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Arab futures: Three scenarios for 2025

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Reports

This report is the outcome of a series of meetings of the Arab Foresight Group, an initiative undertaken by the EU Institute for Security Studies to bring together experts from Europe and the Arab world to develop scenarios for the future of the Middle East and North Africa (MENA) region.

The publication has benefited greatly from the insights and input of the members of the Group: Nadim Abillama, Jamal Abdullah, Khalid Almezaini, Wafa Al-Sayed, Edward Burke, Anas El Gomati, Florence Gaub, Edgar Göll, Alexandra Laban, Wolfgang Mühlberger, Edmund Ratka, Jean-Loup Samaan, Eduard Soler i Lecha, and Stuart Summers.

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FOREWORD

The future? It's complicated. It offers a wide array of possibilities – good, bad, or a combination of both – but, mostly, it catches us by surprise. As did the Arab Spring, the turn of events in post-conflict Libya, and the civil war in Syria, none of which developed quite as we had hoped.

Hope is not, of course, the most logical ingredient when anticipating the future: knowledge and intellect are the main prerequisites to keep strategic surprise to a minimum, but even then our world will remain a place fraught with uncertainty. That a storm of some sort was taking shape in Middle Eastern and North African societies a few years ago was not a secret – exactly how and when it would break out, however, was a mystery.

But uncertainty is no reason to relax and wait for the future to just unfold. Timely and focused policy decisions do have an impact, and the EUISS's task is to contribute to informed decision-making. In this report, three potential futures for the Arab world have been spelled out – and all three hinge entirely on policy-makers' decisions. While there are things we cannot easily change about the future – such as climate change or certain demographic realities – the course of other events and processes can still be influenced: the train might have left the station, but it is up to decision-makers to flip the right switches.

In this sense, this EUISS report seeks to send an optimistic message, as it shows that while a better future in the Middle East and North Africa is not necessarily on the cards, it is nevertheless possible if the right decisions are taken today. The alternative – sitting back and waiting for things to follow their 'natural' course – is simply not an option, neither in the region nor elsewhere.

Paradoxically, even the best foresighting can prove wrong, as it pushes for policies designed to avert the very future(s) it depicts. Indeed, in 2025 we might pick up this publication with amusement because some of its gloomy predictions were so off the mark. We might – and indeed we hope we do.

Antonio Missiroli

Paris, February 2015

'Imagination is more important than knowledge. For knowledge is limited to all we now know and understand, while imagination embraces the entire world, and all there ever will be to know and understand.'

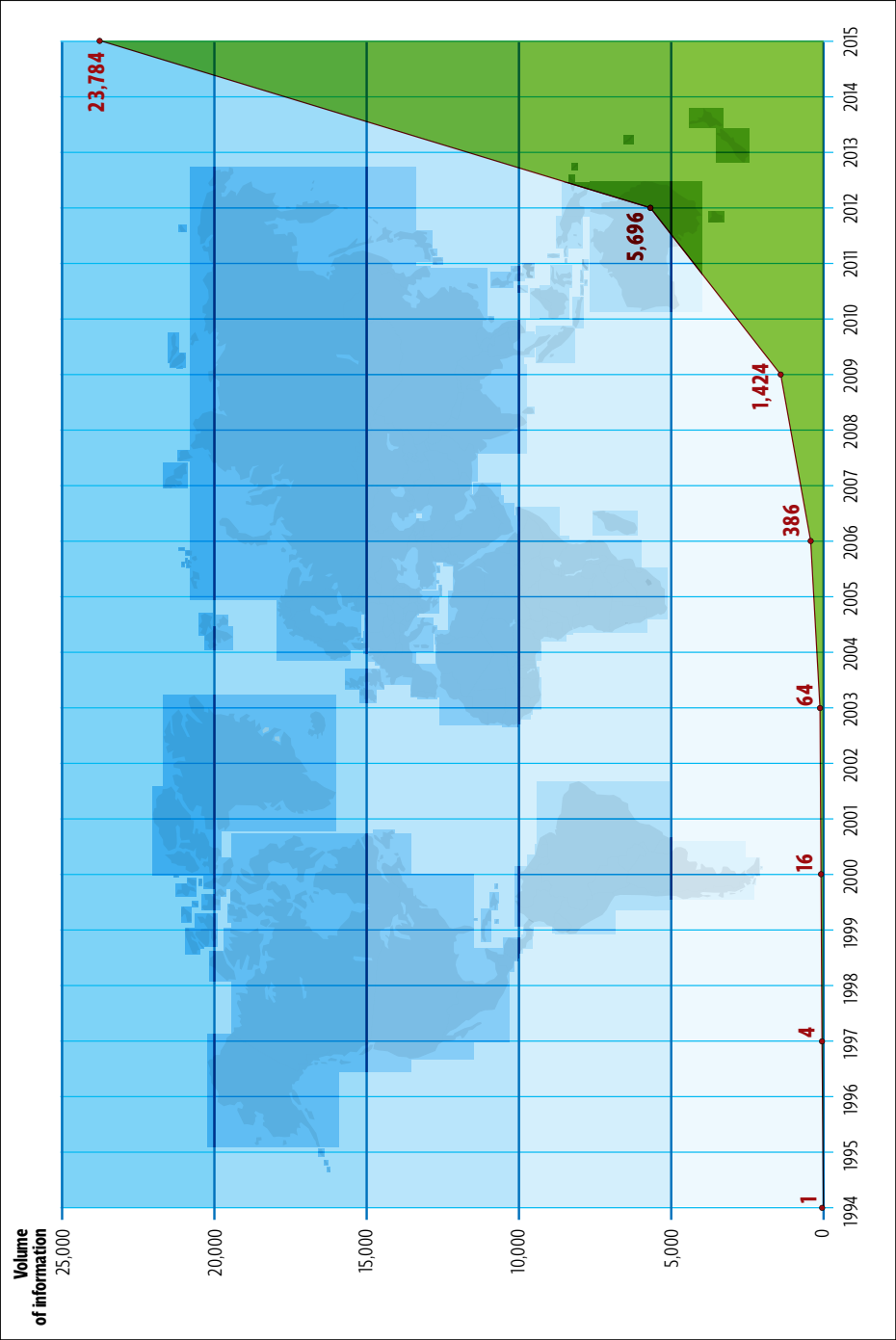
Albert Einstein

INTRODUCTION

Imagining the future is a difficult task; time and again, researchers have struggled to predict major disruptive events such as the Arab Spring, even though in retrospect certain signs of the upheaval to come were discernible. The main problem with forecasting the future is therefore not that it does not make sense in hindsight, but that there are simply too many dynamics at play simultaneously for us to understand their implications. Simply put, there are always several futures possible at any given time. In the twenty-first century, this challenge is particularly difficult because the amount of available information is growing exponentially at a time when the world is becoming ever more interdependent and connected.

What future studies seek to do is to reduce the element of surprise: they narrow the many possible futures down to those scenarios that are probable or indeed preferable, and thereby provide policy-makers with options to shape the future in a certain way. Once we have imagined a certain situation, we can anticipate not only responses but also mould our choices accordingly. Just imagining will therefore reduce the surprise element. However, future studies can never claim to accurately *predict* a certain future. Potential futures can be narrowed down to four types: *possible* futures are all those that are imaginable and therefore unlimited as they involve knowledge we do not yet possess (e.g. on how to travel in time); *plausible* futures are those which could happen according to our current knowledge, and hence are built on information rather than speculation; *probable* futures are those which are likely to happen, as they are in part the result of current trends and therefore linear extensions of the present time. A fourth type, *preferable* futures, could fall into any of the former three categories: predicated on value judgments rather than knowledge, preferable future scenarios are based on normative predictions and optimising the likelihood of such evolutions materialising. One example would be the Apollo moon landing: begun as President Kennedy's preferred and possible, but not plausible, future, his vision laid the groundwork for the creation of knowledge and expertise necessary to realise it. Futures are in large part shaped by choices, and thinking creatively about them helps to crystallise the different options.

Figure 1. Amount of information in the world, doubling every 18 months



Source for data: John Petersen, *Out of the Blue: Wild Cards and Other Big Future Surprises: how to anticipate and respond to profound change* (Arlington Institute, 1997)

This report is the outcome of three sessions that convened a group of experts, the Arab Foresight Group, during 2014. It takes into account projections made by a wide array of organisations and is based to the maximum extent possible on available data (referenced in the bibliography in the annex, pp. 50-51). It reduces speculation to a bare minimum, and identifies the relative certainties or *megatrends* which concern the Middle East region and which are not likely to change over the next decade; perhaps more importantly, it also identifies six *game-changers*: those **areas where policy-makers will influence the course of events by their choices**. Depending on these choices, three probable scenarios have been hypothesised for the year 2025. All assumptions and extrapolations are based on what the expert group considered both probable and plausible.

Scenarios are, in futurology, not only a description of possible future situations but also of the pathways leading there; they are useful as not only do they flesh out a possible future, but they reduce speculation because they come with an explanation of how the projected future came about. By default, scenarios focus on deliberately chosen key factors while excluding others. All three scenarios are equally likely: in fact, believing that one projection has more chances of materialising than another will lead to an inbuilt pessimism or optimism bias which in return will influence policy decisions. Research shows that economic forecasts are notoriously optimistic, which in the long run can have adverse consequences by incurring delays in the implementation of necessary reforms; regional experts in turn tend to view future evolutions generally negatively based on past experience, leading to a pessimistic, indeed often almost nihilistic, perspective.

The three scenarios are extrapolations of the current situation: in 2015, the Arab world is undergoing its third systemic shock since 2011, and is facing several severe challenges. The turmoil which took the world by surprise in 2011, while it began in the domestic arena, has since developed complex regional ramifications. Since then, the domestic focus of concern has moved from economics to security, which is rapidly imploding across the region. **Domestic politics have therefore moved from a reform to a security agenda**, ignoring the fact that economic issues were one of the driving factors that led to the upheaval of 2011. While security forces are over-stretched everywhere, **defence budgets are rising across the region**. The security vacuums which have opened up in the wake of the events of 2011 (ranging from Lebanon to Iraq and Syria, the Egyptian Sinai, Algeria's south and mountains, Tunisia's mountains and Libya) have expanded, while illicit networks present there have grown into full-scale jihadi organisations – sometimes cooperating with one another, sometimes not. There has been an alarming rise in terrorism across the region, often combated by the armed forces rather than by intelligence and internal security services. This reinforces the political role of the military, while a series of new terrorism laws conflates political opposition with terrorist activity. Security Sector Reform has been postponed virtually everywhere.

The domestic problems and crises of the Arab states have thus spilled into the regional level and exacerbated pre-existing tensions. The **antagonism between Iran and the Gulf States** echoes through the Egyptian political landscape, where Morsi is accused of a conspiracy against Egypt along with Hamas and Iran. Across the region, the Muslim Brotherhood, Hamas, Hezbollah, Iran, Turkey and Qatar (whose foreign policy seemed to be under review at the time of writing) are now pitted against the conservative alliance led by Saudi Arabia, the United Arab Emirates (UAE) and Egypt. The latter has largely abdicated its role as a dynamic foreign policy player, taking a back seat rather than engaging constructively in present-day politics, while regional politics have entered a '**Gulf moment**'. Whether this is the result of a power vacuum or a 'push moment' is not clear. In any case, Gulf States have moved from being foreign policy observers to makers (e.g. Qatar), but disagree among each other on objectives and instruments. Palestine, although traditionally at the heart of regional politics, had been put on the backburner until the Gaza war in the summer of 2014; nevertheless, the crisis there is dwarfed by other ongoing events such as the takeover by the Islamic State of Iraq and the Levant (ISIL) of whole regions in Iraq and Syria, and the implosion of Libya – both of which have triggered a regional response.

The region remains highly challenged in economic terms: in 2012, Arab GDP per capita was below the world average of \$11,975 at \$7,981 and, while very wide disparities exist across the region (Yemen's GDP per capita stands at \$2,283, while Qatar's is \$102,211), it clearly faces serious difficulties in terms of wealth creation and distribution.

With the proliferation of conflict in the region, parallel economic systems have established themselves which fuel the ongoing cycle of violence. Syria has evolved from a state beset by economic problems to a full-blown **war economy**: having struggled with several economic issues before the war – including a years-long drought, hikes in food prices and stalled reforms to introduce a market economy – it is now crippled by destroyed infrastructure and a chaotic environment that deters potential investors. In terms of the Human Development Index, today Syria is back where it was 37 years ago; and even at a very optimistic growth rate of 5% a year it would take Syria 30 years to return to its 2010 GDP value. But Syria is only one example among several of economies damaged by a gaping security vacuum; elsewhere, such as in Libya or Iraq, insecurity has contributed to stifled economic activity, the emergence of shadow economies and discouragement of foreign investment. Not surprisingly, the Middle East and North Africa (MENA) is one of the regions in the world with the lowest rate of foreign direct investment (FDI); the effective cost of conflict (the actual financial cost in addition to the loss of economic opportunities incurred) in the region since 1948 has been estimated at \$12 trillion.

