility for action on health and health equity at the highest level of government and ensures its coherent consideration across all policies”.³

It should be clarified that the concept of health in HiAP is synonymous to well-being. It goes beyond the absence of ill health to the realization of social and psychological good health and satisfaction of potential.

2) Embracing fairness as central to well-being and cohesive societies

Fairness is now fully recognized as a human aspiration that shapes individual well-being. A number of studies argue that unfairness (and even the perception of unfairness) is detrimental to human well-being. A recent study provided an evidence-based finding that “non-material factors such as social support, freedoms, and fairness may play a bigger role than money in future well-being”.⁴

2 United Nations. Happiness: Towards a holistic approach to development. Resolution adopted by the General Assembly on 19 July 2011. A/RES/65/309. Accessed 15 October 2019. <https://undocs.org/en/A/RES/65/309>.

3 CSDH (Commission on Social Determinants of Health). Closing the gap in a generation: Health equity through action on the social determinants of health. Final report of the commission on social determinants of health. Geneva, Switzerland: World Health Organization; 2008.

4 Barrington-Leigh C, Galbraith E. Feasible future global scenarios for human life evaluations. *Nature Communications* 2019; 10 (161). Accessed 15 October 2019. <https://www.nature.com/articles/s41467-018-08002-2>

Furthermore, there is now a growing appreciation in the development field of the price borne by social injustices (unequal opportunities and high burden of sufferings). Such injustices break the very fabric of a cohesive society; lead to marginalized and disgruntled social groups; and threaten the security of nations:

“From Arab youth clamoring for better job opportunities and Chilean students protesting for university education accessible to all, to Occupy Wall Street, popular demonstrations of frustration with status quo demand that governments and international organizations pay more attention to equity, social exclusion, and democracy.”⁵

3) Differentiating between inequality and inequity

The recent flurry of publications on inequality reflects the concern with the growing levels of inequalities and their detrimental impacts. Such a concern, however, does not always differentiate between inequalities and inequities.

Inequalities are differences in well-being that are not linked to their underlying causes. The concern with inequalities is driven by moral and human rights rationales and is expressed in targeting the most disadvantaged. Inequities are differences that are caused by unfair root causes that manifest themselves in social compositions and societal arrangements that produce “systematic patterns of well-being inequalities that are preventable and unjust”.⁶

The equity framing crystalizes the difference between a social determinants approach to well-being and a social justice approach to well-being equity. The social determinants approach to well-being recognizes that well-being is determined by social conditions. Indeed, poor social conditions, such as low levels of education and economic status, are closely linked to health and well-being status. Addressing inequalities in well-being is hence challenged by the limitations of existing resources to allow improvement of socioeconomic conditions. The adopted approach mainly emphasizes changing detrimental behaviors that are precipitated by such conditions and may include attempts to improve a few aspects of the social conditions of specific groups.

The social justice approach traces the denial of well-being to the unfairness of forces producing social conditions. The social justice approach is not about increasing the size of resources or targeting the social conditions of the most disadvantaged. The social justice approach is about transforming social stratification in society through the fair allocation and distribution of resources, power, and voice.

Examples of the implementation of this approach include making public services and goods (water and sanitation, education and health, infrastructure) fairly available to different social groups. This approach also requires that all social groups have fair opportunities, representation, and leverage in all matters pertaining to their well-being. Exclusion of women from public life, of youth from political participation, or of the disabled from voicing their needs are clear infringements on the fair distribution of power and voice.

5 World Bank. Introduction to the inequality in focus series. *Inequality in Focus* 2012; 1 (1). Accessed 15 October 2019. http://documents.worldbank.org/curated/en/445221468163745476/pdf/799210BRI0Ineq0_Box0379795B00PUBLIC0.pdf.

6 CSDH (Commission on Social Determinants of Health). *Closing the gap in a generation: Health equity through action on the social determinants of health. Final report of the commission on social determinants of health.* Geneva, Switzerland: World Health Organization; 2008.

The social justice approach requires that the pledge for “leaving no one behind” is anchored in a fairness lens and not just a humanitarian rationale for alleviating the very high burden of sufferings; the latter is always welcome, but is not enough.

In brief, the social determinants approach links levels of socioeconomic development to well-being. The limitations of resources are readily introduced to explain persisting challenges on the health front. In contrast, the social justice approach links the maldistribution of resources to the extra sufferings across social groups. The unfairness of the distribution of opportunities for health is the explanatory determinant of the unnecessary and preventable unequal extra burden of health challenges.

The movement from inequality to inequity underlies the statement: “Unfair policies, poor social arrangements and bad politics are killing people at a wide scale.”⁷

The equity framing introduces an urgency and an ethical imperative for addressing inequalities. It also moves adopted policies from their confinement to targeting the disadvantage toward the provision of fair transformative opportunities that influence the social composition and arrangements leading to fairer distribution of well-being. The transformative opportunities, as referred to earlier, are not just material but include nonmaterial ones shaping well-being. Freedoms, power, voice, and social support are but examples of well-being determinants that require fair distribution.

• *The Invisibility of the ‘Well-being Equity’ Paradigm in the Arab Region*

The calls for freedom, social justice, and human dignity that have resonated within the Arab region have been heard loud and clear, but, as of yet, have not been reflected in a new development paradigm.

The dominant development paradigm emphasizes economic growth and access to services. Social justice in this paradigm is very narrowly translated in terms of provision of minimum basic rights and alleviation of the suffering of the most disadvantaged. What is missing in this picture is a grounding of fairness on a foundation of nondiscrimination and equal opportunities regardless of sex, religion, ethnic, or social background. These opportunities cannot be limited to material resources and services. They need to incorporate nonmaterial forces such as freedoms, participation, and inclusiveness. The grounding of fairness in these opportunities implies systematic concern and effective action to ensure that such opportunities are distributed equally across social groups.

A recent regional report titled *Reviewing the Implementation of the 2013 Cairo Declaration* commended the many efforts in the Arab region to alleviate poverty and vulnerability, particularly in terms of using an interpretation of poverty that goes beyond monetary deprivation and recognizes the importance of empowerment and investment in contextual conditions. However, the same report noted that:

“The impact of such endeavors can be sustained and strengthened through institutionalizing an approach that reaches further than transfers of benefits and targeting disadvantaged groups. Such an approach needs to be fully aware of the importance of a fair distribution of resources and transformative opportunities. Switching from a charity to a social justice perspective, aiming to address issues of social stratification remains a challenge. Such engagement would ensure that the deprivation and disadvantage in society is not clustered

⁷ Ibid, 6.

by geographic residence, ethnic background, gender or any other social classification. A people-centered human poverty approach would help in translating economic growth into social returns.”⁸

Improvements in the evidence base linking unfairness to the inequality distribution of well-being in the Arab region can greatly support advocacy efforts. Another recent regional study, focusing on the distribution of ill well-being (measured by the denial of sexual and reproductive health) documented a high degree of inequality in Arab countries.⁹

More importantly, this study traced the inequalities in well-being to the invisibility of fairness as a pillar of good governance and to the weak mainstreaming of equity in public policies.

There are many pieces of evidence to demonstrate that well-being equity is not pursued in the Arab region as a sign of good governance and of social success. Well-being equity is not even pursued as a performance measure of sectoral social public policies. Mainstreaming of fairness as a founding principle is glaringly absent.

The fact that there is a knowledge vacuum on the distribution of well-being and the nonexistence of structures, systems, and processes for monitoring fairness and for accountability are but few examples of the invisibility of the equity paradigm.

The price of these shortcomings is not just the unfair denial of health and well-being among many social groups. The price of inequities signals increased polarization, marginalization, and is conducive to societal unrests and the unsustainability of progress.

Indeed, the recent and current political developments in the Arab region attest to the ramifications of the many dimensions of inequities. A development model that does not fully embrace the equity lens is openly exposed to external and internal threats. The disempowerment and unfair exclusion of social groups pave the way to the concentration of power and authority within a selected few and is conducive to civil unrest.

Proposed Policies and Actions: The “What?”

