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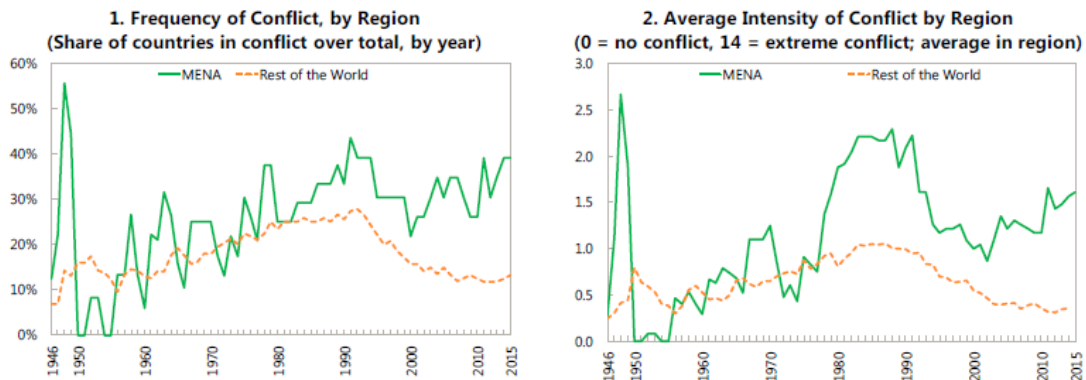
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The Arab Human Disaster Report: The Arab World Five Years After: Part 1

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On December 17, 2010, Tarek el-Tayeb Mohamed Bouazizi, a Tunisian street vendor, set himself alight provoking riots in Tunisia and the onset of what became known as the Arab Spring. After six years of revolution and war in many parts of the Arab world, the loss of life and damage has been huge, largely because of the civil war in Syria, but also due to the conflicts in Iraq, Libya, and Yemen. Some of the conflicts, such as those in Sudan, Somalia, and Gaza, had been going on for years prior to the 2010-2011 Arab Spring and they were soon overshadowed by more recent events. As a result, the Middle East has become the most conflict-prone region in the world both in terms of the number of conflicts and their intensity (see Chart 1).

Chart 1: Oil Prices in 2014



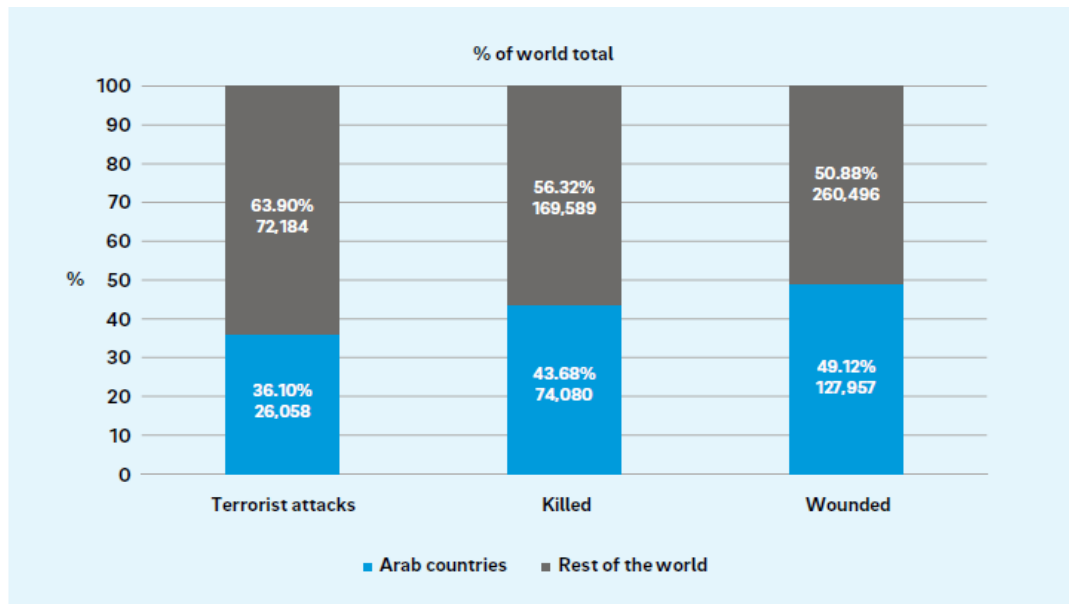
Source: International Monetary Fund (IMF)