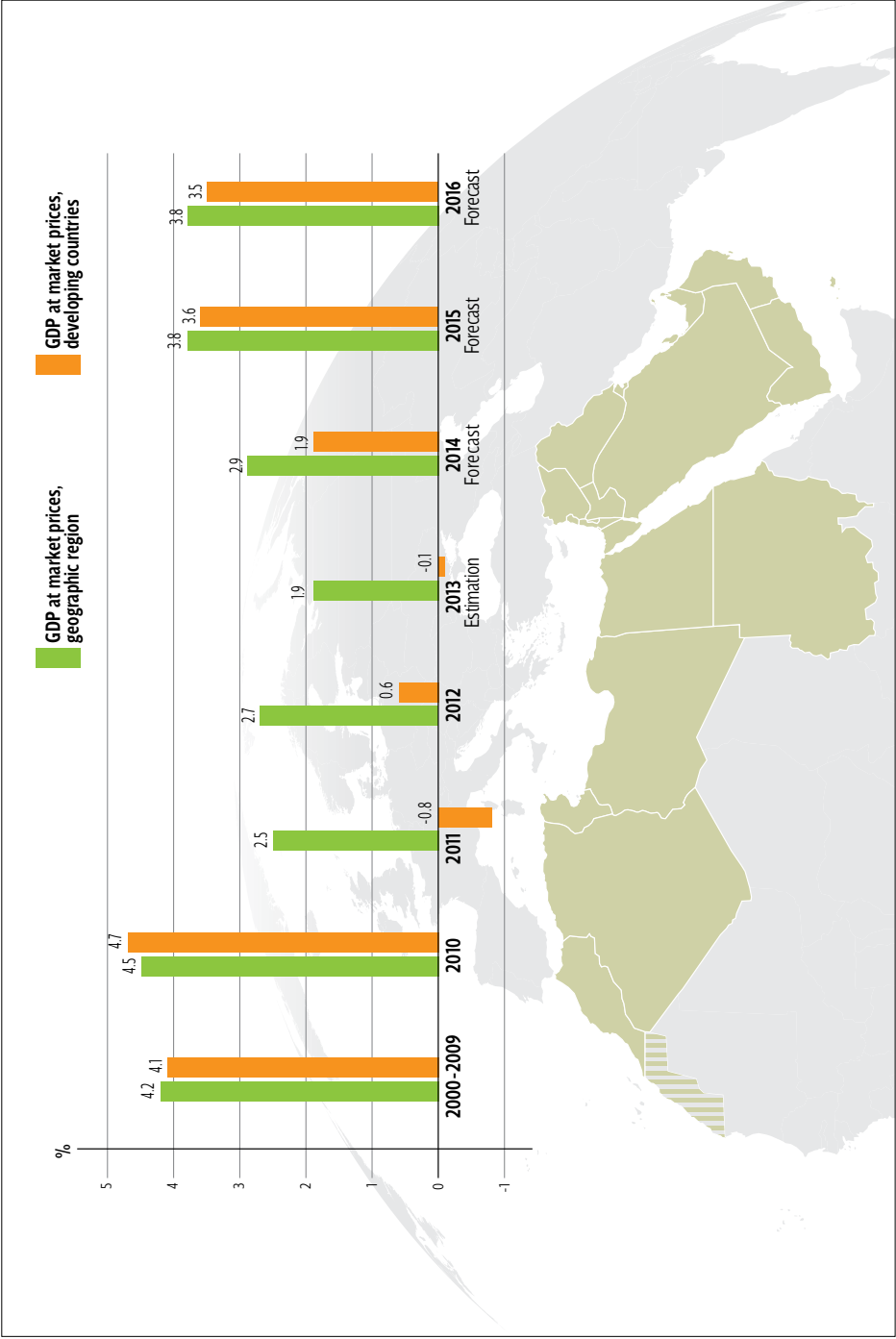
The **struggling economies** of the region – such as Egypt and Libya – are the outcome of several conflated developments, ranging from corruption to delayed reforms, low foreign direct investment, crony capitalism, and lack of resources. The urgent need for reform needs to be addressed in the context of a deteriorated business environment,

an evolving shadow economy, rising unemployment (especially among young people, where it stands at 25%) and food prices. In addition, the events of 2011 have created heightened expectations among the population which governments will find it difficult to match. But even **rentier economies** are struggling because of insecurity. Oil output has decreased throughout 2013 and 2014 in Syria, Iraq, Libya and Yemen, while Saudi Arabia, Qatar and the United Arab Emirates have increased their social spending significantly. Meanwhile, projections foresee a tightening of the global oil market thanks to an increase in unconventional oil production in the United States and weak global demand.

All Arab states struggle with national identity – as highlighted by the ongoing debate on the disappearance of the Sykes-Picot states – as the main political ideologies are regional rather than national, and implicitly seek the abolition of the Arab state as such. The different forms of Islamism or Arabism **reject the regional state system as it is and seek to establish a larger pan-Arab state**: both ideologies are infused with sectarianism, used by states and local groups alike, as it promotes either Arabs over non-Arabs (such as Kurds, Israelis or Iranians) or one type of Islam over another. Although the 2011 uprisings initially had a strong Arabist dimension, this has now given way to a militant Islamist rhetoric.

Three distinct currents of political Islam have come to prominence in the aftermath of the Arab Spring, although these did not originally drive the events of 2011: *electoral Islamism* which is represented by Hamas, Ennahda and the Muslim Brotherhood (and supported by Qatar and Turkey); *authoritarian Islamism* represented by Saudi Arabia and its allies; and *revolutionary Islamism* represented by groups such as ISIL, al-Qaeda, Beit al-Maqdis and Jabhat al-Nusra. All three camps are entangled in a regional zero-sum game played out at the domestic level. Political elites struggle with the current situation; **all political parties – old and new – have failed to offer sound strategies on how to reform**, instead producing wishlists and slogans. So-called Arab liberal parties have begun to engage in decidedly illiberal behaviour, whereas the Arab left has not managed to deliver on the strong demands for social justice. Young people, the mainspring of the 2011 events, have not managed to capitalise on the momentum of the Arab Spring either, and have been left largely excluded and disillusioned.

Figure 2. GDP Forecast – Middle East and North Africa



Source for data: The World Bank, *Global Economic Prospects*, 'Middle East and North Africa', January 2015.

I. MEGATRENDS

Larger trends that are unlikely to be countered or turned around in the projected timeframe are called megatrends; they define the ‘possibility-space’ of the future.

The population in the Arab world will continue to grow. Standing at 357 million inhabitants in 2015, it will increase to 468 million in 2025. Even though a slowdown in demographic growth is predicted, the regional total fertility rate average (or the average number of children per woman) is expected to remain higher in Arab countries at 3.1 than the world average of 2.7 for the period 2015-2020. Even if fertility rates were to fall rapidly, population growth will persist. Owing to the prevalence of high fertility in the recent past, a large percentage of the population in most of the countries is young (usually defined by the age cohort 15–30).

This coincides with a second trend, **urbanisation**. In 2015, over 56% of Arab citizens reside in cities, and this proportion is forecast to reach 61.4% in 2020. This trend – which is in line with patterns in the rest of the world – is expected to stall from then onwards. The main drivers for rural exodus within the Arab world are the concentration of economic activities within cities, migration to oil-rich countries, drought and conflict. This migration influx is important because Arab cities lack the infrastructure and resources to accommodate the incoming rural populations, and the phenomenon therefore harbours some potential for friction.

The effects of global warming and **climate change** have already started to impact on Arab societies on various levels. The Mediterranean region in particular is identified as one of the main climate change hotspots. Nevertheless, the issue is not a priority for most Arab governments today. Climate change threats in the Arab world are threefold: global warming and desertification, scarcity of resources and the rise in sea levels. In 2007, the International Panel on Climate Change (IPCC) projected an increase in temperature of up to 2°C in 2025 for the Southern Mediterranean: this is expected to contribute to increased aridity, lower soil humidity, higher evaporation–transpiration rates and shifts in seasonal rainfall patterns. Already one of the most water-poor regions in the world, the MENA region will be hit particularly hard. Even though the GCC countries have invested in water desalination in an attempt to palliate water shortages, other Arab countries have an annual *per capita* share of renewable water resources that falls below the water poverty line.

Another impact of climate change includes sea level rise (SLR). The IPCC predicts a rise of 0.1m to 0.3m by 2050, with significant impact in the Southern Mediterranean due to low-lying coastal areas in countries such as Egypt, Morocco, Algeria, Tunisia and Libya. This is made worse by the fact that coastal zones have one of the highest population densities in the Mediterranean area. For example, Egypt is considered

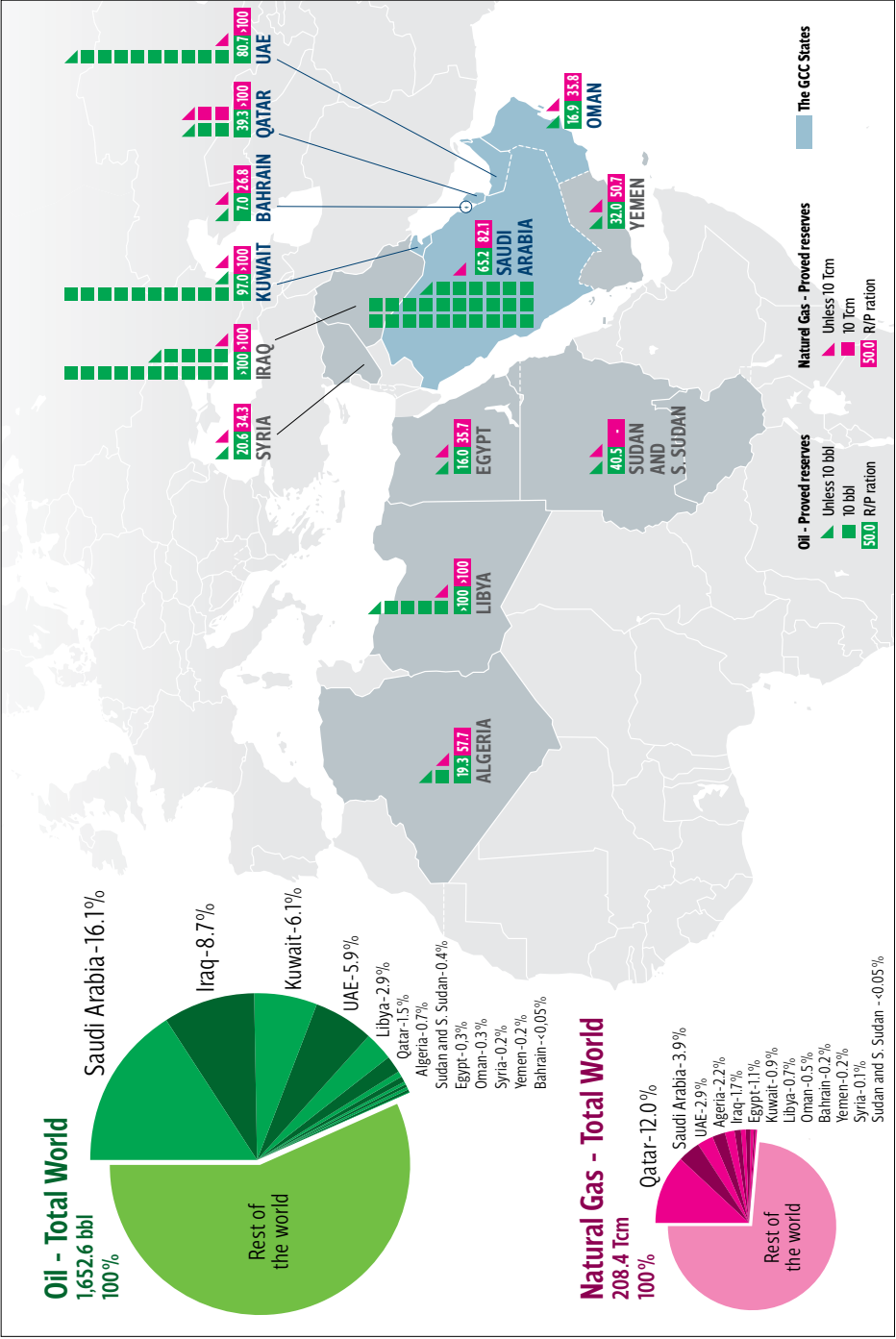
one of the top 5 countries in the world expected to be at risk from a 1-metre SLR, and the city of Alexandria is projected to potentially disappear altogether.