A new equity framing is very much needed to meet the aspirations of the Arab people.¹⁰

This framing needs to be mainstreamed into the six following domains, which are shaping societies’ ability to (re)distribute material resources among their members:

“...governance in the broadest sense with particular emphasis on accountability/ transparency and participation of the different stakeholders in the society; macroeconomic policy, including fiscal, monetary, balance of payments and trade policies and underlying labor market structures; social policies affecting factors of social welfare; relevant public

8 Arab States Regional Office of the United Nations Population Fund (UNFPA/ASRO), the United Nations Economic and Social Commission for Western Asia (ESCWA), and the League of Arab States (LAS). Arab Regional Conference on Population and Development: Reviewing the implementation of the 2013 Cairo declaration. Regional Report. 2018.

9 Rashad H, Shawky S, Khadr Z, Afifi M, Sahbani S. Reproductive health equity in the Arab region: Fairness and social success. Regional Study; the Social Research Center, the American University in Cairo, the United Nations Population Fund / Arab States Regional Office; 2019.

10 Rashad H. Health equity in the Arab World: The future we want. The Lancet 2014; 383:286-287.

policy such as education, medical care, water and sanitation; culture and societal values; and epidemiological conditions”.¹¹

The definition of social policy in the previous six domains confines it to the domain of social welfare. Another, more widely-used definition is that social policies are those performed by social sectors (described by the third, fourth, and fifth domains above). In this issue paper, we adopt a different and much broader definition of social policies. Social policies are defined here as “policies that are concerned with the fairness and distribution of equal opportunities across social groups and that lend themselves to the mainstreaming of an equity lens”. The six domains described earlier are components of social policies whenever they seek to adopt the equity lens and to explicitly recognize and uphold their responsibility for the well-being goal.

The proposed policy reforms require the adoption of sector-based—as well as governance and whole-of-government-based—policies and actions.

The policy brief *Reproductive Health Equity in the Arab Region* focuses on one dimension of ill health and details the specific role of the health sector, other social sectors, and research and non-state actors.¹² The whole-of-government recommendations set forth by this brief, adapted to cover well-being, include:

- Articulating well-being inequities as a whole-of-government responsibility and establishing structures and availing resources to oversee the implementation and accountability of such responsibility.
- Mainstreaming well-being equity in all policies and enforcing impact assessment. For each policy proposed, an assessment is needed to demonstrate that the benefits of this policy are fairly shared among social groups, and that such policy does not negatively impact the well-being of these groups. During implementation, monitoring and impact evaluation need to guard against and address the differentiated impact of such policies.
- Ensuring that intermediary actors and intervening arrangements foster equality among social groups and are responsive to differentiated needs and higher risks of vulnerable groups.
- Ensuring wide participatory engagement in the identification of well-being challenges and priorities, in formulating policies, and in measuring their differentiated impact.

Pre-Requisites and Enablers: The “How?”

This section discusses three important shifts that are needed to support the adoption and successful implementation of governance and policy reforms guided by the equity framing. These shifts are:

- A knowledge and framing shift recognizing the large disparities in well-being among social groups and linking the disparities to their root causes of bad governance, denial of social justice, and ineffective whole-of-government policies.

11 Solar O, Irwin A. A conceptual framework for actions on the social determinants of health. *Social Determinants of Health Discussion Paper 2 (Policy and Practice)*. Geneva, Switzerland: World Health Organization; 2010.

12 Rashad H, Khadr Z, Shawky S, Afifi M, Sahbani S. *Reproductive health equity in the Arab region*. Policy Brief; the Social Research Center, the American University in Cairo, the United Nations Population Fund / Arab States Regional Office; 2019.

- A value and a paradigm shift recognizing the centrality of fairness for well-being and for achieving national development, as well as a paradigm shift pushing well-being equity as a whole-of-government development goal and as a performance measure of good governance and societal success.
- A policy shift translating the adoption and implementation of the equity lens in whole-of-government policies and intersectoral actions (that are anchored on social justice) with the highest impact on achieving well-being equity.

It should be noted that the above value shift is contested on many fronts. For example, the use of terms such as equity and social justice are plagued by misinterpretations and ideological stands. The term “social justice” is either misinterpreted as a charity notion or frowned upon as a socialist call for redistribution. It should be clearly explained that the concern with distribution is not a call for *redistribution*. Indeed, the concern with distribution captures the realization that significant inequalities across social groups are detrimental and need to be prevented or catered for. However, such concern does not call for shifting the gains from those who are better off to the less privileged. In other words, the concern with well-being distribution translates into a call to continue to promote well-being for *everyone* alongside preventing or caring for inequalities. The prevention of inequalities is anchored on fairness in distribution of opportunities, as well as efforts to correct the existing maldistribution.

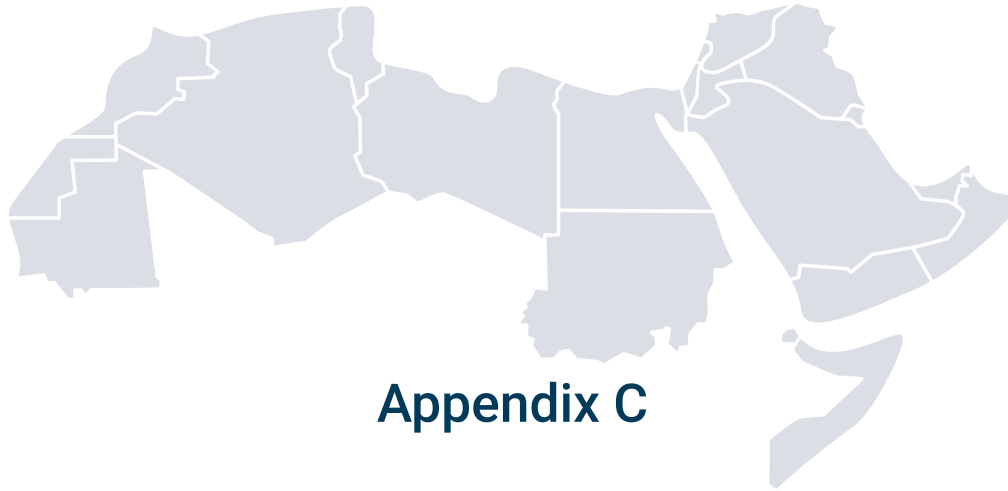
The concept of equity has also been critiqued as being closely linked to a misconceived notion of human rights: “The notion of ‘rights’ is a mere term of entitlement... it is merely an assertion of desire and a declaration of intention to use the language of rights to acquire said desire.” It has also been argued that “the program of social justice inevitably invokes claims for government provision of goods, paid for through the efforts of others...”.¹³

Such contestations should not be ignored, and they demand a serious engagement in an informed debate.

Furthermore, the knowledge and framing shifts need to be evidence-based. There are serious conceptual and analytical impediments to building such an evidence base. For example, the conceptualization of well-being, while having improved significantly, remains elusive. Additionally, the available information base and the needed analytical capacities are quite limited and constrained.

The enablers of the policy shift include supporting conceptual and knowledge capacities of policy and decision makers as well as providing space for policy dialogue for completing policy cycles and linking the different stakeholders. This space secures a socially inclusive framework for policymaking and enables non-state actors to participate and contribute to well-being equity. It also encourages research actors to change their focus from identifying problems to proposing feasible solutions. Another important enabler is in supporting informed public demand for fair social policies.

13 O’Neill B. The injustice of social justice. Mises Daily Articles. Mises Institute; 2011. Accessed 15 October 2019. <https://mises.org/library/injustice-social-justice>.