The death toll from these conflicts can only be crudely estimated. The number killed in Syria is thought to be about 600,000 but may well be higher. Hundreds of thousands have been killed in the conflicts in other countries. The wars in Syria, Iraq, and Libya have included acts of appalling barbarity including executions committed and broadcast by the Islamic State, the Syrian government's deliberate bombing of hospitals and other civilian facilities and its use of chemical weapons. Civilians have been subject to siege, held hostage, starved, and used as human shields on an unprecedented scale.

The involvement of outside powers has also been significant and in a number of cases decisive. Iran and Russia have intervened to support the Assad regime and they have helped prevent the regime's defeat. There have been much smaller interventions by Turkey, while Saudi Arabia and other Gulf Arab States have provided aid to Syrian rebels. In Libya, Western action against Qaddafi helped to ensure his overthrow, and in Yemen, Western powers have backed those fighting the Houthi rebellion. Another aspect of conflict in the region has been the heightened tension between the Shi'a and Sunna, largely the result of Iranian and Saudi involvement in the wars in Iraq, Syria, and Yemen. In some respects these conflicts have become proxy wars resulting from Iranian and Russian policies designed to enhance their influence in the region. The Arabs are now paying the price for non-Arab exploitation of their divisions. There have also been conflicts in neighboring regions of Africa and in Afghanistan and Pakistan, largely the result of Islamic terror.

The effects of turmoil have also been felt outside the Middle East, especially in Europe, where over a million refugees fled (see *Iqtisadi*: "[The Dominoes Fall: The War in Syria, Europe and Turkey](#)," March 2016). The extent and geography of terrorist violence indicates that, between 2000 and 2014, the Arab region, with less than five percent of the world's population, and nine percent of the world's land, accounted for almost 44 percent of deaths from terrorist attacks (see Chart 2). Many more have been killed by government forces and these need to be added to the victims of terrorism data to obtain a full understanding of what has happened.

Chart 2: Terrorist attacks and their victims in the Arab Regions versus the rest of the World, 2000-2014



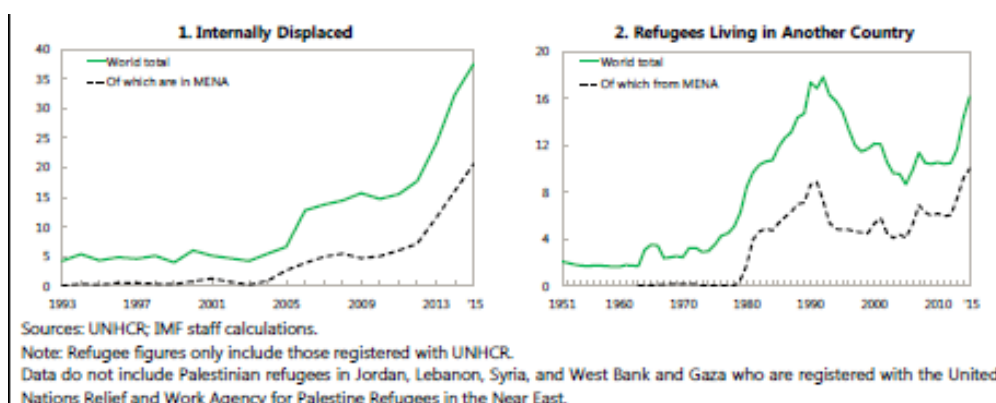
Source: Arab Human Development Report, 2016