Projected megatrends	
Demography	Arab world will grow from 357 million inhabitants to 468 million in spite of falling fertility rates
Urbanisation	The share of Arab citizens living in cities will increase from 56% to over 61%
Climate change	Climate change will hit the Arab world particularly hard, as it exacerbates already acute challenges of water shortages and desertification, as well as scarcity of resources. In addition, a rise in sea levels will directly affect the densely populated coastal areas
Energy	Oil-producing Arab states will continue to rely on the hydrocarbon sector for their economies, as global demand is projected to increase
Food prices	Arab states all import food, and will continue to be vulnerable to spikes in food prices
Literacy rates	Literacy is expected to continue to increase, reaching a level of up to 90% in 2025
Internet penetration	Access to the World Wide Web is expected to rise from 25% to 50%
Gender equality	Although progress is slow, the number of women in politics and business is increasing steadily
Game changers	
Youth unemployment	Will Arab states take the necessary measures to reduce current levels of unemployment?
Dependence on volatile food prices	Will Arab states be able to mitigate the potentially disruptive effect of food price volatility?

Insecurity	Will Arab states be able to contain or defeat terrorism and tackle insecurity – and at what cost?
Regional spillover	Will those states currently containing insecurity be able to shield themselves from larger spaces of insecurity in Syria, Libya and Iraq? How will Arab states react if Iran goes nuclear?
Democratic change	Will the Tunisian example create ripple effects in the region? Will Tunisia's successful democratisation create incentives for more demonstrations, or will the defeat of the democratisation project allow for more repression?
Inclusiveness	Will political Islam become an integrated force, or will it be repressed, and if so how will it react?
Potential futures	
The Arab Simmer	In this most plausible scenario, economic and political issues are managed rather than resolved, leading to protracted unrest and instability
The Arab Implosion	In the most plausible worst-case scenario, Arab states fail to address the main economic issues as they focus on security only; as a result, popular discontent becomes even more pronounced, leading to large-scale disruption
The Arab Leap	Recognising the urgent necessity for reform, Arab states implement large-scale reforms which lead ultimately to an economic recovery. The groundwork for a brighter future is laid.

In 2025, there will be no incentive for oil-producing Arab states to reform as they will still have access to income from **petroleum and gas resources** although production will run into diminishing returns. Arab countries hold the biggest proven reserves of oil in the world, with 43%, as well as considerable reserves of natural gas, more than a quarter of the world's total proven gas reserves. This trend of relying on energy resources will be fostered by a 41% increase in the primary energy demand between 2012 and 2035. Gas demand will rise by 50% by 2035, while oil demand will reach 99.7 mb/d in 2035, up from 87.4 mb/d in 2011. 95% of projected demand growth will come from non-OECD countries, with China and India in the lead for global energy consumption.

Figure 3. Proved oil and gas reserves in the Arab economies at the end of the 2020s



Sources for data: Bassam Fattouh and Laura El-Katiri, 'Energy and Arab Economic Development', Arab Human Development Report Research Paper Series, 2012; International Energy Agency (IEA), *World Energy Outlook 2012* (2012).

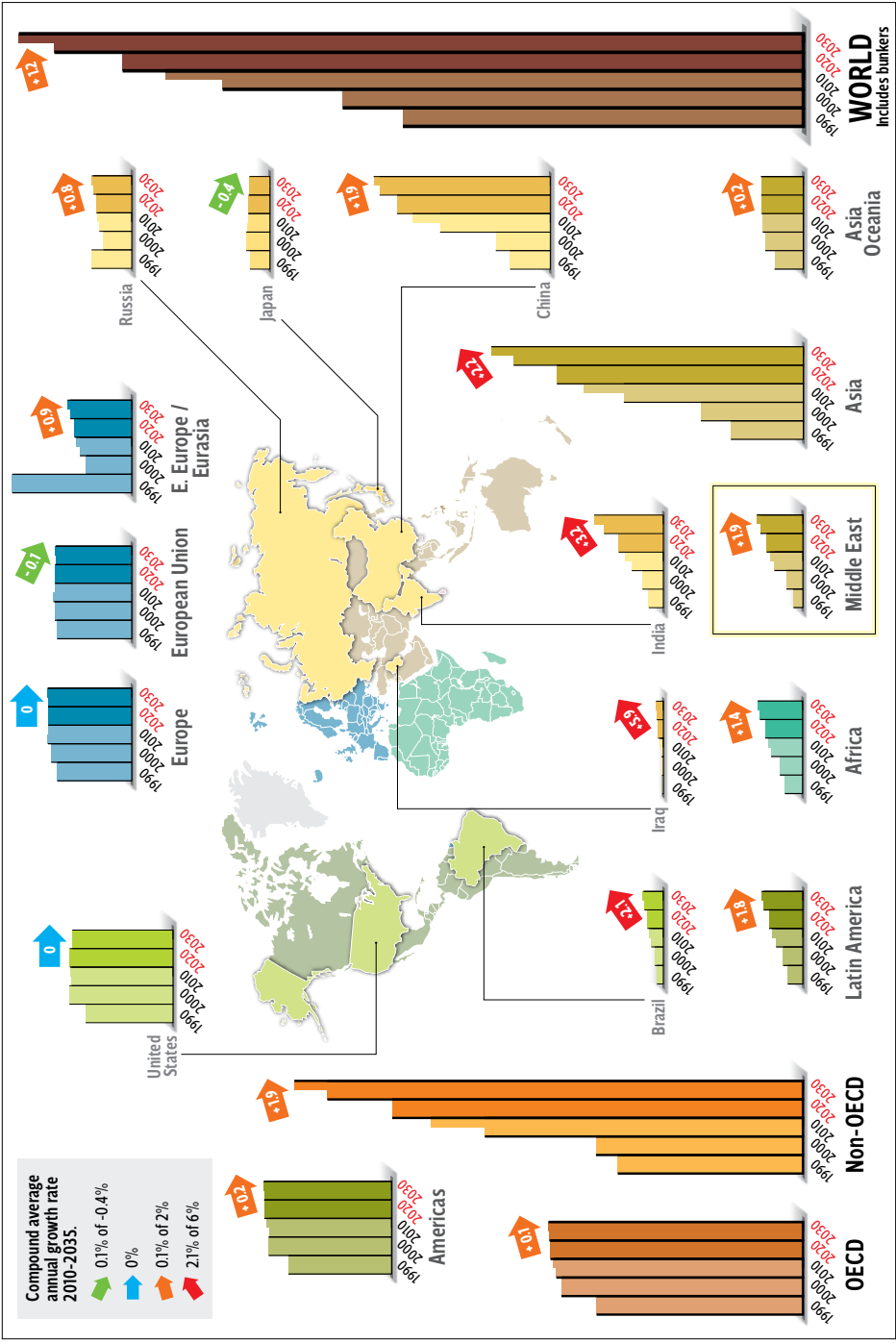
The main shift is already visible, as Arab oil and gas increasingly cater for Asia-Pacific markets. Moreover, energy demand in the Middle East will also continue to grow at a rate of 1.9% per year on average between 2010 and 2035, underpinned by an expanding population, rising incomes, rapid development and heavy subsidies for fossil fuels. Although its potential ramifications in the Middle East are stalled for the moment, the Nabucco pipeline project would reinforce the integration of Arab energy producers on the international market.

The implications of discovery and exploitation of unconventional gas (or shale gas) are twofold. First, some Arab countries, such as Algeria and Libya, are identified as promising shale gas producers by the IEA's *Medium-Term Gas Market Report 2013*. Algeria ranks third in the world in terms of shale gas reserves, with an estimate of 707 trillion cubic feet, and is already the second largest natural gas supplier to Europe. However, extraction of shale gas in Algeria and Libya before 2018 is unlikely due to the lack of proper investment frameworks and infrastructure, which have an exploitation cost 4 to 5 times higher than that of conventional gas, as well as an unstable geopolitical environment. Second, the North American 'shale revolution' is a significant development by virtue of which the subcontinent is becoming increasingly self-sufficient in terms of energy production due to the discovery of considerable unconventional gas fields in the United States, Canada and, to a lesser extent, Mexico. This major development could imply that the United States might potentially lose interest in the Arab Gulf countries as sources of energy production. But as the United States has been reducing its imports from the Middle East since the oil crises of the 1970s, well before the 'shale revolution', the US had already stopped importing strategically relevant amounts from the Gulf.

Overall oil and gas prices remain volatile even if the long-term trend is a steady increase. The current shortage and consequent increase in prices is however not the result of short-term shocks, such as war and revolution, but rather of the spike in Asian oil consumption – itself countered by the increase in supply through shale oil production.

Food prices and energy prices are highly correlated especially in food-importing countries such as the Arab ones. The agri-food chain is highly energy-intensive throughout all stages of production, post-harvesting, food storage and processing, transport and distribution, as well as food preparation. Consequently, spikes in oil prices trickle down to the food price. Arab countries are particularly vulnerable to this, as they have ceased producing enough for their own consumption, and rely entirely on food imports. In 2014, agriculture only represented 3% of the region's GDP and the manufacturing industry remains weak. Critically, Arab states are the highest food subsidisers in the world, spending on average 5.8% of their GDP on food subsidies, but these are considered ineffective as they do not benefit the poorest sections of society.

Figure 4. World primary energy demand by region in the new policies scenario (Mtoe)



Source for data: International Energy Agency (IEA), World Energy Outlook 2013 (2013).

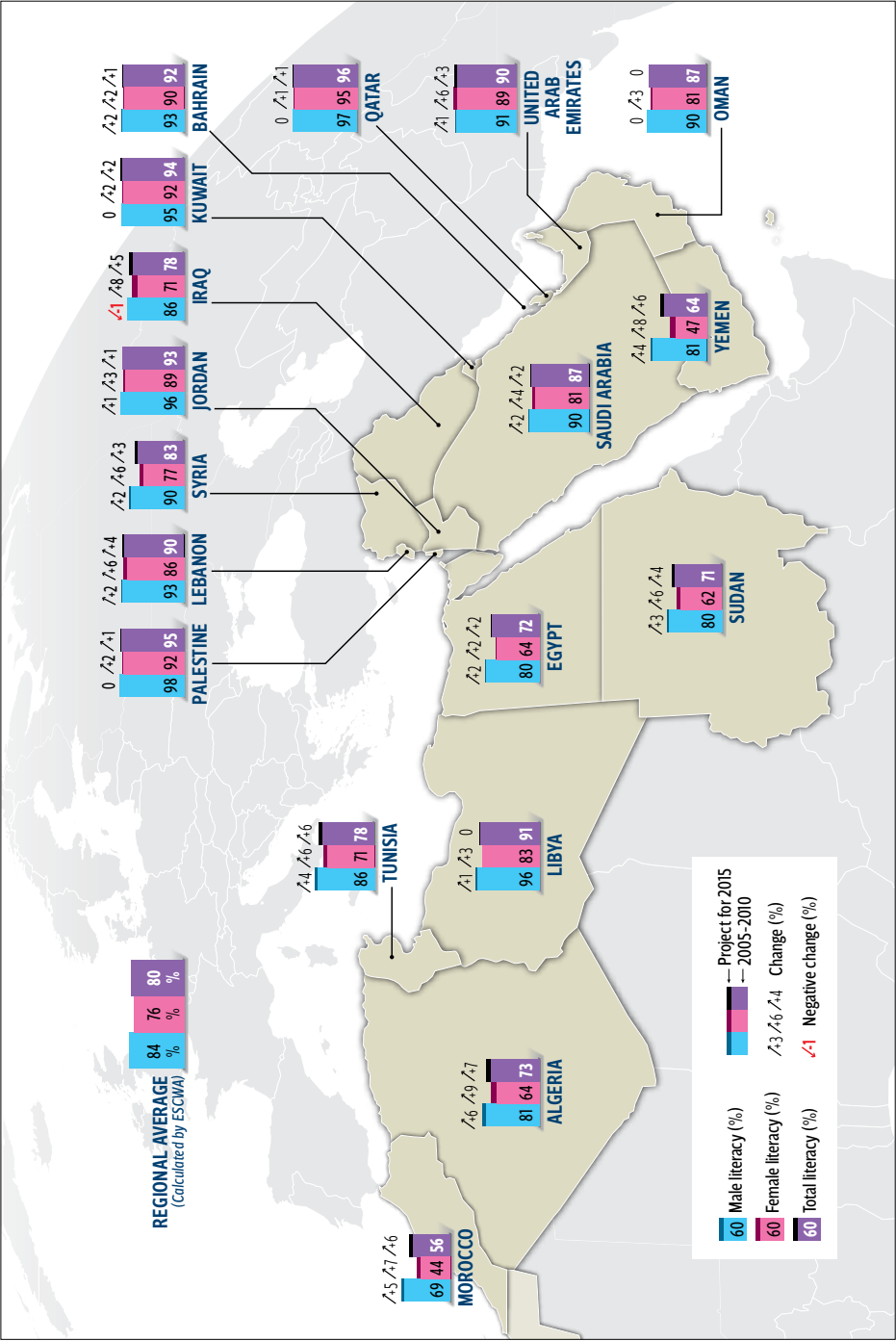
On a more positive note, **literacy rates** are projected to improve over the coming decade. From 55% in 1990, the rate of literacy in the region has increased to 77% in 2011, and to 90% among the younger generation. However, as a result of population growth, the actual number of illiterate adults has only fallen from 52 million to 48 million. Moreover, in some countries, adult female literacy remains relatively low compared to the world average.