Appendix C

23.11.2019

A Note for the AlMostaqbal Conference: The Middle East Looking Forward

November 24-25, 2019

Cairo, Egypt

Arab Development, Oil Wealth, and Governance: Issues for Discussion

Samir Makdisi,

Professor Emeritus of Economics and Former Lebanese Minister of Economics

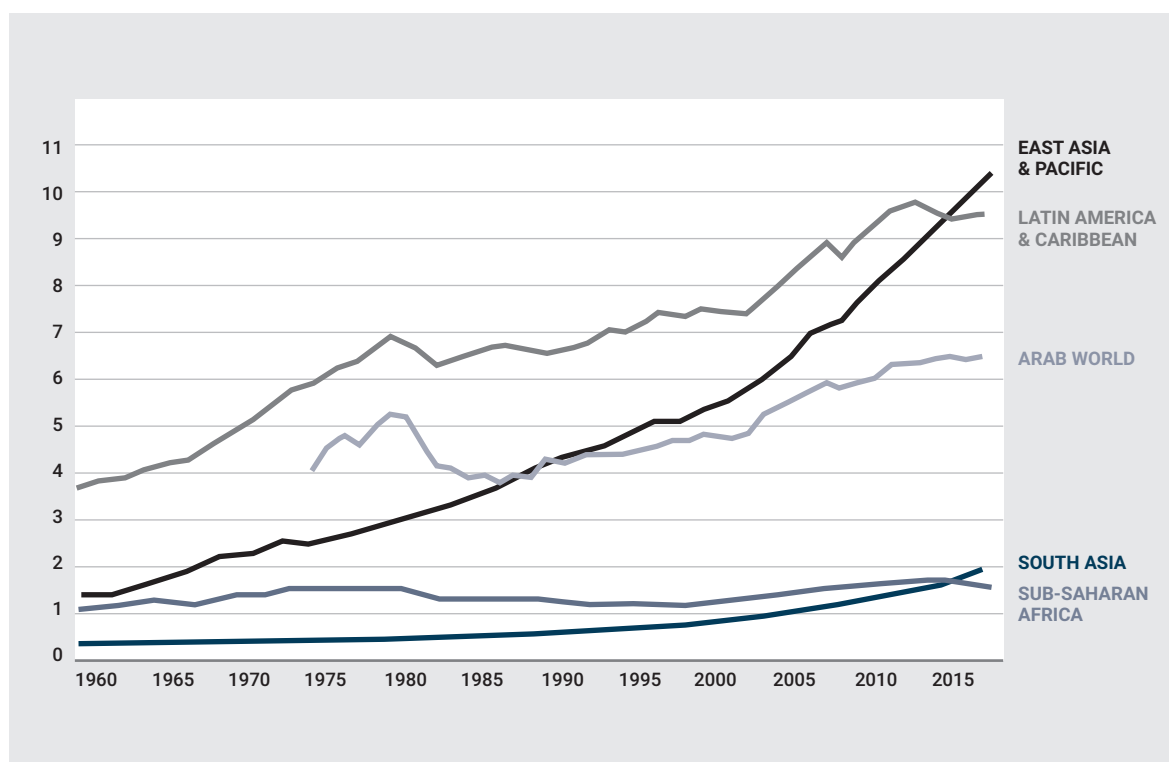
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For discussion purposes, this paper briefly highlights four major interconnected issues that have been facing the Arab region: wide variations in developmental outcomes with a focus on the quality of development, in particular income and gender inequality; the economic and political ramifications of oil abundance; the impact of oil and conflicts on governance; and prospects for democratic governance, with a concluding note on reconstruction.¹⁴

Developmental Outcomes

Figure 1 shows the trends of weighted average per capita income for various developing regions between 1960 and 2017. The Arab region ranks in the middle, increasingly outpacing Sub-Saharan Africa and South Asia but falling behind East Asia and Latin America. Indeed, the Arab World and the East Asian and Pacific region had roughly the same levels of per capita income in 1970. By 2017, the latter's per capita income was roughly two-thirds higher than that of the former.

Figure 1: Per capita Levels by Region, 1960-2017 (US dollars)



Source: World Bank Development Indicators

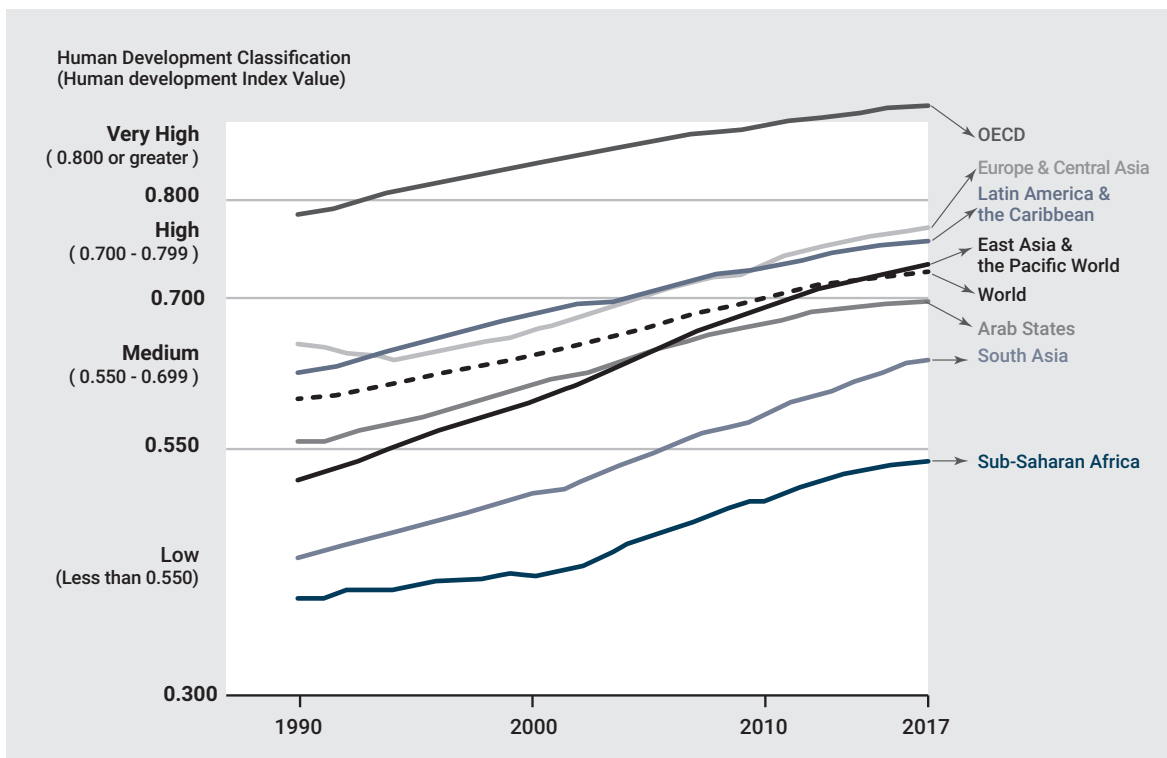
It might be argued that, given the Arab region's immense oil resources, a more advanced level could have been achieved. However, failed efforts at regional economic integration, the prevalence of conflict, and often misguided or ineffective economic policies, all combined, prevent the region from attaining higher levels of broad-based growth and export diversification.

¹⁴ This paper draws on a forthcoming paper by the author on "Arab development and the transition to democracy" in H. Hakimian (ed), Routledge Handbook on the Middle East Economy

Only the oil-rich countries, and in particular the smaller ones, were able to attain comparatively high per capita income levels, though with fluctuations in oil prices their growth path has been uneven. As would be expected, the per capita levels of individual countries have come to differ widely. For 2017, Qatar's per capita income (at a constant 2010 exchange rate) stood at over \$65,000 compared to Mauritania's \$1,305. Of the non-oil countries, Lebanon's per capita income level has continuously been the highest standing, at over \$7,000 for the same year followed by Tunisia's at over \$4,000.

Income averages, of course, conceal variations in the quality of development. Figure 2 includes the broader Human Development Index (HDI), an average of health, education, and per capita income indicators, beginning in 1990. Again, the Arab World outperforms Sub-Saharan Africa and South Asia but falls behind East Asia and Latin America.

Figure 2: Human Development Index by Region



Source: UNDP, *Human Development Indices and Indicators, 2018 Statistical Update*

But, rates of HDI growth give a different picture. Over the period 1990–2017, the average annual growth rate for the Arab states was about 0.8 percent, a little higher than that for Latin America (0.7 percent) but lower than the rates of growth for the other three developing regions (1.1 percent for Sub-Saharan Africa, 1.3 percent for East Asia, and 1.4 percent for South Asia).

Also, there are wide variations in HDI rankings among the Arab states for 2017, the oil-rich countries ranging from Qatar at thirty-seven to Yemen at 178 (one of the lowest) and the non-oil rich Arab countries ranging from Lebanon at eighty to Morocco at 123. HDI improvements seem to be related more to a rise in the levels of per capita income and education (school years) than to health conditions (life expectancy to birth).