The International Monetary Fund has identified four main types of economic effects resulting from the conflicts in the region. The first is due to the loss of life, internal displacement, and the movement of refugees over the border. Since 2010, when the war started in Syria, 7.6 million people have been internally displaced and more than 5 million have fled to other, mostly neighboring, countries. Together, they accounted for about 55 percent of the 2010 population. In Iraq, some 4.4 million people have been internally displaced and in Yemen 2.5 million. In 2010, there were about five million displaced persons in the Middle East and North Africa (MENA). In 2015, there were 20 million. In 2010, there were about six million refugees from MENA living outside their country of origin; by 2015 the number had risen to about 15 million. This means that a total of 35 million people have fled their homes.

Vital services such as education and health have been damaged. In Syria, the school dropout rate rose to 52 percent in 2013. Between 2010 and 2014, life expectancy, which is a proxy for the quality of health services, fell from 76 years to 56 years. These trends have long term effects in terms of a less well educated and less healthy population. The deterioration of education and health reduces the productive potential of the economy, while that in health raises costs.

The displacement of people within their country of origin and their movement abroad as refugees have been unprecedented. This has imposed huge costs on neighboring countries (see *Iqtisadi*: "[How Jordan Survives: Part 2](#)," October 2016). The Middle East has also generated one of the highest numbers of internally displaced persons (IDPs) and refugees in the world (see Chart 3). A large proportion of refugees are skilled workers and this represents a significant brain drain from countries in conflict.

Chart 3: Internally Displaced Persons and Refugees: MENA and the World



Source: IMF

The second source of economic loss results from the destruction of physical capital and infrastructure. The value of physical capital destroyed in Syria has been estimated at \$138 billion (equal to 230 percent of the 2010 GDP). This was due to the partial or complete destruction of capital, idle capital stock, and lost investment. In Yemen, since the intensification of the fighting in early 2015, infrastructure losses have exceeded \$20 billion, equal to over 50 percent of pre-war GDP. Destruction of this magnitude has a significant impact on production capacity and trade. Yemeni oil production ceased after March 2015. In Libya, oil output dropped to about one-quarter of capacity because of the closure of pipelines and oil facilities, as well as blockades of oil ports; as a result, the external current account fell into a deficit of 44 percent of GDP in 2015, from a surplus of 13.5 percent in 2013. The UN has estimated the direct effects of five years of upheaval on Arab countries in conflict as well as the indirect ramifications for other countries in terms of spillover effects. Between 2011 and 2015 they lost \$614 billion, or 6 per cent of total GDP as a result of the conflict. This is a low estimate compared to one made at the end of 2013, when the Hong Kong and Shanghai Banking Corporation

(HSBC) counted the cost of what had happened and what was expected in 2014. It estimated that those countries most affected by the Arab Winter – Egypt, Tunisia, Libya, Syria, Jordan, Lebanon, and Bahrain – would lose \$800 billion of GDP between 2011 and the end of 2014, equal to 35 percent of their GDP.

Third is the weakening of confidence and security. Attacks by the Islamic State were often aimed at economic targets, not only to increase its control but also to undermine security. This involved, among other things, seizing water and oil installations in Iraq and attacking tourists in Tunisia. Attacks outside the region, especially in Europe, should not be forgotten. Crime has increased with human trafficking from North Africa most notable and the flourishing of the drugs trade in Syria and Lebanon (see *Iqtisadi: "Captagon and Syria's Drug Economy,"* December 2015). The IMF has noted that the consequences of this include declining investment, worsening financial sector performance, higher security spending, and lower tourism revenues.