In part, this reflects the uneven outcome of Education For All (EFA), a commitment to provide quality basic education for all children, youth and adults made in 2000 by all Arab governments. Six goals were identified and had to be met by 2015 by all participating countries. So far, only Bahrain and Kuwait are expected to achieve universal primary education, gender parity and to halve the adult illiteracy rate by 2015. Other countries will miss one of the goals: Qatar will fail to meet the gender goal; Egypt, Jordan, Syria and the UAE the literacy goal; Oman will miss universal primary education. Five other countries will achieve only universal primary education: Algeria, Iraq, Lebanon, Morocco, Saudi Arabia and Tunisia. Three countries will not even achieve one of the EFA time-bound goals: Djibouti, Sudan and Yemen. Inadequate investment in education impedes the creation of ‘tomorrow’s jobs’ that require more advanced skills. Progressive investments in education made today will reap large benefits in the future.

The Arab world lags behind the rest of the world in terms of **internet penetration**, with 25% of people having access to the internet – although wide disparities exist across the region. By 2025, this figure is expected to increase to possibly reach 50%. In 2012-2013, major changes have been observed in the internet usage patterns in the Arab region: social media, e-transactions and e-commerce have gained significant momentum throughout the region after the Arab uprisings. 53 million users are active on social media platforms, out of the total number of 125 million internet users. It is hoped that increased access to the internet will foster the development of Arab knowledge societies.

Progress is expected also when it comes to **gender equality**, even though substantial challenges persist in the region overall. However, despite their reservations on the subject of equal rights for women, all Arab states except Sudan ultimately ratified the Convention on the Elimination of All Forms of Discrimination Against Women. Some significant progress has been achieved in the past few years: Algeria, Jordan, Morocco and Tunisia have introduced parliamentary quotas for women in their national electoral laws, and the number of women actively involved in business and politics is slowly but progressively increasing.

Figure 5. Adult literacy in selected Arab countries



Source for data: UNESCO, *Education For All: Regional Report 2012 for Arab States* (2012).

II. GAME CHANGERS: WHERE DO WE GO FROM HERE?

In future studies, game changers are events or circumstances which will not only have a disproportionate influence on the future, but are also accompanied by uncertainty regarding which direction will be taken. This has to do with the fact that there are several options, several actors influencing the specific event or circumstance and several linkages to other shifting areas. Narrowing down these scenarios to relative certainty is therefore simply not possible. Game changers are formulated as questions because there is uncertainty over their evolution.

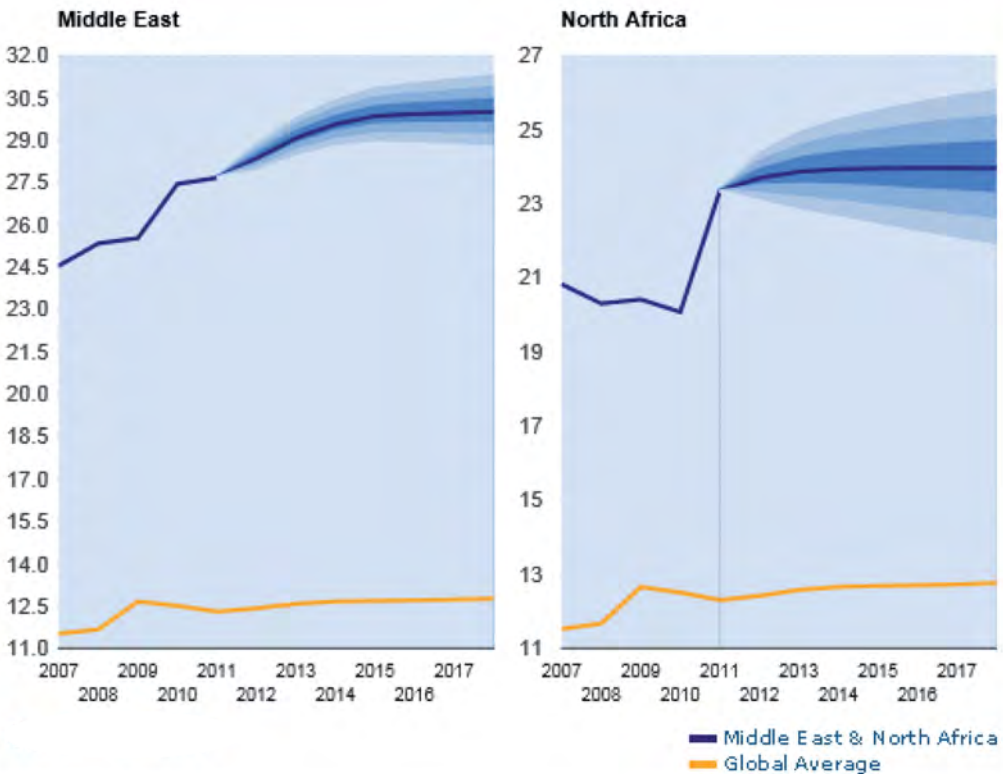
Perhaps the most important game changer is **youth unemployment**. The Middle East and North Africa has the highest rate of unemployment in the world, with unemployment figures hovering steadily around 10% across the region – more importantly, it also has by far the highest rate of youth unemployment in the world.

In spite of reform rhetoric, the issue has grown worse since 2011. While youth unemployment in the Middle East stood at 26% in 2011, it stood at 27.9% in 2014, and is expected to rise to 28.6% by 2018. In North Africa, it stood at 28.1% in 2011 and is expected to increase to 29.5% by 2018 – both projections based on the by no means certain assumption that the Middle East's GDP will continue to grow by around 4% a year, and North Africa's by 4.5%. But although Arab states' GDPs grew relatively stable in the last decade, this has not led to job creation and poverty reduction. The phenomenon cuts across both oil-exporting and oil-importing states: Saudi Arabia's youth unemployment rate for instance stands at 28.3%, whereas Yemen's is 53%. Although unemployment used to be concentrated in pockets of unskilled labour, it is particularly high among university graduates in the Arab world, where 45% of graduates are unemployed in Jordan, 43% in Saudi Arabia, and 30% in Lebanon.

A youth bulge – a high proportion of the population aged under 30 – does not necessarily translate into a social problem. It can act as a spur to economic development (a phenomenon referred to as the 'demographic dividend'), or it can turn into a demographic bomb if the labour market cannot absorb the young jobseekers. In this case, unemployment shifts from a purely social or economic issue into a security concern. The correlation between unrest and conflict on the one hand and high unemployment rates in the 15 to 30 age bracket is undeniable: 80% of civil conflicts that occurred between 1970 and 1999 broke out in countries where 60% of the population were under the age of 30 – and unemployed. Statistics show that every percentage point increase in the youth population magnifies the risk of conflict for a given state by 4%. Where young people make up more than 35% of the adult population, the risk of conflict is even 150% higher – especially for terrorism. Recent studies confirm that states with large numbers of young unemployed males present a significantly higher risk for terrorist activities. All of these factors apply to the Arab

world, which dangerously combines high fertility rates, urbanisation, and youth unemployment (in particular among the highly educated). **Youth unemployment poses a real security challenge for Arab states; will they be able to tackle it by 2025?** In contrast to other areas, such as demography or climate change, unemployment is an area where improvements are possible fairly quickly – if the context is right and if adequate policy decisions are taken. The room for manoeuvring is restricted for some of the Arab states in this regard: job-stimulating policies usually require deepening fiscal deficits that are already high in states such as Egypt.

Figure 6. Youth unemployment rate



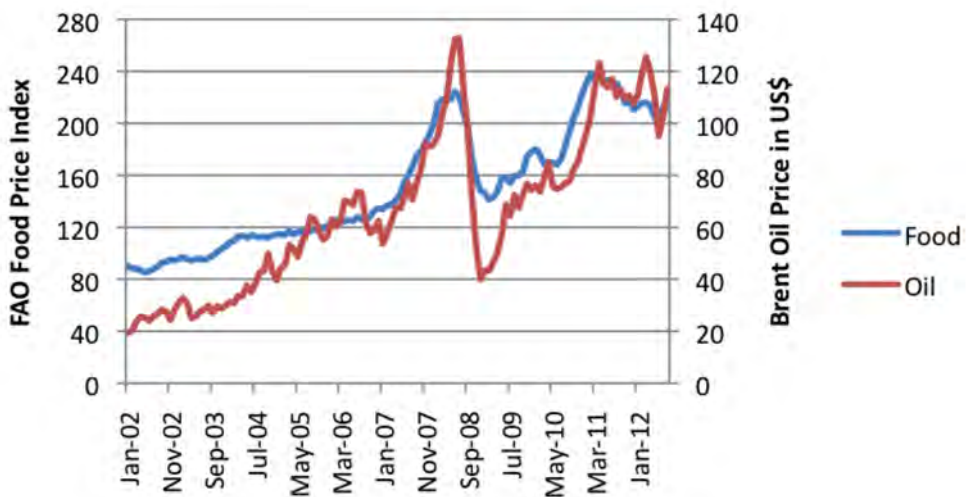
Source: International Labour Organisation (ILO), *Youth unemployment rate estimates and projections by region 2007-2017*, 2013. (Figures expressed in percentages).

Arab states are not only challenged on the labour market, but also on the food market. Although Arab economies are highly agricultural in nature, expanding populations have led to large **food import dependence**, in particular on wheat. Today, most Arab states are food importers, and display a high degree of vulnerability to food prices – prices which are volatile and directly related to the global oil price: food prices increase by 1% when the oil price increases by 2%. High food prices affect the poorest sections

of society and can have, in societies with high degrees of poverty, severely disruptive effects such as bread riots and mass demonstrations.

Although it is true that food price volatility, as well as high prices, are projected to continue, Arab states are not doomed to accept this volatility; mechanisms do exist to mitigate its impact, such as establishing an early food price warning system, lowering the food price through the improvement of logistics efficiency, reducing import dependency by using modern technology in national agriculture or absorbing price shocks through the establishment of trade control and buffer stocks. So far, only Tunisia, Jordan and Bahrain have introduced such measures to decrease food price dependency. **Will Arab states manage to mitigate the potentially disruptive effect of food price volatility (in particular in the light of climate change) by taking appropriate measures?**

Figure 7. Comparison of food and oil prices



Source: *Our Finite World* (Gail Tverberg, 2012).

Both unemployment and high food price volatility exacerbate an already existing problem in the Arab world, that of domestic **insecurity**. Security vacuums in Libya, Algeria's south, Egypt's Sinai, Syria, and Iraq have resulted first in the resurgence of Islamist terrorism, but have had other repercussions too. Criminal networks have expanded as well, whose activities range from kidnappings to human trafficking; all of these have consequences not only in terms of security but also the economy. Almost all Arab states have increased their defence budgets in a time of shrinking economies, diverting resources from other important reforms. Insecurity also deters tourism and

foreign direct investment. Tackling security challenges is one of the main challenges Arab states face today, but they have different options available to them on how to do this – some of which will create perhaps even more insecurity. Although **Security Sector Reform** is currently put on the backburner by most Arab states fighting one type of insecurity or another, its implementation could change the course of events – if Arab states chose to engage in it. In this light, **will Arab states be able to tackle criminal security and defeat terrorism?** In the case of Libya and Syria, the question is even more basic: will one actor be able to assert its control over the territory within the next decade and bring about lasting stability?

Insecurity is a concern also at the regional level: the implosion of Libya, Iraq and Syria is threatening to drag their immediate neighbours Algeria, Tunisia, Lebanon and Jordan into their orbit of instability – **will these states be able to withstand or contain the effects of neighbouring insecurity?** Should **Iran go nuclear** in the next decade, the immediate effect on the region would be an empowerment of its regional allies such as Hamas, Hizbullah and the Syrian regime: it is expected that sectarianism, already on the rise, would increase further although this phenomenon would remain limited to the Gulf and the Middle East.

At the political level, most Arab Spring states have either reverted to the previous system or are still struggling to establish a new one. The only successful case so far is Tunisia. Although its transition cannot be considered complete at this point, it is expected that by 2025 it will either have settled into democracy or reverted to an authoritarian system. In both cases the question is, **will the Tunisian example have ripple effects on the region and either stall, or re-launch, the quest for democracy, leading perhaps to more unrest?** Related to this is the question of electoral Islamism, in particular the Muslim Brotherhood and its regional affiliates Hamas and Ennahda. Will Ennahda continue to play a decisive role in Tunisian politics and if so what **regional implications will this have for electoral Islamism elsewhere**, in particular where the Muslim Brotherhood have been banned as a terrorist organisation (i.e. Egypt, Saudi Arabia, and the United Arab Emirates)?

