Economic Costs of Post-Arab-Spring Civil Wars in the Middle East and North Africa

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"There is no instance of a nation benefiting from prolonged warfare."
Sun Tzu, author of *The Art of War*

The wisdom that war should be pursued only as a last resort and that fighting, if inevitable, should be as quick as possible appears to have been forgotten in recent decades. Since the end of World War II, the incidence of civil wars has been more than four times that of interstate conflicts and civil wars have lasted on average three years longer than interstate wars, which have lasted slightly more than a year (Brandt et al. 2008).

In the Middle East and North Africa (MENA), political violence escalated during the last decade and a half when more than 40% of all civil wars started in the region. Political violence intensified particularly after the Arab Spring revolutions of 2011. Since then, Syria, Iraq, Libya and Yemen have been torn by civil wars and there has been a surge in terrorist activity.

The objective of this article is to discuss the economic costs associated with the post-Arab-Spring turmoil. So far, the economic costs of the upheaval have been borne primarily by the MENA countries, but other parts of the world, especially Europe, have started feeling the effects of the political violence. This article draws on the literature on conflict and discusses the economic costs of the post-Arab-Spring civil wars in the Levant and to a lesser extent on those in Libya and Yemen.

Economic Effects

The civil wars in the post-Arab-Spring period have been associated with economic collapses in the war-torn countries and significant spillover effects in neighbouring economies. The economic collapses resulted from the decline in the size and skills of labour forces due to death, disability, and displacement, infrastructure and equipment destruction, and productivity losses associated with a host of issues, including increased trade costs, the implementation of war-related restrictions, and the collapse of pre-war business ties. Macroeconomic and political instability spiked, inflation soared, investment plummeted, unemployment and poverty increased and states' abilities to finance public services were severely restricted as governments increased defence spending.

Economic Collapses in War-affected Countries

The post-Arab-Spring civil wars have been more disruptive to economic activity than the majority of past civil wars. Countries' annual real GDP growth tends to slow down by more than 2 percentage points on average during civil conflict (Collier, 1999). Syria's real growth, however, slowed down by about 10 percentage points a year on average between 2011 and 2014 (Ianchovichina and Ivanic, 2016). Yemen's economy contracted in real terms by an estimated 38 percent in 2015[2] and Libya's economy shrunk on

[1] The findings, interpretations and conclusions expressed in this paper are entirely mine and should not be attributed to the International Bank for Reconstruction and Development/World Bank and its affiliated organizations, or those of the Executive Directors of the World Bank or the governments they represent.
[2] Source: Economic Intelligence Unit.

average by around 14% per year between 2013 and 2015.[3] In Iraq, real GDP growth has declined by about 3 percentage points since 2013 (Ianchovichina and Ivanic, 2016).

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The per capita income effects of the civil wars in MENA have also been larger than those presented in the literature. The declines in average annual per capita incomes in Syria and Iraq (Ianchovichina and Ivanic, 2016) have been about 2 percentage points larger than those for a sample of more than a dozen fragile countries (Stewart et al., 2001).

Output Effects in Neighbouring Economies

The direct effects of war in other MENA countries, including Egypt, Lebanon, Jordan and Turkey, have been relatively small and positive in the medium term (Ianchovichina and Ivanic, 2016). The inflow of refugees has boosted consumption of goods and services and labour supply, and therefore the size of these economies. The effect on investment has been mixed. Private investment has increased as some Syrian businesses relocated to neighbouring countries. However, as political violence escalated, risk premiums increased and discouraged investments, particularly those going to sectors affected negatively by the wars (e.g. tourism) (Burger et al. 2015). With limited fiscal space, serious infrastructure gaps, and poor quality public services, the massive inflows of refugees made an already weak situation significantly worse.

Per capita incomes declined on average (Ianchovichina and Ivanic, 2016), but the average welfare effects have not been indicative of the war's distributional effects within countries. Land and business owners have benefited because the arrival of refugees has increased local demand for goods and services, raising prices and rents, and has augmented the labour supply, lowering wages and leaving unskilled workers worse off (Ianchovichina and Ivanic, 2016).

Opportunity Costs Associated with Failed Trade Integration

The direct costs fall short of the true costs of these wars because they put an end to plans for deepening intra-regional trade ties as envisioned by the 'Levant Quartet' agreement in 2010. The negotiations of a regional trade agreement among Turkey, Syria, Jordan and Lebanon were particularly advanced as reflected in the Joint Declaration on Establishing a Close Neighbours Economic and Trade Association Council (CNETAC), signed in July 2010 (Aydin and Yanar, 2011; World Bank, 2014).

If the opportunity costs of these foregone deep trade integration reforms are included, then the total costs of war in terms of economic output nearly double for Syria and Iraq (Ianchovichina and Ivanic, 2016). These reforms would have allowed Syria and Iraq to modernize their economies by improving firms' competitiveness and diversifying production. Although the Levant economies have continued to trade since 2011, the composition of trade has changed considerably. Whereas prior to the war Syria and Iraq imported capital goods such as machinery and equipment, during the war trade shifted towards necessities and other goods in short supply.

Human Capital Erosion

The dramatic decline in the size and skills of the labour forces due to loss of life, disability and displacement in war-affected countries has been a major source of output losses and a major reason for the dramatic decline in life expectancy at birth, particularly in Syria. According to Ianchovichina and Ivanic (2016), death and external displacement accounted for 16% of the decline in Syrian economic output during the first three years of war.

[3] Source: World Bank.