In 2010, income inequality was added to the HDI index, bearing in mind that estimates of inequality for the Arab region suffer from methodological and other limitations. Nonetheless, when factored in, the comparative ranking of the Arab World among developing regions remains basically the same; except that the adjusted HDI for the Arab region, Sub-Saharan Africa, and South Asia suffer in consequence greater overall losses (25, 37, and 26 percent respectively for 2017) than for Latin America or East Asia (22 and 15.6 percent respectively for the same year).¹⁵

Within the Arab region, according to available estimates (bearing in mind uncertain degrees of reliability) Saudi Arabia had the highest degree of income inequality (a Gini index of 45.9 for 2013) and Algeria the lowest (27.5 for 2011). A gender inequality index (GII) has also been introduced for the year 2017. It presents a composite measure of gender inequality using three dimensions: reproductive health, empowerment, and economic status.¹⁶

The GII has its own rank separate from the HDI that indicates the percentage of potential human development lost due to gender inequality. A low GII value points to low inequality between women and men, and vice-versa. Among developing regions, the GII value ranges from 0.312 for East Asia and the Pacific to 0.531 for the Arab states and 0.569 for Sub-Saharan Africa. By comparison, the value for Organization for Economic Cooperation and Development (OECD) countries is 0.186. In particular, the lag of the Arab region is in the areas of female participation in the labor market and parliamentary representations, standing in 2017 at 21 percent (the lowest rate) and 18 percent (the second-lowest rate) respectively.

The above development picture seems to be in line with the findings of certain studies: that when HDI is adjusted for inequality, on the whole, countries with lesser human development tend to suffer greater losses due to inequality than those with more advanced human development, thus widening the gap between the two groups.¹⁷

Oil Wealth: Ramifications¹⁸

At the economic level, resource abundance, as measured by resource rent per capita, explains the superior growth performance of the Gulf Cooperation Council (GCC) compared to other, less-endowed, populous oil and mineral economies. They have also been able to maintain

15 UNDP, Human Development Indices and Indicators, 2018 Statistical Update

16 Reproductive health is measured by maternal mortality ratio and adolescent birth rates; empowerment by the proportion of parliamentary seats occupied by females and proportion of adult females and males aged 25 years and older with at least some secondary education; economic status is expressed as labor market participation and measured by labor force participation rates of female and male populations aged 15 years and older (UNDP 2018).

17 See V.Daniele and P.Malanima. *Le economie del Mediterraneo fra divergenza e convergenza 1950-2011*, Rapporto sulle economie del Mediterraneo, Edizione 2013, Il Mulino, Bologna, 13-31, 2013 and A.Amendola, and R. Dell'Anno, 2014, "Income Inequality and economic growth: An Empirical Investigation in Mediterranean countries", *Rivista Italiana di Economia Demografia e Statistica*, Volume LXVIII NO. 2, 2014.

18 See V.Daniele and P.Malanima. *Le economie del Mediterraneo fra divergenza e convergenza 1950-2011*, Rapporto sulle economie del Mediterraneo, Edizione 2013, Il Mulino, Bologna, 13-31, 2013 and A.Amendola, and R. Dell'Anno, 2014, "Income Inequality and economic growth: An Empirical Investigation in Mediterranean countries", *Rivista Italiana di Economia Demografia e Statistica*, Volume LXVIII NO. 2, 2014.

macroeconomic stability through a credible *de facto* institutional exchange rate peg regime supported by massive foreign account surpluses in the form of reserves accumulation and sovereign wealth funds (SWFs).¹⁹

At the same time, it should be noted that the *Kafalat* system and free access to unlimited supplies of labor in the nearby southern Asian labor markets have helped maintain a low level of productivity in these countries. Additionally, some GCC countries, such as the UAE, and most notably the sub-economy of the Emirate of Dubai, have managed to achieve significant economic transformations toward more diversified and sophisticated economic structures. However, the oil sector continues to be, by far, the major contributor to the national income of the GCC countries, and their exports remain the least diversified in the region. The Arab region's exports, as a whole, continue to be less diversified than those of other developing regions, though certain non-oil-producing Arab countries have managed to make some progress along the path of economic diversification.

On the other hand, the GCC countries have been able to avoid civil wars and maintain civil peace.²⁰ They have presided over a somewhat functioning social contract that helped them fend off the fallout from the Arab Uprisings, which swept several major countries in their neighborhood. The GCC record contrasts with that of the populous Arab oil economies that have experienced disappointing growth records as well as depleted physical and soft infrastructures; massive unemployment, especially among youth; and political instability and civil wars.

However, at the political level, the Arab oil economies are among the least open as per the Polity IV index and other indices. For low or moderate rent per capita groups, such as the populous oil Arab economies, the resource rent effect is one major hindrance to democracy. But, this is not necessarily the case in the highly-endowed, smaller oil economies. In other words, in high-resource but population-scarce countries, the elites tend to rely more on expanding public employment and less on political repression: though one may add that, over time, the highly educated labor force may have come to face a shortage of suitable employment opportunities. Nevertheless, the opposite is likely to happen in moderately endowed but populous countries.

However, the stability that seems to characterize the economic and political order in the GCC will be seriously challenged by the prospects of future lower oil prices and historically relatively low levels of productivity, in addition to other emerging regional and domestic developments, such as the youth bulge and the rising regional tensions and continuing civil wars and conflicts in the neighboring countries. The fundamental question that would need to be addressed is whether or not the GCC countries are capable of initiating the required change in their political and economic model.

19 While various beneficial effects of oil wealth on development can rightly be pointed out recent empirical work has drawn attention to the required role of fiscal and monetary policies in countering its negative impact (e.g. the hindrance of economic diversification) thereby ensuring that oil resources are efficiently used for developmental purposes. This outcome, it has been argued, would in large measure hinge on the efficacy and accountability of the institutions in place, notably fiscal institutions, keeping in mind that Arab fiscal institutions remain wanting in this regard. (see El-Anshasy, A., K. Mohaddes, and J. B. Nugent "Oil, Volatility and Institutions: Cross-Country Evidence from Major Oil Producers". Cambridge Working Papers in Economics 152, 2015.

20 Bahrain is a case apart; recurring civil unrest in the country on the part of large segments of the population has been put down by Saudi military intervention in support of the regime.

Governance: The Impact of Conflict and Oil

While the Arab region has kept in step with other developing regions in the broad domains of economic and social development, as noted above, it has fallen behind in the political domain (specifically in moving toward democratic governance). In other words, while the other developing regions have generally moved up the ladder from the category of authoritarianism, the Arab region as a whole has generally lagged behind in this regard.

What explains this apparent non-correlation between Arab development and democracy? Admittedly, some Arab countries have lessened the grip of their autocracy, while Tunisia has moved after 2011 all the way to democratic governance. Yet, the findings of recent empirical work indicate that, for the Arab region as a whole, though the traditional “modernization” variables remain important determinants of democracy in the long run, they fail to explain the Arab democracy deficit relative to other regions. Rather, oil, conflict, and their interactions appear to explain this persistent deficit and more generally the politico-economic trajectory of the Arab region, at least in the post-World War II period.²¹

The “oil curse” effect—the trade-off between economic welfare and political rights, associated with the relative abundance of oil resources—is well established in scholarly literature, though not necessarily a matter of universal agreement.²²

The influence of oil wealth has not been confined to the oil rich countries but has impacted political governance in non-oil Arab countries as well.²³

Equally important, and perhaps more so, is the persistence of conflict in the Middle East. According to the Uppsala Conflict Data Program (UCDP) data for the period 1990–2017, the region accounted for about 23 percent of world conflicts, and for the period 2011–2017 by far for the largest number of the world’s battle-related deaths.²⁴

Of course, at the center of the region’s conflictual environment is the unsettled but simmering Arab–Israeli conflict, which goes back to 1948 and does not have a parallel in other regions, at least in recent history; and, in more recent years, we have the emergence of major civil conflicts fed by multifaceted international interventions.

To all that we have to add the huge impact of the rise in recent years of fundamentalist groups in the region (especially in Syria and Iraq) and the consequent additional vicious conflicts their emergence has caused. While the dominance of fundamentalist groups has of late been on the wane, the outcome of the post-uprising civil conflicts is yet to be decided. By contrast, in other regions of the contemporary world, civil conflicts have mostly been followed by a move towards democracy (noted reversals notwithstanding), a contrast that is often alluded to in support of the arguments in favor of the Arab region’s exceptionalism.

21 See I. El Badawi and S. Makdisi, *Democratic Transitions in the Arab World*, Cambridge University Press, 2017

22 For a review see M. Ross M. What Have We Learned about the Resource Curse? *Annual Review of Political Science*, V.18, 2015 and S. Haber, Stephen and V. Menaldo, “Do Natural Resources Fuel Authoritarianism, A Reappraisal of the Resource Curse”, *American Political Science Review* V. 105, Issue 01, 2011.