III. POTENTIAL FUTURES IN 2025

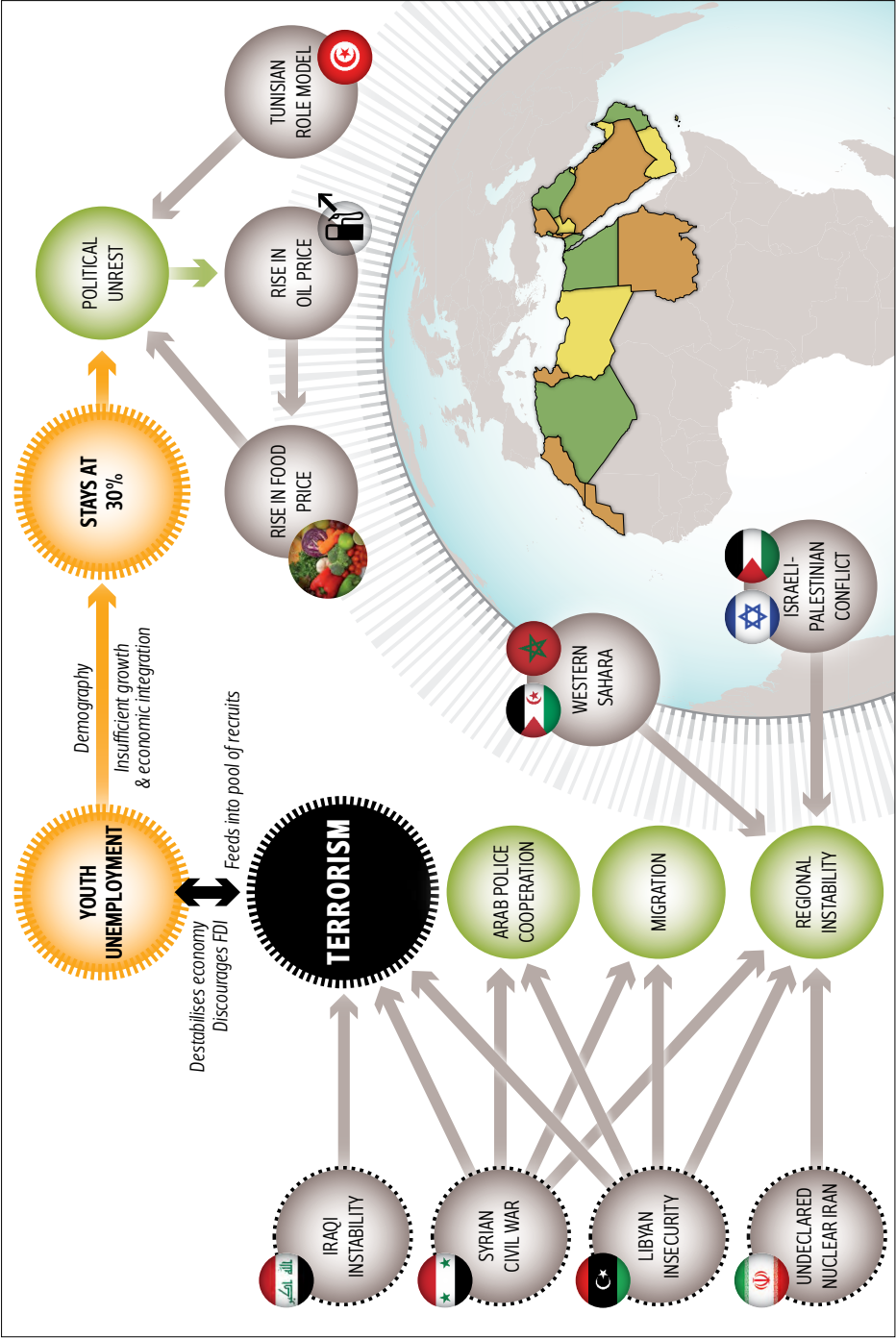
This chapter outlines three contrasting scenarios for the Arab world in 2025. These are set in the future and outline three potential end states. They take into account those megatrends which are unlikely to change, and develop three different ways in which policy-makers can respond to the crises that beset the MENA region in 2015. In the first scenario, the ‘Arab Simmer’, Arab states reform but not sufficiently to turn things around. In the second scenario, the ‘Arab Implosion’, Arab states fail to address the burning issues, whereas in the third, the ‘Arab Leap’, they manage to reform in a sustainable manner.

1. The Arab Simmer

Arab states in 2025 face severe challenges in terms of youth unemployment, demands for more political participation, and an endemic terrorist threat. Although contained, the spectre of terrorism keeps the region stuck in a conflict trap where reform is eternally postponed for security reasons, thereby continuously feeding into the pool of violence. Protracted conflicts and extended violence in Syria, Lebanon, Israel, Iraq, Yemen, Egypt, Libya and Western Sahara obstruct not only regional integration but economic development for the region at large. In many ways, the region has lost a decade as no progress has been made in terms of eradicating violence and restoring stability – although a total meltdown has been avoided.

Youth unemployment, a main driver of unrest in 2011, now stands at 30% as a simple result of demographic developments and the fact that labour markets are incapable of absorbing jobseekers, especially the highly educated. Although all Arab states embarked on numerous reform programmes attempting to match skills with employers’ demands after the Arab Spring, the results have not been very encouraging. Some, like Tunisia and Jordan, have managed to improve the employment prospects of their already highly skilled population but others, like Saudi Arabia, have simply missed the boat. The Kingdom had settled comfortably in its low debt and budgetary surplus, hoping to tackle youth unemployment with Saudi employment quotas for the labour market. Instead, it stifled the private sector and now faces high youth unemployment rates of 35%. Even though some states, such as Qatar and the United Arab Emirates, have managed to improve the quality of their educational systems, most have failed to deliver on the second half of the solution to youth unemployment, which is the creation of jobs. There are several reasons why 2025 looks so much worse in youth unemployment terms than 2011, the year that brought the issue to the forefront.

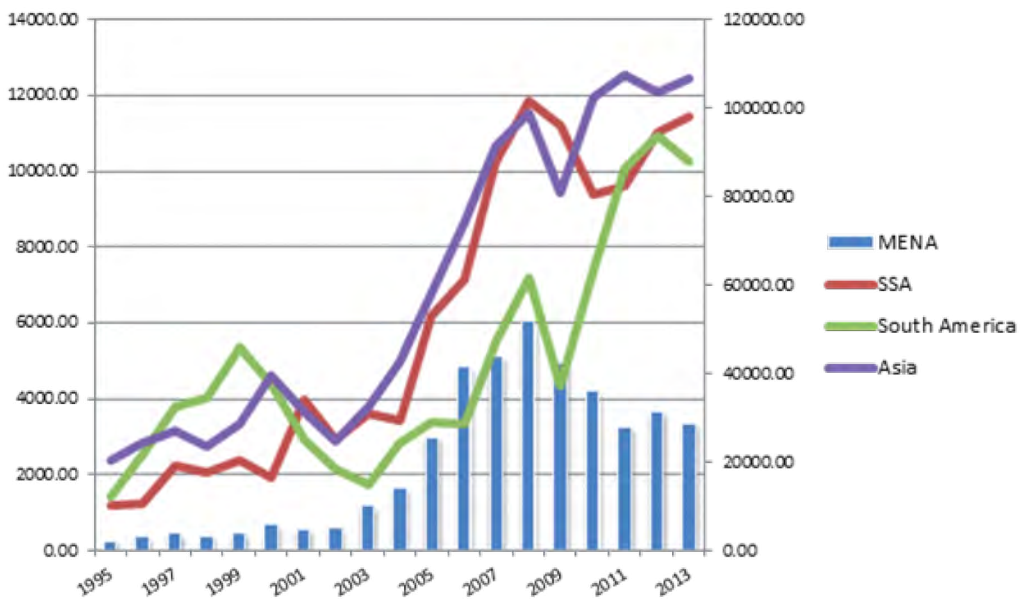
Figure 8. The Arab Simmer



Source: EUISS.

For a start, economic integration has failed to deliver the expected relief for the labour markets. Although Arab states had recognised the importance of cooperation and at last completed the requirement for the implementation of the 1997 Greater Arab Free Trade Area Agreement (GAFTA) in 2015, they have not made progress on other potentially beneficial measures such as a common market which had originally been planned for 2020. Perhaps more disappointingly, GAFTA has not had the desired impact on GDP or indeed unemployment rates. Since intra-regional trade has been traditionally low, the lifting of already low tariffs has raised the GDP of all Arab countries by only 0.1% (Egypt's was marginally higher with 0.4%), although of course it did increase Arab exports and imports somewhat. Unemployment has declined to varying degrees across the region as a consequence of GAFTA, but mainly among the unskilled and never dramatically: since 2015 it has dropped by 0.5% in Egypt and 0.1% in Saudi Arabia, and worse, unemployment has actually increased by 0.3% in Algeria and Libya. Trade liberalisation alone therefore has not had the anticipated impact on the chronic problem of youth unemployment.

Figure 9. Foreign Direct Investment



Source: United Nations Conference on Trade and Development (UNCTAD) statistics database, data for period 1970-2013.

In addition, those Arab states facing the biggest economic challenges have by and large failed to secure or retain foreign direct investment necessary for job creation. Egypt, which had managed to attract a number of IT brands such as Microsoft, Oracle, Vodafone and IBM in the early days of President Morsi's rule, has lost several

investors as a result of a protracted fight against terrorism. IKEA, which had opened its first shop in Egypt in late 2013, left in 2017 after a large-scale terrorist attack on its premises – swiftly followed by Coca-Cola, which moved its regional operations to Tunisia. Foreign direct investment in the Arab world in 2025 goes either to traditionally stable countries in the Gulf, or to Tunisia, the only country so far able to attract investors not only in the textile industry but also in aeronautical engineering. Elsewhere, investors are put off by the bureaucratic hurdles still endemic in the region (Algeria has managed to reduce the amount of days in which it takes to open a business from 25 in 2014 to 20 today), fear political instability or focus on those investments which are capital- but not labour-intensive – and therefore do not create jobs. Lastly, an Arab deal facilitating the recruitment of graduates from non-Gulf countries in the Gulf fell through because of security considerations. The discovery of an Egyptian terrorist cell in a Bahraini university led to the suspension of a project which was expected to alleviate labour market pressures elsewhere.

Even worse, Egypt's main source of income, tourism, has been hit particularly hard following several terrorist attacks on Europeans. As during the two previous waves of terrorism specifically targeting tourists in the 1990s and early 2000s, such attacks take the form not just of bombing in hotels or other public venues: the firing of small arms at tourist buses or throwing improvised devices such as Molotov cocktails into crowds of tourists, while less spectacularly lethal, has the same deterrent impact on tourists – but this type of terrorist attack is much more difficult to detect by the intelligence services beforehand. The wave of these attacks since 2015, strategically occurring a few weeks before the onset of the tourist high season, has reduced the value of the Egyptian tourism industry, which used to generate annual revenues of \$8 billion, by one third. Before 2011, tourism represented 13% of Egypt's GDP and generated 10.9% of jobs. As most of Egypt's tourists came from Europe (representing 75% of all visitors, in particular from France, Germany, Britain, Italy, Spain), they constituted an easy target to bring down an entire industry. European tourism has hence been diverted to Tunisia and Jordan. As a result of all these dynamics, the young and educated remain unemployed in ever-increasing numbers.

