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The Arab Region Post-COVID and Conflicts: Investing in Human Capital, Resilience and Sustainability

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OVERVIEW

COVID-19 has left the world in paralysis. The Arab world is no exception. Discussions around economic recovery need to be rooted in realism and data, especially because COVID-19 constitutes only one of many structural challenges in the region. Others include instability and violence. Almost one in five people in the region are exposed to conflict, according to the World Bank.¹ With 20% of the population living in conflict areas, and widespread state fragility, hurdles to economic growth go beyond recovery from COVID-19 induced recessions.

PRE-COVID ECONOMIES IN THE ARAB REGION

Prior to the outbreak of COVID-19, Arab economies seemed to draw an optimistic image in terms of their aggregate GDP (close to \$3 trillion). However, their per capita income (\$6500) has told a different story. Compared to other emerging and advanced economies, it has been relatively low. Notably, the region's human development performance has deteriorated somewhat during the last 10 years, primarily driven by the increase in violent conflicts in the region. The World Bank's Human Capital Index (HCI), which was launched two years ago, shows that the majority of Arab countries lagged behind their peers in the group of emerging markets and developing economies. This provides some indication about performance and productivity skills in the region. Both of these factors are significant given that high productivity is required to effectively respond to the fast changes that we are witnessing today, including digitalisation.

In addition, the Global Innovation Index, published by the World Intellectual Property Organisation, shows that the majority of the Arab economies are in an unhealthy state. This raises concerns regarding the ability of Arab states to do better in a world where innovation, and digitalisation in particular, are going to be dominating factors.



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¹ <https://blogs.worldbank.org/opendata/one-five-people-middle-east-and-north-africa-now-live-close-proximity-conflict>

The dependence on commodities and the rentier nature of the Arab economies, highlight the vulnerability of these economies and the need to move towards diversification quickly. We saw the beginning of these steps manifest in governments' visions for the coming decade, which send signals of hope, suggesting that we are moving towards the right direction.

By far the biggest challenge facing Arab economies is the fact that a fifth of the region is currently living through conflict. War and destruction are creating fragile state institutions that will continue to haunt the region for decades to come. Therefore, the priority must be to end violent conflict and resume peaceful political processes in the conflict affected countries.

COVID-19 ECONOMIC IMPACT

The global economy is projected to contract by 5% in 2020, compared to 3% growth in 2019. FDI is forecasted to fall by 40% in 2020 and remittances are expected to decline by at least 20%. Global merchandise trade is expected to fall by 13% to 32%. The global economy is also facing a severe challenge when it comes to global debt, including government, corporate, or household debt. Data by the Institute of International Finance estimated that global debt has already exceeded \$258 trillion in the first quarter of 2020.

As a consequence, hunger threatens 230 million people around the world and between 70 to 100 million people are expected to be pushed back into extreme poverty. Meanwhile, unemployment figures keep rising. According to latest ILO figures, global unemployment is estimated at 345 million in Q3, compared with 495 million in Q2, and 160 million in Q1.

When it comes to the Arab economies, lockdown restrictions have dented

economic activity. Disruptions to supply chains have been compounded by a significant decline in tourism and remittance inflows – two key income sources for the Arab oil importing countries. These declines would have a sizable impact on poverty and inequality. A fragile and conflict affected country like Yemen already faces compound challenges as a result of the civil war. The impact of declining remittances would therefore be severe.

Meanwhile, downward pressure on oil prices continue, as Libyan output resumes and global lockdown restrictions are reimposed. The new foreign policy of the Biden administration towards the Arab world and the OPEC deal are important factors to watch. The new “lower for longer” oil price environment and a surge in COVID cases will slow the recovery pace. For the oil exporters, considerable budget deficits will remain, even though the austerity measures they have recently introduced will help contain the widening of fiscal deficits to a certain extent.

While understanding the magnitude of the impact of COVID-19 is crucial, it is important not to forget the structural and long-term challenges that were present prior to the

pandemic, impacting livelihoods and the real economy. It is also important to keep in mind the severity of other challenges, including climate change.

ECONOMIC RECOVERY

Arab states' efforts to accommodate and try to flatten the curve of COVID-19 cases, both in terms of infections and death, manifests a real struggle. Fragile and conflict-ridden states within the Arab world face exacerbated challenges on this front. The lack of data and the inability to track the real toll and impact of the virus make it difficult for these states to draw effective policies to combat the virus, let alone recover from its toll on the health of both people and economies.

In relatively stable Arab countries, the shape of economic recovery rests to a large extent on what could potentially be achieved in the healthcare sector, including investments in combatting COVID-19. For fragile states in the region, economic recovery can only begin when other more pressing structural challenges are addressed, such as ending conflict and rehabilitating state institutions. What is needed is essentially a state-building exercise that tackles all vital state functions, ranging from security provision and good governance, to building educational sectors and of course healthcare services.

In a fast-changing world marked by global mega trends, COVID-19 is only one of many challenges. There are major demographic transitions worldwide that will have implications for Arab economies. We have also seen market volatility and commodity cycles more severe than ever before. The dark side of technological

change constitutes another challenge. Notwithstanding the many advantages of digitalisation, it is also at risk of causing greater inequality and additional cyber-security issues. Climate change, fast urbanisation, as well as fragility and violence are all alarming issues that need to be tackled in economic recovery plans.

For effective recovery to take place we need to look beyond the immediate COVID-19 impact. This is especially true for the Arab world, where priorities should include:

1. Ending violent conflict and resuming peaceful transitions that will allow for state-building to begin.
2. Investing in human capital, including improving the quality and access to education.
3. Investing in resilience, including on social protection and climate and disaster resilience.
4. Investing in infrastructure, including in the new DNA - Data, Networks and Artificial Intelligence - to enable the Arab economies to compete on a global scale.

The bottom line is that disruptive changes will require a comprehensive policy framework, and it is important to connect short-term emergency responses with long-term sustainable goals. In a fast-changing world, the new normal could mean that the ongoing management of COVID-19 goes hand in hand with fighting recessions, harnessing debt challenges, embracing digitalisation, adopting localisation, and optimizing the new role of the state.



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