The fourth effect is the weakening of social cohesion and the quality of institutions, especially government. The conflicts have deepened social and economic divisions, which tend to develop around differences in income, ethnicity, political orientation, or language. This has occurred in Iraq, Syria, and Yemen, which broke up into areas controlled by opposing factions, usually on an ethnosectarian basis. This also affects neighboring countries. In Jordan, opinion surveys show considerable political dissent in areas with large refugee populations and high unemployment. Similar dynamics prevail in Egypt, Lebanon, and Tunisia. The World Values Survey show that trust, a key measure of social cohesion, has declined and this hinders economic transactions and makes the political process more difficult.

This may explain why Arab governments have been slow in implementing economically important, but politically difficult, structural reforms. Large refugee populations have increased the pressure on social cohesion. The initial open-door policies of countries like Jordan and Lebanon were modified as the number of refugees increased.

The decline in social and political cohesion eroded institutional quality and governance, leading to lower economic growth. As tensions mounted, key institutional functions

important for economic performance, such as effective checks and balances on policymakers, and the enforcement of the rule of law, were undermined. Data on institutional quality for the MENA region suggest that competitiveness and governance indicators in Libya, Syria, and Yemen have deteriorated sharply.

Millions of people have been pushed into unemployment and poverty. The Syrian Center for Policy Research has estimated that over 60 percent of the labor force (about 3.5 million) is unemployed, with three million people having lost their jobs as a result of the conflict. The poverty rate rose from 12.4 percent in 2007 to 83 percent in 2014, and two-thirds of Syrians are now living in extreme poverty, meaning that they are unable to meet basic needs. The main reasons include loss of property, jobs, access to public services, including health and clean water, and rising food prices. Poverty rates are highest in governorates that have been most affected by the conflict, and which were historically the poorest in the country.

The economic impact of the conflict is difficult to estimate given limited data, but it is large and growing. Syria's GDP is estimated to have contracted about 50 percent between 2011 and 2016. This was in part due to a sharp decline in oil production, down from 368,000 barrels per day in 2010 to an estimated 40,000 barrels per day in 2015 and 2016. After increasing to nearly 90 percent in 2013, inflation was estimated at 29 percent in 2014. Inflation was estimated at 30 percent in 2015 and 25 percent in 2016 because of continued disruption of trade, shortages of commodities, and the sharp depreciation of the Syrian pound (SP) from \$1=SP 47 pounds in 2010 to about \$1=SP 213 pounds at the end of 2016.

The fall in Syria's oil receipts since the second half of 2012, and disruptions of trade, put pressure on the balance of payments and exchange rate. Revenues from oil exports decreased from \$4.7 billion in 2011 to an estimated \$222 million in 2014, and are estimated to have declined further to \$140 million in 2015 and 2016. As a result, the current account deficit is estimated to have reached 8 percent of GDP in 2015 and 16 percent of GDP in 2016. International reserves have declined significantly. Depressed export revenue caused by the impact of the conflict and declining international reserves have resulted in the depreciation of the Syrian pound. This has raised the costs of imports and Syria has become ever more dependent on them as a

result of the destruction of its economy. While its currency depreciation makes exports more competitive, Syria has little to sell abroad as a result of the ongoing war.

In Iraq there were, according to official sources quoted by the World Bank, 20,169 casualties in 2014, 17,502 in 2015 and 10,497 between January and October 2016. Since 2014, the conflict has also led to a major humanitarian crisis with over 3.4 million persons internally displaced and 10 million people in need of humanitarian assistance. The standard of living has deteriorated, and a noticeable share of the population has fallen into poverty or is extremely vulnerable to falling into poverty. Poverty, as estimated by the Iraqi government in 2014 reached 22.5 percent nationwide; and in the ISIS-affected governorates, the direct impact of economic, social, and security disruptions are estimated to have doubled poverty rates to 41.2 percent. Iraq has one of the lowest ratios of employment-to-population in the region, even among men, and the crisis since 2014 has led to an estimated decline in employment of 800,000.