Death Toll

The direct war-related death toll in Syria has been staggering, reaching nearly half a million deaths.[4] In Iraq, the number of war-related deaths started growing rapidly since 2012, doubling each year between 2012 and 2014 and reaching over 17,000 deaths in 2014.[5] In Yemen, several thousand people, many of them civilians, have lost their lives during just one year of fighting.

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The civil wars indirectly led to many nonviolent deaths that could have been prevented in times of peace. A third of deaths could have been prevented in Iraq, for instance, according to Hagopian et al. (2013). Preventable deaths have been associated with a combination of war-related circumstances, including shortages of medical personnel, medications, other essential goods and basic services (e.g., water and electricity), destroyed infrastructure, and war-related transport interruptions (e.g., road blocks), among others.

Forced Displacement

The civil wars in the region have created the most serious forced displacement crisis since the mid-1900s. As many people fled to neighbouring countries in search of safety, the size of the population and the workforce, especially the pool of highly skilled workers, declined substantially in war-affected countries and the concentration of refugees increased significantly in neighbouring countries.

Using data from the UN High Commission for Refugees (UNHCR), the International Organization for Migration (IOM), and other sources, Devarajan and Mottaghi (2016) estimate that close to 20 million people were displaced by the post-Arab-Spring civil wars in the region. The majority of people became internally displaced and moved to safer parts within their countries, but about one-third of the displaced sought refuge in neighbouring countries, and more recently in Europe and beyond.

The bulk of the refugees are located in MENA. Turkey has hosted the largest number of refugees, but the concentration of refugees has been highest in Lebanon. Outside the Levant, a large number of Libyans escaped to Tunisia and many Yemenis sought shelter in Djibouti. As the wars dragged on, a large number of Arab refugees started seeking asylum outside the region, especially in EU member countries.

Deteriorating Living Conditions

The civil wars in MENA have reversed years of development progress in Syria, Yemen, Iraq and Libya, undermining the health and skills of the Arab population and workforce. Millions of people are in need of humanitarian assistance in these four countries and the costs associated with meeting these needs have grown considerably as the wars have intensified during the past couple of years.

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Estimates suggest that the poverty rates in Syria and Yemen surpassed 80% in 2015,[6] but refugees, nearly half of them children, have also had to live in dire conditions. Poverty rates among refugees in Jordan and Lebanon were estimated at around 70% in 2014 (Verme et al., 2015). Since many refugees have not been able to obtain work

[4] Source: The Syrian Center for Policy Research http://scpr-syria.org/.
[5] Source: Iraq Body Count, www.iraqbodycount.org/analysis/numbers/2014/.
[6] Source: UN-backed report by the Syrian Center for Policy Research, *Syria: Alienation and Violence, Impact of the Syria Crisis Report 2014*, www.unrwa.org/sites/default/files/alienation_and_violence_impact_of_the_syria_crisis_in_2014_eng.pdf

permits, they have either remained unemployed and depend on aid or have been working in the informal sector with no protection and on an irregular basis at low wages.

The poor and vulnerable in other countries in the Levant have also suffered as the quality of public services has deteriorated, unemployment increased and real wages declined, especially for unskilled workers. The burden on poor communities in Lebanon and Jordan has been particularly heavy as the majority of refugees relocated to the poorest parts of these countries.

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Jordan and Lebanon's capacity to respond to the refugee crisis has been constrained by their limited fiscal space and long-standing deficiencies in infrastructure and service delivery. The fiscal strain worsened as economic growth weakened relative to growth in the late 2000s and infrastructure deficiencies became more visible in the context of low public investment rates. In Lebanon, for instance, the average public investment rate between 2003 and 2008 was just 2.5% of GDP, the lowest rate in the MENA region (International Monetary Fund, 2010).

Foregone Investments in Human Capital

The wars forced millions of children out of school as many schools were destroyed, closed their doors or were turned into shelters for the internally displaced.[7] Half of these children have lost three years of schooling, while children in the territories occupied by terrorist groups such as the Islamic State of Iraq and Syria (ISIS) have been scarred for life by harsh military training, exposure to violence and ideological indoctrination. In neighbouring countries, many young refugees have been unable to attend school or make academic progress due to overcrowded classrooms, persistent economic hardship or language barriers (e.g. in Turkey).

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Starvation, disease and war-related disability have also affected the well-being of children and their potential to contribute to economic activity in the future. The economic damage associated with these unfortunate developments will be fully evident in the long term when today's children become active labour-market participants. In the short to medium term, the failure to educate young Arabs will translate into frustration and alienation and may have negative consequences for regional stability.

Infrastructure Destruction

Infrastructure destruction has been widespread and severe in war-torn countries, but the associated costs have been difficult to assess due to limited data, restricted and difficult access to damaged sites, the fluid situation, and the deliberate actions of ISIS to destroy priceless archeological monuments. Some estimates suggest that the cost of destroyed infrastructure during the first three years of war in Syria is over $70 billion,[8] with the damage to housing accounting for more than 65% of the total damage (Devarajan and Mottaghi, 2016).

Damage to humanitarian infrastructure has also been severe. According to an assessment done

[7] Source: UNHCR.

[8] Source: Syrian Centre for Policy Research.

by the World Bank, about one third of the hospitals, clinics, and pharmacies in major Syrian cities have been damaged or completely destroyed between 2011 and 2014. The damage to education facilities has been more limited but still significant. Different assessments indicate that about 15% of schools in major Syrian cities sustained damage during the first three years of war. There is a need for careful assessment of the full scope of infrastructure damage and the cost implications for reconstruction.

Concluding Remarks

The post-Arab-Spring civil wars have already inflicted immense pain and destruction on the majority of people in war-torn nations. It is time to stop the violence and work towards peace.

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