23 Of course, other country specific factors may have played and continue to play a major role in sustaining autocracies in individual countries including the dominance of the military establishment. Country specific issues however lie outside the purview of this discussion paper.

24 The UCDP defines conflict as “a contested incompatibility that concerns government and/or territory where the use of armed force between two parties, of which at least one is the government of a state, results in at least 25 battle-related deaths over one calendar year”.

Prospects for Democratic Governance

A combination of economic, political, and other underlying factors has been building up over the years for a push toward a democratic space in the region, with the successful overthrow of the Tunisian autocracy acting as a spur for subsequent uprisings. They include, among others, rising unemployment to high levels, especially youth unemployment; persistence of deep economic inequalities and related declining levels of subjective well-being; loss of faith in the role of traditionalist reformist political parties; growing openness of national economies; and rising aspirations for greater freedom and political participation on the part of large segments of the populace that have felt disenfranchised and largely excluded from the benefits of economic development.

Yet, the hope for a democratic change in the countries concerned (and by extension of the region as whole) has so far failed to materialize, save for Tunisia. The civil conflicts that have subsequently emerged, fed by emerging sectarian divisiveness—including the intensification of identity politics and the rise of fundamentalist groups—have further strengthened the region's conflictual environment, posing threats of democratic reversals for countries that manage to break out of the grip of entrenched autocracies.

As long as the multidimensional civil conflicts in Syria, Yemen, and Libya continue to rage, the prospects for democratic transition in the region remain dim. These conflicts are manifestations of a counterrevolution (partly linked to foreign interventions) intended to stifle transitions toward democratic forms of governance. But, eventually they will be resolved, and the prospects for establishing accountable democratic political institutions will in turn strengthen.

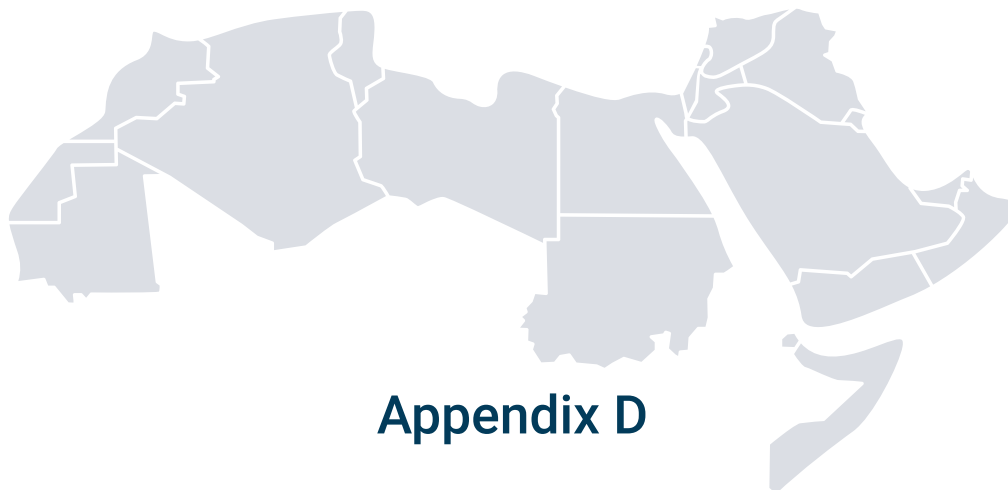
Pushing in that direction are evolving socioeconomic and political processes in various countries of the region that will help pave the way for a democratic change, with some being much more gradual than others. They include the building up of modernizing influences, which admittedly the civil conflicts have slowed down or disrupted at least temporarily (e.g. a growing middle class, improving levels of education, and growing female participation in the economic and political domains); an increasing incompatibility between exclusive political institutions and the increasing openness of economic institutions; and an expanding popular demand for freedom, equal political rights, and social justice reinforced by decreasing fundamentalist influences.

Furthermore, the corrosive political effects of relatively abundant oil resources will, in the passage of time, be countered by the influences forcing change, such as mounting socioeconomic inequities and growing popular dissatisfaction; the weakening rentier effect due in part to changing internal economic conditions; and a growing democratic neighborhood, as more countries move to partial, if not full, democracies. Moreover, as noted above, the seeming structural changes in the global oil market and the potential long-term deceleration of prices towards low "equilibrium" prices will likely further threaten the sustainability of the authoritarian bargain (even in the highly endowed Arab Gulf societies). It is noteworthy that, the more countries succeed in moving towards a consolidated democracy, the less is the potential threat of reversal.

Concluding Note

The raging Arab conflicts will be settled sooner or later, hopefully leading to democratic governance. The daunting task of delivering the required public goods and implementing socioeconomic policies which would promote and sustain a broad-based and equitable reconstruction would then begin.

Economic reconstruction is necessarily more encompassing than postwar stabilization, which might be the focus of certain international organizations which are expected to give a helping hand to reconstruction efforts. It would include not only the rehabilitation of basic services and infrastructure destroyed during the war, but also the creation of a basic macro and microeconomic institutional and policy framework necessary for the emergence of a viable economy: one that would provide employment opportunities allowing citizens to make a decent and licit living. Equally importantly, it should lead to wider economic inclusion and less inequality; in other words, to the creation of new institutions that would no longer permit a privileged few to capture the benefits of natural resources, economic growth, and overall development, but would allow their spread to the populace at large.



Appendix D

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Rethinking Diversification and Regional Integration: Prospects for the MENA Region

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ABSTRACT

This paper has two objectives. First, it provides an overview of the main features of the Middle East and North Africa (MENA) related to trade and foreign direct investment. I argue that the current scheme of trade integration did not improve states' external competitiveness since they are specialized either in oil or traditional products; their exports are hindered by several non-tariff measures imposed by their governments or by their trade partners and they also impose some non-tariff measures on imports into the region. The second objective is to provide some insights regarding a more effective integration.

To overcome such problems, deeper trade agreements (that address non-tariff measures and link trade policy to industrial policy) and boosting insertion into global value chains are indispensable in a way that may help in redefining the mode of insertion of MENA in the global division of labor and the global value chains through trade policy.

INTRODUCTION

Trade liberalization is necessary but not sufficient to reach inclusive development, especially when a country concludes several *shallow* trade agreements. Thus, it is important first to distinguish between the concepts of *shallow* and *deep* integration. While the former reduces tariffs only, the latter tackles non-tariff measures (NTMs), harmonization of production standards, and developing regional or global value chains.

Most of the countries in the Middle East and North Africa (MENA) concluded several *shallow* trade agreements (ranging from regional to multilateral ones). This can be chiefly attributed to three main reasons. First, trade is concentrated in capital-intensive goods with limited value added, and hence does not create jobs. Second, most of the exports coming from the MENA region face a wide range of non-tariff measures (sanitary and phytosanitary measures, technical barriers to trade, red tape costs, etc.) that limit their competitiveness (Ramzy and Zaki, 2019 and El-Enbaby et al., 2016). Interestingly, it is worth noting that several measures are imposed more at home than at their destination markets, pointing out the importance of starting reforms at the domestic level in order to improve the competitiveness of exports.

Third, since most of the foreign direct investment (FDI) in the MENA region is concentrated in the oil sector, the likelihood of developing clusters in the manufacturing sector has been extremely weak given how capital-intensive the sector is and the very limited value-add that results from it (Zaki, 2019). Fourth, Aboushady et al. (2018), on the basis of interviews done in some MENA countries, have shown that different stakeholders confirmed that, historically, trade policies were completely disconnected from the design and implementation of industrial policies. As a consequence of all this, these agreements did not lead to an improvement of their external competitiveness and failed to achieve development goals (i.e. job creation, poverty reduction, and structural change).