The large pool of jobless young men (the situation is even worse for women) has created the ideal breeding ground for all kinds of **domestic unrest**. The first and most acute problem is **terrorism** which, in spite of some tactical victories conducted by the security forces on the ground, is continuing to pose a problem. In part this is because all states are using highly repressive methods to combat it, thereby continuously replenishing the pool of potential recruits. In part, however, this is because some states fail to eradicate terrorist networks completely. Those states which had the funds and mechanisms necessary to crack down hard on terrorist networks, such as Saudi Arabia and Morocco, have managed to keep the problem at bay; others, such as Egypt and Algeria, have more or less contained the problem without ever solving it completely. Lastly, those states which have experienced protracted violence and a more

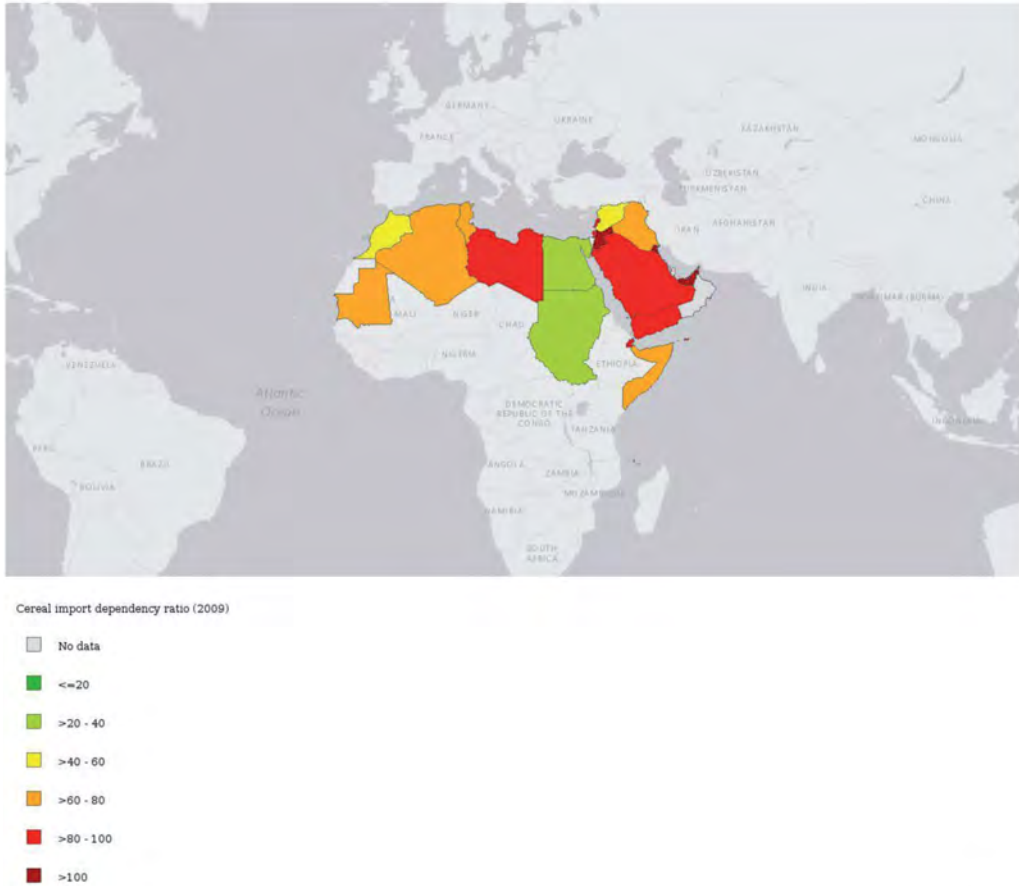
or less complete breakdown of the state, such as Libya, Syria, Lebanon, Yemen and Iraq, are suspected of having ceded pockets of territory to terrorist networks. By and large, the problem is contained rather than solved. Islamic State (IS), which came to prominence in 2014, has suffered severe defeats in Iraq after withdrawing from Syria, but it is still operational. This is in large part because its reconciliation with al-Qaeda and its global affiliates has resulted in access to funds and equipment, and therefore replaced the other financial backers it lost during the early 2020s. Although IS has not disappeared completely, its sphere of operations has nevertheless been reduced to the Iraqi theatre and this has allayed regional fears of an expanding terrorist caliphate.

At the domestic level, the Real Muslim Brotherhood (which emerged after a split in the Muslim Brotherhood leadership over the question of using violence) is particularly effective on Egyptian, Jordanian and Qatari campuses when it comes to recruitment of volunteers, but it is not the only such movement. Several jihadi organisations have merged, split and renamed themselves over the last decade, but their goal remains the same: to hurt the Arab state at the core in order to trigger regime change and the establishment of some form of an Islamic state. So far, these groups have failed to form a consistent and cohesive bloc, and have at times engaged in self-destructive infighting. Their capacity to inflict harm is limited, but has proven detrimental to economic and political reform.

On a positive note, the fight against terrorism has united Arab states, in this domain at least. Following terrorist threats against Expo, held in the United Arab Emirates in 2020, and the World Cup held in Qatar in 2022, Arabpol was formed. The coordinating body focuses mainly on information exchange in intelligence matters among Arab Police and Security Agency Chiefs, but most recently it has finalised an Arab Arrest Warrant. Although not all Arab states will be part of it – and although it will take time to modernise and harmonise the variety of different border control systems – it is considered a breakthrough in Arab integration along with the implementation of GAFTA. There is hope that Arabpol is the first step towards more freedom of movement in the region, but visa regulations have remained untouched – in fact, many Arab interior ministers fear that an opening of borders will make the fight against terrorism even harder, and have warned against it.

Another outlet of youth frustration are the large-scale demonstrations which take place every year on 17 December, the anniversary of Mohamed Bouazizi's self-immolation in Tunisia. In 2020, the tenth anniversary, this coincided with a **spike in food prices** following a surge in the oil price (the result of continued Libyan and Syrian production disruptions): overnight, bread and cooking oil prices tripled in Egypt and Algeria, both states which still have not managed to introduce reforms reducing food imports dependency. Several hundred thousand demonstrators marched through the streets of Cairo, only to be brutally repressed by internal security forces. Demonstrations in Amman, Algiers, Beirut and Rabat were met with less violence but resulted only in eliciting hollow promises for political reform.

Figure 10. Cereal import dependency ratio (2009)



Source: International Food Policy Research Institute (IFPRI), International Fund of Agricultural Development (IFAD) and the Consultative Group of International Agricultural Research Centers (CGIAR) – *Arab Security and Food Development Atlas*. (www.arabspatial.org, 2014)

In an act of solidarity, several hundred thousand demonstrators carried placards in Tunis bearing the slogan ‘We managed, so can you’, alluding to the fact that **Tunisia** is the only Arab state to have successfully managed a **transition to democracy**. But this path was not an easy one: like other Arab states, Tunisia struggled with Islamist terrorism, especially the high number of returnees from the Syrian civil war and those seeping in from neighbouring Libya. What saved Tunisia was essentially two dynamics: firstly, it embarked on substantial security sector reform in 2014, including the establishment of an ombudsman for the armed forces and later the police services, the establishment of civilian oversight, but also an increase in salaries for army and police personnel, modernisation of equipment and a review of the legal framework.

This laid the groundwork for a fight against terrorism and organised crime which was not only efficient, but was supported by large parts of the population and therefore reduced the pool of potential volunteers. The second dynamic which contributed to Tunisia's successful transition was the flourishing of an open political market of ideas. Two rounds of parliamentary and presidential elections have taken place in 2019 and 2024, both dominated but not monopolised by Ennahda and Call for Tunisia. Next to them, a plural landscape of several medium-sized parties has emerged. One of them, The Caliphate Party, is suspected of being close to jihadi ideology, but remains co-opted in the political system with 5% of the votes and is thus held in check. While Tunisia still has some way to go in terms of reform and economic development, its example is continuing to provide ideological inspiration for regime opponents in other Arab countries.

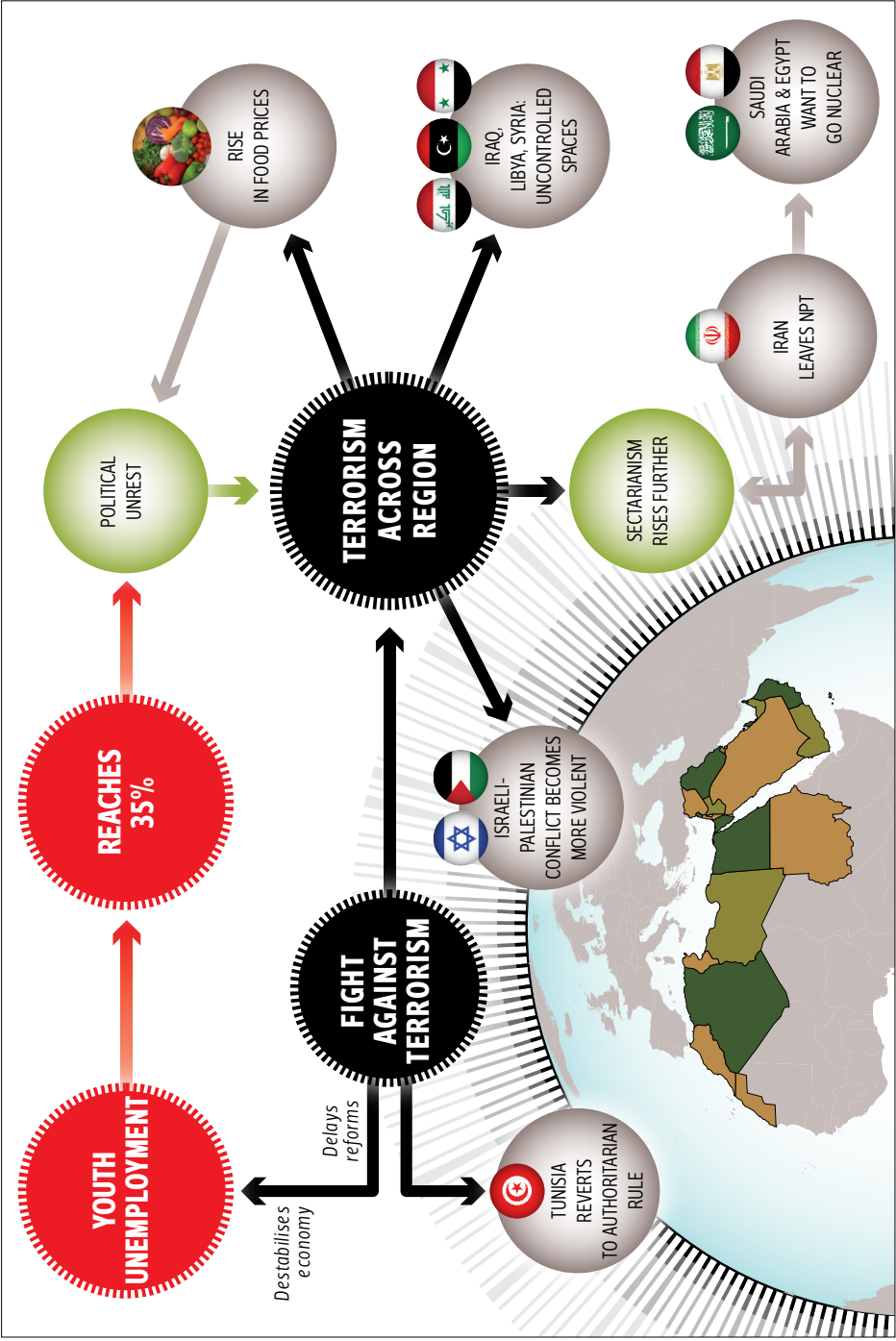
But several Arab regimes face more severe challenges than ideas crossing borders; insecurity in Syria and Libya, and a potentially nuclear Iran **destabilise the region** as a whole.

The **Syrian** civil war, now in its 15th year, continues to affect Lebanon, Iraq and Jordan in economic terms, but the security situation has stabilised thanks to a territorial stalemate. The main cities and the strip along the Mediterranean shore belong to the regime, whereas remaining areas are held by the three main militias and their smaller allies. Three peace agreements have failed since the outbreak of the conflict following the Arab Spring, but prospects are better now than they ever were. Maher al-Assad, who became President after his brother's death in 2020, has signalled readiness to accept an international peace enforcement force. The main problem now is that the opposition is not unified; in fact, a substantial portion of the fighting has been among rebel forces themselves.

War fatigue, substantial destruction and declining support from outsiders for all parties involved have however led to the realisation that neither side will win militarily. 600,000 Syrians have died and 4.6 million have fled the country over the last decade and a half.¹ While details of an agreement which would satisfy all stakeholders are being hammered out by the League of Arab States, one major obstacle is yet to be overcome: no outside power has yet committed to the peace enforcement mission necessary for all sides to lay down their arms. Troop requirements are high at about 320,000, a number many states find difficult to muster. Once this force is in place, the reconstruction of Syria can begin: more than 70% of its population now live below the poverty line, trade has dropped by 40% compared to before the conflict, while whole sectors such as industry, health care, tourism and agriculture have been severely damaged if not entirely destroyed. Projections foresee a two to three-decade period for Syria to recover in terms of infrastructure, trade and human development rates more generally. The war will have cost the country several billion euro in direct costs, and one billion in terms of lost production opportunity.

1 These numbers are extrapolated from the Angola civil war (1975–2002) and its proportional impact on the country's population.

Figure 11. The Arab Implosion



Source: EUISS.

In comparison, Libya is recovering slowly from the protracted violence which followed the toppling of Muammar Gaddafi. Now under the authority of a United Nations High Representative, it still faces considerable pockets of unrest and terrorism throughout the country. Political semi-stability is largely the outcome of strenuous international mediation efforts which have put the democratic process back on track, but much remains to be done. The reconstruction of Libya's security forces has been disrupted several times since the end of the conflict thanks to militia violence and a political stalemate, but is making progress. Libya's oil production, which stood at 1.6 million barrels a day before the war, now hovers erratically between 500,000 and 800,000 barrels – still not enough to generate sufficient revenue to rebuild the country's disastrous infrastructure, half of which was destroyed during the war and its aftermath, and never rebuilt.

The **Israeli-Palestinian** conflict remains a running sore, with repeated unrest reminiscent of the first and second intifada. While Israel does not manage to break the violent potential of Hamas, the peace process is paralysed by a political deadlock on both sides.