The conflict in Sudan continues almost unnoticed. In 2015, over three million civilians were internally displaced and over half a million lived in refugee camps in Sudan. According to the UN, 6.9 million people were in need of civilian assistance. Sudan has suffered from years of conflict, volatile security, political turbulence, an unsustainable debt burden, economic and financial sanctions, and fragile relations with the international community, all of which have constrained the country's growth prospects and efforts to reduce poverty. The poverty rate is one of the highest in the world at 46 percent, meaning that some 15 million people are poor. According to the World Bank, the poverty rate in rural areas is 58 percent and in urban areas, 26 percent. It is 26 percent in Khartoum state and nearly 60 percent in the conflict-affected states of North Darfur and South Kordofan.

In Yemen, the UN said that as of August 2016, 10,000 people had been killed in the conflict. Three million people had been displaced and 200,000 had been forced to seek refuge abroad. About 14 million of Yemen's 26 million population needed food aid and seven million were suffering from food insecurity. A few months later the World Bank made higher estimates. In October 2016, it stated that severe food insecurity was affecting 7.6 million people, and an estimated 2 million were suffering from malnutrition, including 1.3 million children, of whom 320,000 were suffering from

acute malnutrition. Some 14 million Yemenis, including 8.3 million children, were suffering from the collapse of health services. Three million children were out of school and over 1,600 schools remain closed either due to insecurity, physical damage, or their use as shelters for displaced people. The International Labor Office (ILO) has stated that over 20 million Yemenis lack safe water and sanitation.

By December, a UNICEF report showed how rapidly the situation is deteriorating. Nearly 2.2 million children in Yemen are now acutely malnourished and require urgent care. At least 462,000 children suffer from severe malnutrition, an increase of almost 200 per cent since 2014.

In Libya, low oil prices, disruptions to oil production, political stalemate, and conflict have pushed a high proportion of a small population once cushioned by state largesse, towards poverty. The World Bank has estimated that, by mid-2016, some 435,000 people in Libya were displaced; about 1.3 million were suffering food insecurity and more than one third of the country's population of 6.3 million needed humanitarian assistance.

Somalia has suffered from twenty-five years of conflict, mainly in the south of the country, which has destroyed much of governance structure, economic infrastructure, and institutions. The World Bank has stated that gross domestic product was \$6.2 billion in 2016, GDP per capita, \$450 and five million people lived in poverty or 51.6 percent of the population. Somalia is one of the poorest countries in the world.

During the years of conflict two generations of Somalis went without education. Only 42 percent of school-age children are estimated to be enrolled in primary school, and only 36 percent are girls. Infant mortality rates — about 92 per 1,000 live births and under-five mortality rates of 150 per 1,000 live births — are higher than Sub-Saharan averages. Somalia's fertility rate is very high at 6.2 births per woman, meaning that the country is young: more than 70 percent of the population under 30 years of age. An estimated 43 percent of the population lives on less than the extreme poverty level of \$1 dollar a day. Young people are disproportionately affected by poverty

and unemployment. They are therefore prey to recruitment into militia or radicalized groups. About two-thirds of the populations aged 14 to 29 years are believed to be unemployed.

Since the Hamas took control of Gaza in 2007, there have been a series of armed conflicts with Israel. The latest, in 2014 resulted in 2,100 Palestinian deaths and the displacement of third of the population of 1.6 million. Economic losses resulting from the war were estimated at \$1.7 billion. In 2016, unemployment rates reached 27 percent, despite Israel's efforts to increase the number of work permits for Palestinians. The unemployment rate was 42 percent, and youth unemployment was 58 percent. Although nearly 80 percent of Gaza's residents receive some form of aid, poverty is very high and only 10 percent of the population has access to safe drinking water.

At the end of 2016, the UN published the sixth Arab Human Development Report. Its focus was on youth, who constitute large proportion of the population, and who played a major role in overthrowing Bin Ali in Tunisia and Mubarak in Egypt, but whose prospects now look grim. This report will be examined in the January 2017 edition of *Iqtisadi*.

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