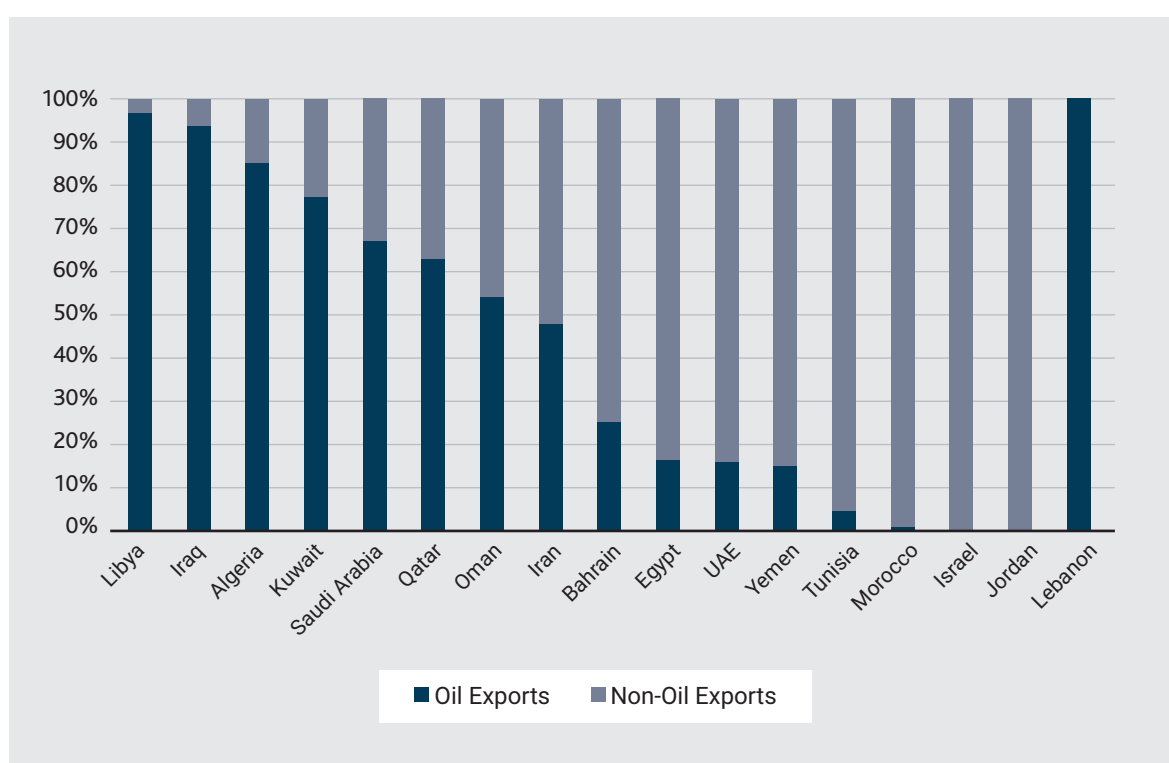
The remainder of this policy paper is organized as follows. Section 2 focuses on the main features of the MENA region by highlighting its trade structure, non-tariff measures, and their insertion into global value chains. Section 3 presents some insights to improve their integration in world trade and value chains.

Overview of the MENA Region

• Structure of trade in goods and services

MENA countries are heterogeneous. While some of them are resource-rich with huge exports of oil (e.g., the Gulf Cooperation Council countries), others are resource-poor and their exports are concentrated either in an emerging manufacturing sector or in services.

Figure 1: Oil vs. Non-Oil Exports as a Percentage of Total Exports by MENA Country



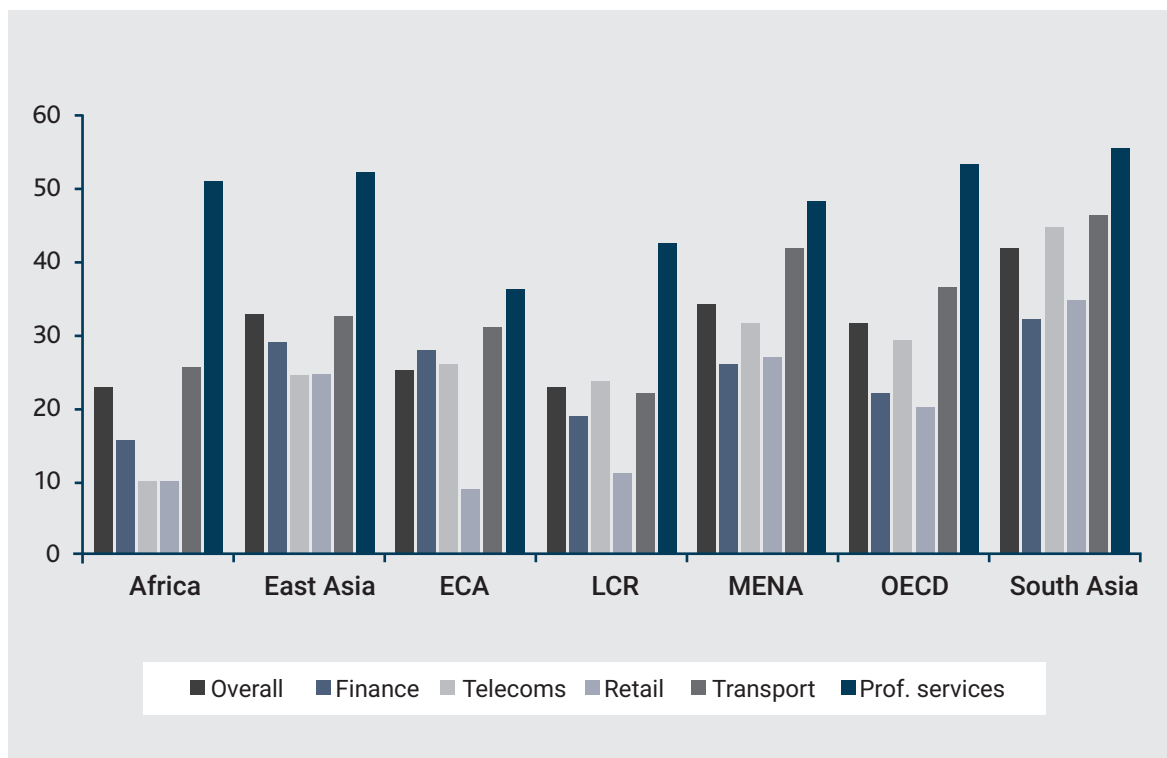
Source: World Development Indicators database online, 2015.

At the goods level, most of the goods that are exported by MENA countries are rather traditional (chiefly concentrated in chemicals, ready-made garments, and processed food). Nontraditional exports, intensive in high technology, remain extremely low, with notable exceptions such as Morocco, which managed to export automobiles to both African and Arab countries. Morocco has emerged as one of the leading African exporters, surpassing South Africa with more than 95 percent of Moroccan vehicles being exported to the European Union (EU), Turkey, Russia, and Saudi Arabia.

As for services, the MENA region has a revealed comparative advantage in travel, financial services, royalties, and license fees as well as other business services. Yet, services are still impeded by significant barriers (Borchert et al., 2014). Averaging across countries, Figure 2 shows that the overall value for the Service Trade Restrictiveness Index (STRI) in the MENA region is the largest among world regions excluding South Asia and that the sectoral value of the STRI for the MENA region is the highest for professional, transport, and telecommunication services, highlighting the fact that the region is mostly “closed” to foreign competition in those three sectors (Karam and Zaki, 2019).

Karam and Zaki showed that service protection is a fixed export cost, exerting a negative and significant effect on the probability of a state becoming an exporter, especially for small firms and high value-added sectors. Thus, this affects both manufacturing exports and job creation in these high-value sectors (such as automotive).