A potential nuclear **Iran** is still destabilising the Gulf States; Tehran is now considered an undeclared nuclear state, or at least a threshold state with the capacity to acquire a nuclear weapon in very little time. Distrustful of their neighbour's intentions, all the GCC states have invested even more in their defence budgets and engaged in rather aggressive and sectarian rhetoric. This has in turn emboldened Hizbullah in Lebanon and Shia militias in Iraq. Instability remains the overriding feature of the region.

2. The Arab Implosion

In 2025, the Arab world seems to have regressed on several fronts, turning back the development clock by several decades and wiping out important progress made in the course of the twentieth century. Where did it all go wrong?

The year it probably began to go off track was 2014, when the appearance of the Islamic State on the regional (rather than just Iraqi) scene threw the whole region into serious turmoil. Focused on fighting terrorism at all costs, Arab states neglected to implement important reforms which would have created jobs, triggered innovation and economic diversification, contributed to growth and fostered stability. Optimistic forecasts of 5% growth, and a temporary food price low were part of the problem: trusting the positive outlook painted by economic forecasters, decision-makers were lulled into postponing reforms. But instead of growing, Arab economies, which had just begun to recover from the upheavals of 2011, started shrinking again as a result of several factors: a combination of insecurity, instability, unsustainable subsidies, the **food price** impact of the weather phenomenon El Nino and fiscal debt led to the economic paralysis of almost all Arab states, even those which did not see large-scale unrest.

Terrorism and recurrent unrest have led to a sharp decline in **jobs in the tourism industry**; the first signs of climate change are beginning to take their toll on an already underperforming agricultural sector. As a result of this dire situation, decision-makers have not only postponed reforms – they have taken measures to alleviate the immediate situation in counter-productive and detrimental ways. Fuel and food subsidies have ballooned from 6% of GDP in 2014 to almost 20% in 2025 in Egypt, Jordan and Yemen. In spite of an attempt at introducing reform back in 2014, Egypt continues to spend seven times more on subsidies than on health care. It had to return to substantial food subsidies following a sharp increase in bread prices in 2018 (a consequence of a brief spike in the global oil price which was the result of simultaneous terrorist attacks on oil refineries in Iraq, Libya and Algeria by the Islamic State). The same is true for Yemen, whose dwindling oil revenues are now channeled almost in their entirety into the subsidisation of fuel and food. While the 2014 reform of subsidies was more successful in Tunisia, the savings earned from it did not create jobs as hoped. Economic growth rates dropped to 0.3% in Tunisia, 0.8% in Morocco, and to -4.3% in Egypt, to -3.3% in Jordan and -10.7% in Yemen.² Instead of creating jobs, these states generated unemployment at ever-increasing rates. Youth unemployment, already at 28% a decade ago, has risen to 35% today. Poverty rates are rising again in Morocco and Egypt, returning to the levels of 1990.

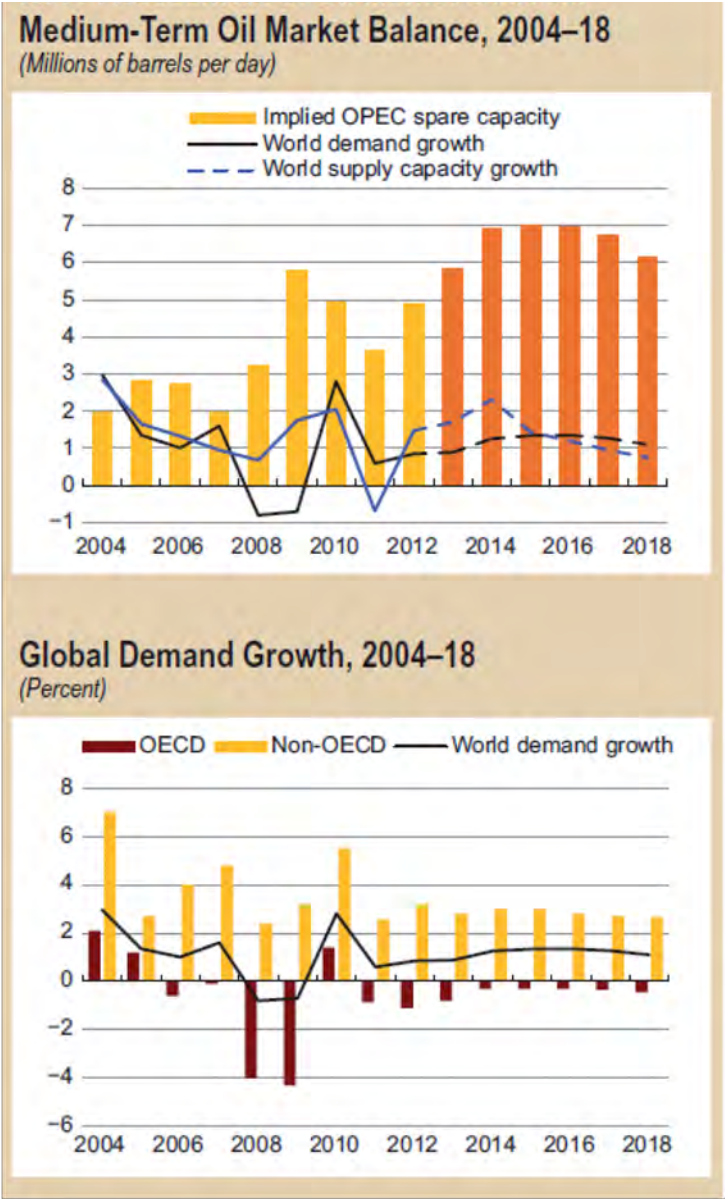
The situation is particularly acute in Yemen, where poverty has been on a steep incline since the mid-1990s and continues to rise. This is the result of Yemen's declining oil output – both the result of its natural resource depletion and endemic insecurity. In the last decade, Yemen has seen over 500 attacks a year on its energy infrastructure; attacks it could not prevent due to an already overstretched, underfunded and corrupt security sector. In addition, Yemen's lack of overland pipelines and dependency on tankers for exports made it particularly vulnerable to piracy in the Red Sea – a trend which began in 2011, and continues to concern not just Yemen but all states using the route for commercial transport. As the situation remains dire, corruption levels have returned to the levels of 2000; access to jobs and welfare is increasingly dependent on personal connections or indeed bribes. Sectarianism, an unknown phenomenon until a few years ago, is now a widespread problem in Yemen, too: both Houthis and al-Qaeda in the Arabian Peninsula (AQAP) exploit Shia-Sunni divisions in Yemen's population for sectarian purposes.

But the main concern for all Arab states is skyrocketing **youth unemployment**. In a climate characterised by harsh repression of the political opposition and ever-increasing pressure on terrorist networks, young unemployed men have either joined regional terrorist networks or taken part in regular and violent street demonstrations against the governments. The Caliphate, the successor organisation of the Islamic State in Iraq and the Levant, is now believed to be operational in almost all Arab countries, and conducts terrorist operations ranging from hit-and-run shootings to

² Numbers echo growth rates from 2011, another period of instability.

full-scale bombings. Efforts to clamp down on this network have come at a high cost, not only in military but also economic terms.

Figure 12. IEA’s assessment of oil market outlook



Source: Based on material from the *Medium-Term Oil Market Report* © OECD/IEA, 2013.

Reflecting a vicious circle dynamic, low GDP growth rates are not only the reason for but also the result of constant insecurity: political repression has led to a closure of public space and debate. But perhaps the worst development is that **Tunisia**, which appeared to be on the road to democracy only 15 years ago, seems to have reverted to a rather authoritarian system. Following several years of instability and spiralling terrorism, Tunisians elected former chief of staff Rachid Ammar to the presidency in 2019; Ennahda and its supporters are now frequently accused of having links with Islamist terrorist networks, contributing to an increasingly radical rhetoric across the political landscape. Whereas Tunisia is formally still committed to democracy and its principles, in practice it finds it difficult to reconcile this posture with a more and more polarised public space. Security agencies, both internal and external, have postponed reform in the light of the fight against terrorism and criminal networks, and accusations of torture and unlawful behaviour emerge regularly.

Tunisia's perilous situation is in part the result of a concerted effort to derail its democratisation process. Not only regional powers such as Algeria and Egypt are suspected of having actively contributed to its security predicament in order to return Tunisia to the ranks of those Arab states actively fighting Islamist terrorism. The jihadi Caliphate sees Tunisian democracy not only as an obstacle to its ultimate goal of an Islamic state, but also as a hotbed of 'infidelity, prostitution and adultery' where 'a war is being waged against chastity and hijab'.³ Statements like these have encouraged not only Tunisian security forces to act brutally against Islamists, they have also frightened off foreign investors and tourists. Tunisia's economy is therefore in a disastrous state.

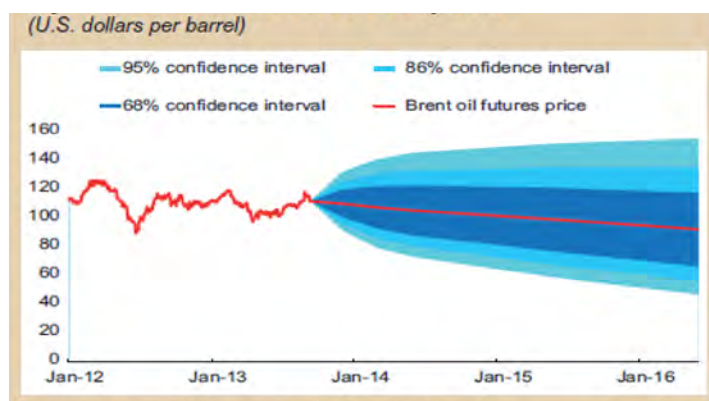
As always, regional insecurity has spilled over into countries which were initially untouched; for Tunisia and Algeria, **Libya** has turned into a collective nightmare. It has effectively been transformed into a large ungoverned space where criminal networks and jihadi organisations operate freely. Following another failed attempt at political dialogue in 2020 and a terrorist attack on the United Nations headquarters on the outskirts of Tripoli, Libya is currently drifting in and out of a political coma. Rump institutions such as the National Oil Corporation continue to operate at minimum capacity, ensuring a low but regular output of oil in cooperation with militia forces – but everywhere else, Libya is governed at the local level by forces beyond Tripoli's control. Some militias, such as those in Zintan and Misrata, have begun to create administrative bodies managing infrastructure and even health care; others concentrate on the business of kidnapping and arms sales. Although Libyan violence seems contained, it remains a concern for both North African and European neighbours; the security vacuum in the country has attracted Islamist groups which have used it as a training ground, and human trafficking networks which smuggle migrants across the Mediterranean.

3 'IS "caliphate" a dream come true for Tunisian jihadists', *Al-Monitor*, 8 July 2014.

Most of these traffickers are of Tunisian and Libyan origin, whereas the migrants themselves are from African countries south of the Sahara. The numbers of migrants have remained stable but high at 200,000 a year over the last decade. In addition, piracy has made a return to the Mediterranean. Libyan pirates (largely the navy arm of some militias) do not venture far but try (and manage) to capture ships carrying cargo to and from Europe. In contrast to pirates operating elsewhere, Libyan pirates do not seek to hijack the crew and ship to extort ransom. Instead, they either steal the cargo or indeed the whole ship – ideally those suited to transport oil produced from terminals under militia control. The global oil price has remained stable only because Saudi Arabia as well as Kuwait have continued to increase their own output, buffering the volatility created by highly erratic Iraqi and Libyan oil production. But stability has come at a cost, with global oil prices remaining high at \$100 per barrel. Luckily, global demand has now stalled, preventing the price from spiralling further out of control.

For **Algeria**, the stalling global oil price is less good news: its already ailing economy is supported mainly by its hydrocarbon sector, and is still battling with high social spending (increased in 2011) and an expanding defence budget.

Figure 13. Options-based oil price prospects*



Sources: Bloomberg, L.P.; and IMF staff calculations, published in World Economic and Financial Surveys, 'Regional Economic Outlook – Middle East and Central Asia' (IMF, November 2013).

*Derived from prices of Brent oil futures options on 12 September 2013.

The first African nation to spend more than \$10 billion on defence since 2014, Algeria's purchases of drones, helicopters and self-propelled artillery were all geared towards the fight against the Caliphate's Maghreb branch in the country's desert south. Within three years, Algiers increased its defence budget by 6%, and had to increase its fiscal deficit substantially. As the regime is entangled in a domestic conflict, urgent reforms, such as the diversification of the economy, have been postponed repeatedly.

Although Algeria is in a somewhat better financial position than Libya or indeed Tunisia, its battle against the terrorist threat has hampered any attempts at political reform, too.