Figure 2: Regional Average STRI by Sector, 2010



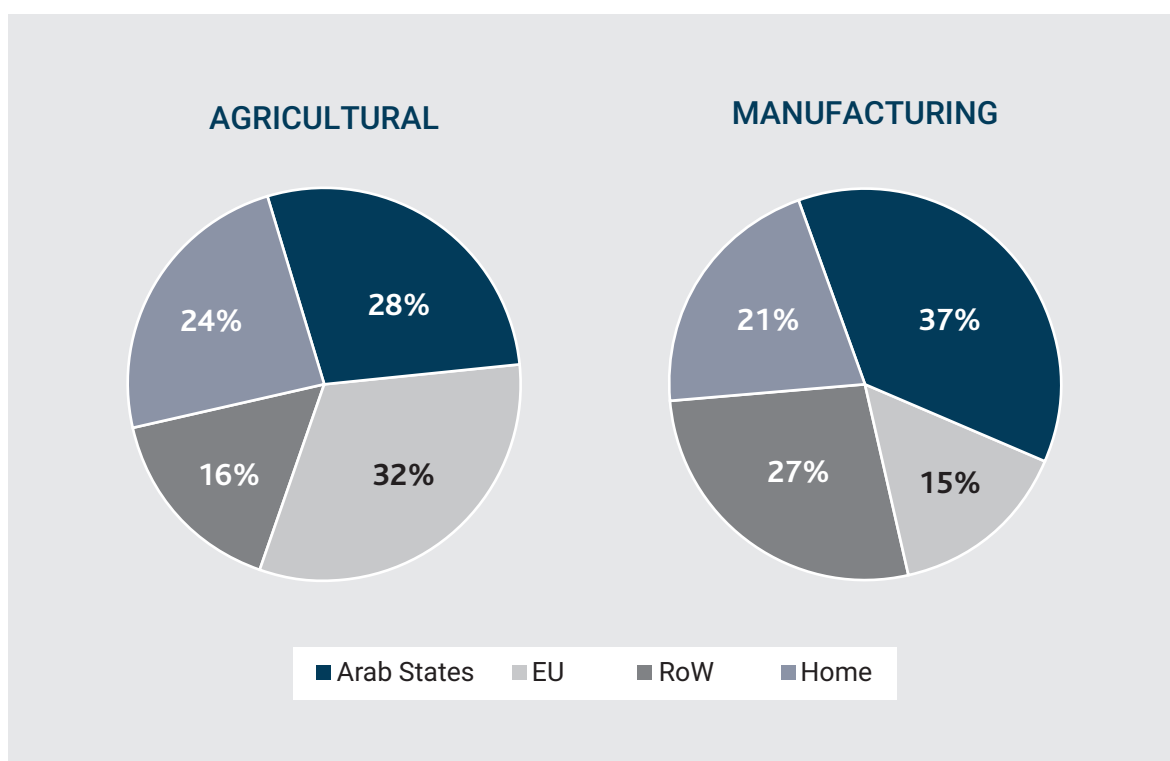
Source: Hoekman (2016).

Note: Indices range from 0 to 100, with 100 being completely closed to foreign competition. Data is only available for 2010.

Given the structure of exports and their concentration in low value-added sectors and the protection/regulation of several service sectors that affect the performance of the manufacturing sector, external competitiveness remains distorted and the effect on job creation is therefore very limited.

• Non-tariff measures

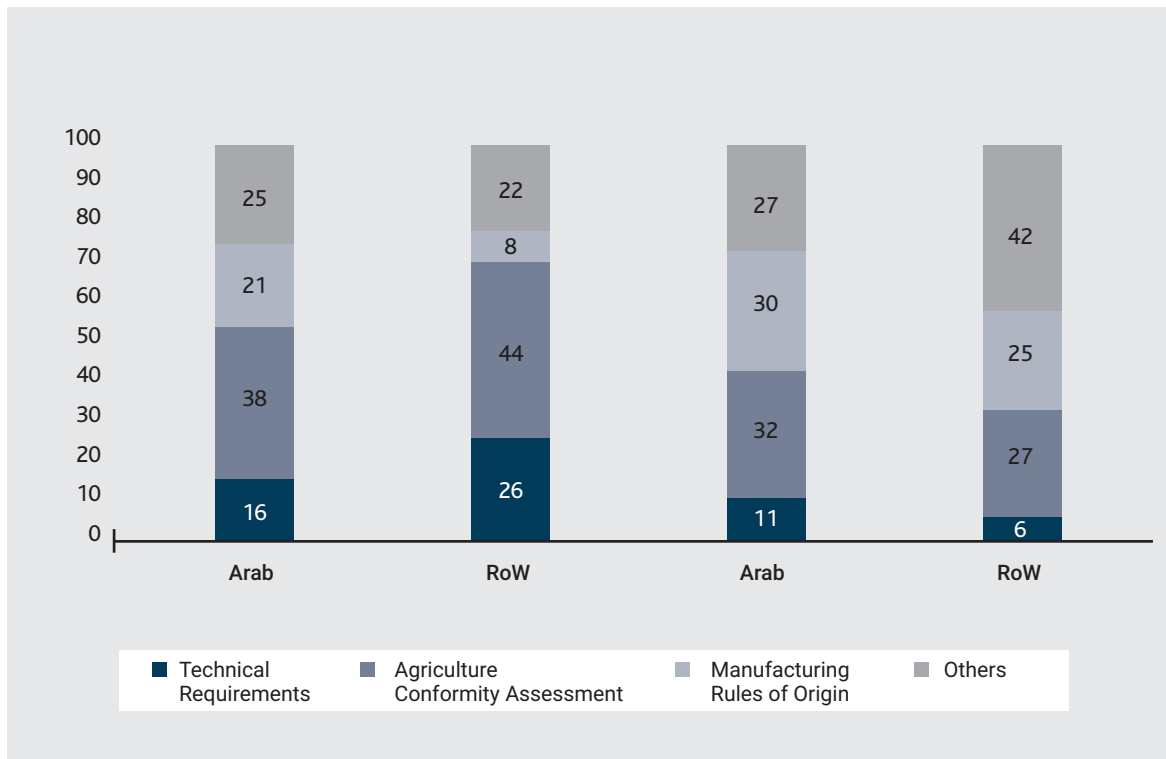
Non-tariff measures imposed by governments are still a serious impediment to intra- and extra-regional trade in the MENA region. A significant share of these impeding measures is imposed at home rather than by trade partners. Figure 3 shows that the share of barriers faced domestically (21 percent for manufacturing and 24 percent for agriculture) or in the Arab region (37 percent for manufacturing and 28 percent for agriculture) is larger than the one in other non-Arab partners. Hence, most of the problems can be solved either at home or on an Arab scale.

Figure 3: Breakdown of burdensome NTM cases reported by exporters in Arab States

Source: ITC (2015)

By observing these non-tariff measures, Figure 4 shows that standards and conformity assessment procedures represent serious obstacles among Arab countries (especially sanitary and phytosanitary measures, as well as technical barriers). While some of these measures are evidence-based to protect the health of humans and animals, some others are more distortionary and imply a significant cost for firms. Furthermore, some studies argue that, within the Arab states, the tax equivalent of non-tariff obstacles to trade (including customs procedures) represents 30 to 40 percent of the value of traded goods.

It is worthy to note that, in the MENA region, while some of these NTMs imposed by governments aim at protecting the health of humans and animals, some of them are politically motivated in order to protect politically-connected firms (see Eibl and Malik, 2016 for Egypt and Baghdadi et al, 2019 for Tunisia). In fact, the presence of cronies is a strong predictor of the introduction of NTMs and the density of NTMs as measured by the share of products subject to NTMs.

Figure 4: Burdensome NTMs applied by partner countries

Source: Constructed by the authors using the NTM Firm level survey.

Therefore, this analysis sheds light on the importance of addressing non-tariff measures, harmonization of norms, and mutual recognition of standards to boost trade among Arab countries and with their regional partners.

• Insertion in global value chains

Global value chains (GVCs) are difficult to measure. This is why, using the World Bank Enterprise Survey, DAVIS and ZAKI (2018) showed that the MENA region is still not integrated in regional or global value chains like other regions. They define GVCs through four measures as follows:

- If a firm exports and imports simultaneously, we can assume that it belongs to a GVC. This is the least restrictive definition.
- If a firm exports and imports simultaneously and has either an international certification –or a share of its capital owned by a foreign firm, it is likely to be part of GVC.²⁵
- The strictest definition combines the four criteria altogether: a firm exports and imports simultaneously, has an international certification, and is partially owned by foreigners.

They argue that these criteria are important to developing a GVC for several reasons. First, as highlighted by the literature, exporters and importers are few, bigger, and more productive. Second, foreign-ownership status may be an indicator of integration into a GVC, as foreign-

²⁵ International certifications include any certification related to products, to standards and norms that are adopted in production processes, ISO, etc.

owned firms may serve as exporting platforms for foreign countries. Third, an international certification may also be required in vertically-fragmented production processes, providing another indicator of GVC integration.

Table 1 shows that, on average, 2 percent of firms are two-way firms with both a foreign ownership and an international certification. Second, internationally-certified firms are chiefly concentrated in Europe. The MENA region is performing slightly better than South Asia. With 13 percent of firms having two-way trade activity, the MENA region is around the average. Yet, when MENA and East Asia and the Pacific (EAP) are compared, we can conclude that, the stricter the definition, the share of MENA firms that are part of GVCs shrinks and that of EAP increases. These figures show to what extent EAP firms are more advanced in terms of GVC integration.

Table 1: GVC characteristics – Different Definitions (by region)

	GVC1	GVC2	GVC3	GVC4
East Asia & Pacific (EAP)	9%	6%	3%	2%
Europe & Central Asia (ECA)	27%	15%	5%	3%
Latin American & Caribbean (LAC)	13%	5%	3%	2%
Middle East and North Africa (MENA)	13%	6%	2%	1%
South Asia (SA)	7%	3%	0%	0%
Sub-Saharan Africa (SSA)	15%	7%	4%	2%
All	13%	7%	3%	2%

Source: Authors' own elaboration using the WBES dataset (with weights).

Two main reasons are behind such underperformance: FDI structure and business environment.

First, FDI in the Arab region is highly concentrated at both the country and sectoral levels. Indeed, according to the United Nations Conference on Trade and Development, about 80 percent of the FDI in 2010 was concentrated in six countries (Saudi Arabia, Egypt, Qatar, Lebanon, the United Arab Emirates, and Libya before 2011). At the sectoral level, most FDI is concentrated in traditional, low value-added and capital-intensive sectors, namely oil, refineries, and construction. It has hence failed to generate jobs and significant value-add in the MENA countries. Moreover, they reinforced their specialization into traditional sectors. Thus, if these countries are to promote job creation in a period where unemployment rates are reaching very high levels, more FDI should be channeled to nontraditional, labor-intensive, and high value-add sectors (particularly the manufacturing and nontraditional sectors). However, it is important to note that, sometimes, labor-intensive sectors and high value-added sectors can be conflictual, since the former are associated with a relatively low value-add (e.g., textiles, ready-made

garments, and processed food), whereas the latter to capital-intensive, high value-added (e.g., metals, base metals, etc.). Other sectors can be intensive in both skilled labor and capital (e.g., automotive and high-tech industries). In middle-income countries, it is advisable to have a diversified structure in order to raise employment rates, meet labor supply, and at the same time increase the value of production to reduce poverty.

The second barrier affecting GVCs is the investment climate. DAVIS and ZAKI (2018) found that variables associated with the investment climate are the most formidable barriers to insertion into a GVC. In particular, the number of days to pay taxes, the number of procedures to register property, and the time to export and to import all have significantly negative associations with integration into a GVC. This is why it is important to strengthen institutions, particularly in areas of law enforcement and information flows that exert a significant effect on FDI in host countries. In this regard, it is noteworthy that GCC countries are performing better than their Mashreq counterparts, since the former have higher ranks in the proper business atmosphere and ease of establishing firms for foreign investors.

Policy Options for a Better Integration

• *Rethinking Free Trade Agreements*

As maintained earlier, negotiating trade agreements in MENA has focused mainly on tariff reduction. This led to the conclusion of shallow trade agreements that did not really improve the competitiveness of MENA countries. Thus, deepening existing trade agreements is indispensable to make them more efficient. This can be achieved through addressing non-tariff measures and linking trade and industrial policies.

On the one hand, since most of the barriers are non-tariff, one of the effective approaches to facilitate their elimination is the adoption of the Agreement for Conformity Assessment and Acceptance with the European Union or more generally concluding Mutual Recognition Agreements (MRAs) based on the alignment of the legislative systems and infrastructures of the countries concerned with their most important trade partners. These agreements have not been concluded yet, but they can be a model to overcome the problem of noncompliance.²⁶

This will help MENA exporters—and especially small and medium-sized firms (SMEs)—to comply with international standards in order to facilitate their access into foreign markets. This also can take place by increasing the number of accredited and recognized laboratories or certification bodies and providing technical assistance from both the government and international donors to different firms, especially SMEs. Furthermore, based on International Trade Center surveys in 2013, several firms reported that the non-transparency of non-tariff measures is very costly. Thus, it is important to improve the availability of comprehensive information on non-tariff measures (e.g., standards and norms, applicable fees, duties rates, rules of origin, preferences, and charges) on customs websites in a transparent and simple way. National governments can also set up portals or trade observatories of market access databases where firms can report where they are finding problems in accessing markets and what those issues are.

On the other hand, trade negotiations at both regional and multilateral levels must be better linked to industrial policies and industrial strategies of the MENA countries. Identifying complementarities at the regional level will increase intraregional trade. Thus, trade instruments should target the design and implementation of more elaborate industrial development

²⁶ These agreements have not been concluded yet, but they can be a model to overcome the problem of non-compliance.

strategies. Needless to say, this has to be accompanied by clear national industrial strategies. However, to be effective and efficient, it is important to have a more thorough analysis on the conception and development of industrial policies and their link to trade policies. This includes three main dimensions: first, undertaking a comprehensive analysis of which sectors are to be considered in trade negotiations and examining their links to national policies; second, investigating the social and economic effects of these sectors on job creation and poverty reduction; third, making trade negotiations more inclusive of different stakeholders (e.g., the private sector, civil society, and the chambers of commerce and/or industries).

Yet, two questions are to be raised for further discussion: shall industrial policies be made at the national or the regional level to guarantee a higher level of coordination? And, if they are to be made at the regional level, which regional or sub-regional institutions will be in charge of this so as to have an integrated decision-making system?

• *Domestic Policies*

In order to increase the integration of MENA firms into regional and/or global value chains, three sets of domestic policies must be taken into consideration as noted by Dervis and Zaki:

First, more efficient trade procedures leading to quicker time necessary to trade will help local firms become part of GVCs. This is associated with improving infrastructure and automating customs in a way that would empower different firms to specialize in more complex products. Second, enforcing and implementing transparent laws for registering property is crucial for firms to be part of GVCs. More generally, improving the investment climate with fairer competition and the elimination of red tape procedures is commendable. This is in line with Rodrik (2018), who argued that countries should rely more on “domestic integration”, which means improving the capabilities and fundamentals of the economy through investment in human capital, business environments, and governance. In fact, this is taken as a prerequisite for regional and/or global integration.

Thus, more effort should be deployed to strengthen the connection between highly productive global firms, potential local suppliers, and the domestic labor force.

Second, cluster promotion is an important instrument. Indeed, using clusters to link SMEs to manufacturing-sector FDI will help them become part of a value chain, leading to more sustainable and internationalized activities. More SMEs will generate more jobs, especially for women who are densely present in sectors such as ready-made garments and processed food. This would consequently increase women labor demand and reduce gender inequality.

Third, improving workers’ skills is also important. Indeed, developing new clusters would require a greater skilled labor force endowed with higher qualifications, especially for blue collar workers who are abundant in the MENA countries and are used intensively in the production of several manufactured goods. An important dimension to be taken into consideration is labor conditions at large. Indeed, terms and conditions of employment (e.g., child labor and deficient terms and conditions of employment) which may not be in line with requirements of international markets may make it difficult to reach the markets of developed countries.

Hence, improving conditions of employment is also a way to upgrade production processes and make output more competitive.

However, as highlighted by Rodrik (2018), integration into GVCs has to be taken with caution since they are currently intensive in new technologies that may present a double threat

to low-income countries. GVCs are generally biased toward high skills, which reduces the comparative advantage of developing countries that are conversely endowed with unskilled labor and specialized in more traditional labor-intensive manufacturing activities. GVCs can make it harder for these countries to use their labor-cost advantage by reducing their ability to substitute unskilled labor for other production inputs. Finally, it is important to note that such clusters can be criticized as constituting an enclave economy of offshore companies that are not domestically integrated and have limited linkages to the national industrial base.

• *Political and Institutional Requirements*

A key dimension to implementing different policies is related to the integration approach of Arab countries. Two remarks are worth mentioning in this regard. First, the current scheme of regional integration (if any) has proved to be inefficient. Therefore, a more “functional integration” is likely to be more effective. This concept means that Arab integration must target specific functions and sectors where Arab countries can integrate and mutually benefit from the process (like the historical case of steel and coal in the European Union).

Last, but not least, comparative regions in the world were more politically integrated along European lines (like the Economic Community of West African States or the Southern Common Market (“MERCOSUR” or “MERCOSUL”)) than MENA. This helped them increase their prospects for intraregional trade and FDI. Contrastingly, MENA’s current political and geopolitical context reflect rather poorly on its prospects for regional integration.