But conflict is prevalent not only in North Africa: although **Syria's** civil war seems to be coming to an end now, after 15 years, this is not happening on the basis of a negotiated settlement. Following the surrender of the Free Syrian Army, President Maher al-Assad has already hinted at a potential excursion of the Syrian military into Lebanon to drive out any remaining opposition forces there. Plus, the Syrian regime is not able to fully control its territory; terrorist groups allied with the Caliphate are still operational across the country and ready to derail the process. The toll of Syria's civil war is horrific: 1.23 million Syrians have died and 6.14 million have fled the country over the last decade and a half.⁴ The reconstruction of not only infrastructure, but whole sectors such as tourism or industry, will take several decades; more worryingly, the current peace seems too fragile to attract foreign investors, while the regime is spending more efforts on consolidating its power than on reconstruction.

Syria's civil war has torn a hole in the regional economy, concerning particularly Lebanon and Jordan. Jordan was able to mitigate some of the effects of a lost Syrian and Turkish market as Saudi Arabia opened its market to Jordanian fruit and vegetables in 2014, but exports have dropped significantly. Assistance from the Gulf States has helped it stay afloat, as did increased imports to accommodate the refugee population of now 800,000; it lost 1% of GDP growth per year as a result of the conflict and suffered high inflation. Lebanon has lost 2.9% GDP every year of the duration of the conflict, and now has a population of 170,000 living below the poverty line. Its unemployment rates have doubled to 20%, affecting in particular the country's youth. This is only in part the result of a high refugee influx (now standing at 2 million); Lebanese trade disruption and low tourism rates are also the outcome of the neighbouring civil war. All of this has pressed hard on traditionally fragile Lebanese social and economic structures: the high number of refugees, among them former rebel fighters and suspected terrorists, has led to the re-emergence of Christian militias. Allied with President Michel Aoun, they have begun to join Hizbullah in its fight against Sunni jihadi groups. In a rerun of 1975, the country is once again divided into sectarian cantons run by warlords. Sectarianism, always a latent problem in Lebanon, is now rampant – and has spread throughout the region. In Iraq, the unsatisfying deal struck in 2015 has motivated several Sunni groups to take up arms, again, against the central government.

The **Israeli-Palestinian** conflict is an extension of surrounding regional developments: the ever-increasing cycle of violence and repression is reaching new proportions, obstructing any attempts at peace but fuelling regional calls for action against Israel.

⁴ These numbers are extrapolated from the Lebanese civil war (1975 -1990) and its proportional impact on the country's population.

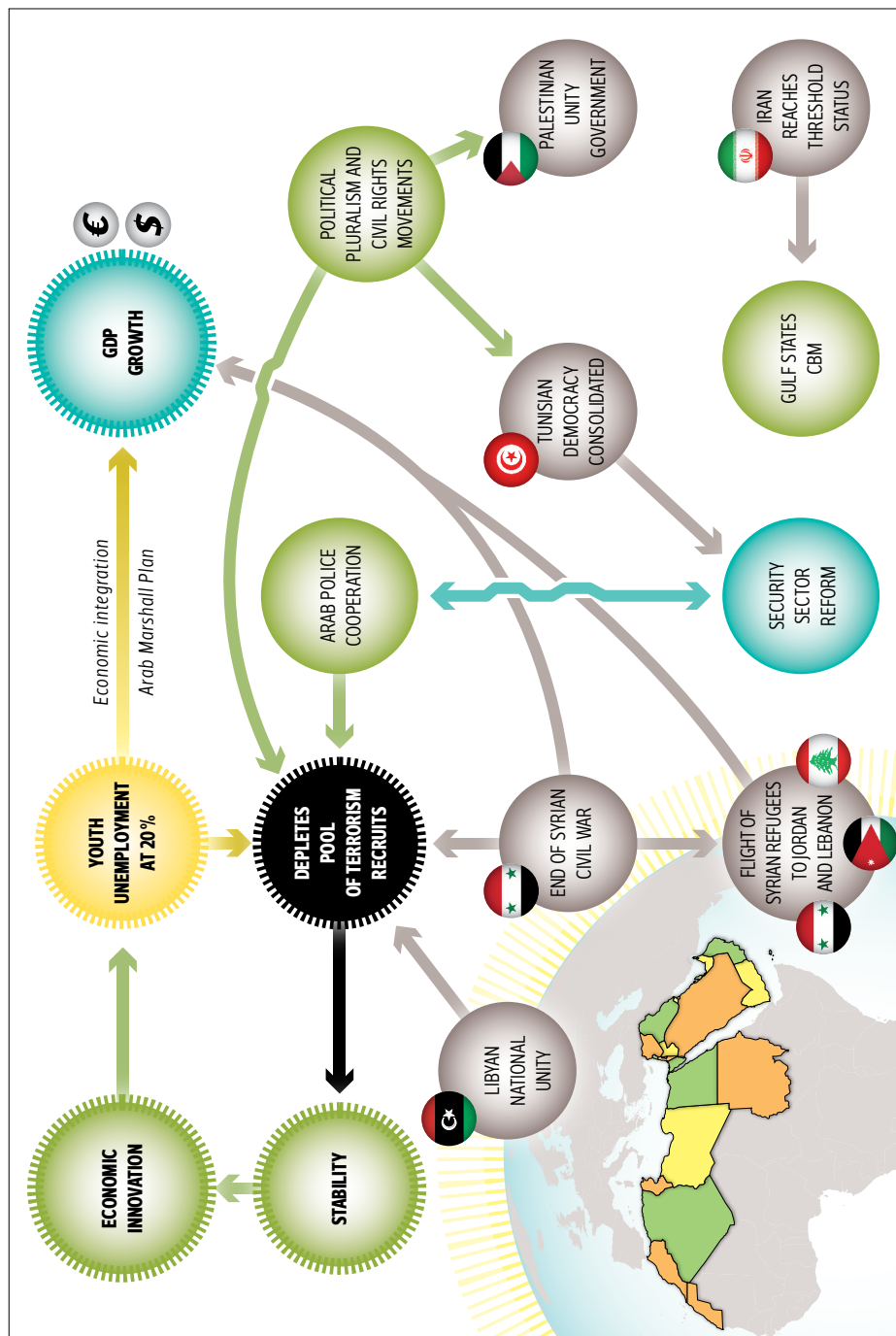
Iran's nuclear weapon, accomplished after it left the Nuclear Non-Proliferation Treaty (NPT), has reinforced sectarian tensions not only in Yemen and Lebanon but elsewhere: Saudi Arabia and Egypt are exploring options to procure nuclear weapons for themselves too; Hamas and Hizbullah, Iran's non-state allies, are now in possession of ballistic missiles.

3. The Arab Leap

The era of the Arab Leap began five years after the Arab Spring: as the global economy and in particular the eurozone began to recover, Arab economic integration triggered the turning point. The implementation of a Greater Arab Free Trade Area (GAFTA), coupled with a reduction of 5% in transport costs and the replacement of 20% of foreign labour in the Gulf by Arab workers led to an important U-turn in Arab economies. In Egypt, **unemployment rates** among skilled workers dropped by 8%; in Morocco, by 7.2%, in Tunisia by 6.9%. GDP rates grew in all Arab countries, but particularly in Egypt (whose GDP grew by 6.2%) and Tunisia (4.2%). In addition to the comprehensive economic integration package, several Arab states (Egypt in particular) managed to introduce educational reforms, leading to a substantial decline in youth unemployment which has now dropped to 18%. Although GAFTA had been planned and signed a decade earlier, it had not been fully implemented. By 2016, the region had however hit an unprecedented peak both in terms of youth unemployment and terrorism – issues which concerned virtually every Arab state. Repeated unrest over 2015 only heightened the sense that more unrest and instability would follow. Arab states at last realised that the region-wide problems of youth unemployment and terrorism could only be solved in tandem.

Several initiatives suggested the potential routes to be taken out of the crisis, but the World Economic Forum's task force dedicated to the region, the Global Agenda Council on the Arab World, had a particularly important impact. It not only laid out the principles of an 'Arab Moral Capitalism' fostering economic development in line with calls for social justice – it also spelled out the details for an 'Arab Marshall Plan'. Echoing Europe's experience after World War II, the plan (called the 'Dabdoub Plan' after one of its inceptors, Ibrahim Dabdoub, deputy chairman of the International Bank of Qatar) established a fund of \$100 billion to restore ailing Arab economies over a period of five years. Managed by the Arab Fund for Economic and Social Development (AFESD), the plan provided vital support for Arab states to undertake the necessary reforms in a socially sustainable manner, ultimately leading to economic growth and job creation.

Figure 14. The Arab Leap



Source: EUISS.

The reduction of youth unemployment led to a rapid depletion of the pool of potential **terrorist** recruits; while Arab states still face localised terrorist threats, the issue is now mainly a nuisance rather than a grave strategic threat. A combination of political inclusion as well as targeted counter-terrorism has proved effective in cutting off the lifeline of terrorists – but mainly, it has been improved Arab cooperation which has succeeded in reducing terrorism. Information exchange, an Arab arrest warrant and shared border management have contributed not only to an amelioration in security – they have also helped build trust. In 2025, Arab states are even considering the establishment of a peacekeeping force under the supervision of the Arab League; the ‘Green helmets’ will be deployed first in Syria, where a peace deal has at last paved the way for reconstruction.

In general, the positive impact of economic cooperation has created an incentive for more collaboration; a project mimicking Europe’s Schengen area (called ‘Alexandria area’ after the place where it was first discussed) is now under review. Most Arab states continue to impose visa restrictions on their respective citizens, but visa facilitations are now in reach.

Syria’s civil war has at last come to an end through the means of a political settlement; this includes a national unity government consisting of representatives of all parties involved in the conflict, and a supervisory board of elders dispatched from the League of Arab States. A new constitution will be written in the course of the year 2026. In the end, Syria’s peace was the result of war fatigue on the part not only of those fighting in the country, but also those supporting both sides. Bashar Al-Assad, now 60 years old, is weakened by diabetes and a heart condition, and therefore will not be part of the new government. Syria’s stabilisation is likely to have a positive impact also on Lebanon, Jordan and Iraq – not only because its reconstruction will lead to business opportunities for companies from all three countries. The return of several million refugees will release pressure on especially Lebanon’s and Jordan’s social systems and infrastructure, and allow for important reforms postponed during the conflict.

A civil rights movement in the **Palestinian** territories has triggered the formation of a national unity government now discussing the possibility of an Israeli-Palestinian confederation.

Libya has stabilised at last, too, with the considerable assistance of the United Nations, the League of Arab States and the African Union. After several years of protracted instability, a concerted effort by Algeria and Egypt has brought all militia leaders and political decision-makers to the table. These talks were bolstered by a civil rights movement marching through the streets of Tripoli, Benghazi and Misrata to publicise civilian demands for militia disarmament, accountability and effective governance. A lot remains to be done, and Libya’s south is still not entirely under government control – but the groundwork is laid for reconstruction at last.

In general, **political unrest** is still very much present across the region, but it no longer has the same disruptive effects. The regulation of demonstrations in countries such as Egypt and Algeria has not led to a polarisation of the political landscape as was initially feared – in fact, the opposite has taken place. Some shades of political Islam have been more integrated than others: Salafism, initially co-opted by the 2014 regime in Egypt, eventually lost support due to its acquiescence with repression against members of the Muslim Brotherhood; a new party, ‘Inclusion’ or *Idra’esh*, appealing to the same voters, emerged fairly quickly. Its leadership seems to have close ties to the still banned Brotherhood, and their programmes resemble each other – but Inclusion seems to be more inclined to compromise on issues such as human rights and gender equality, and has moved in terms of outlook more towards the Tunisian Ennahda. In Algeria, the recent opening of the political space has seen the creation of a small and rather unsuccessful Salafist party.

In general, political Islam has lost the appeal it enjoyed in 2011/2012: reformism is now more fashionable. The generation of 2011, now in their mid-thirties to forties, have evolved into a political party called ‘Reform’ or *Islah*. *Islah* is making increasing inroads in elections in Egypt, Libya, Tunisia and Yemen and pushing for pragmatic change as exemplified by the Dabdoud Plan. Although pan-Arabism and nationalism are still powerful ideological contenders, reformism is steadily gaining in appeal. However it is challenged by leftist parties emerging from the 2011 revolutionary movements: although not yet regionally organised, these parties have channelled the demands of 2011 into a socialist agenda.

An open political space has contributed to a marketplace of ideas ultimately beneficial for political decision-makers, and political Islam is now only one part of a plural landscape. That being said, democracy has consolidated itself mainly in **Tunisia**. Three presidential elections after the Arab Spring, it has experienced regime change by the ballot box, the emergence and disappearance of political parties and the establishment of a proper plural system. Its security sector reform turned out to be particularly effective when riots erupted in the capital in 2019 following a football match between Espérance Sportive de Tunis against Club Sportif Sfaxien. Supporters of Ennahda and Nidaa Tunis were separated peacefully by the security forces, an incident which drew a positive response from the media. Trust in Tunisian state institutions has grown continuously since 2011.

As a role model for accountability, Tunisia has served as an inspiration for civil rights movements in Libya, Iraq, Lebanon and Yemen – all of which have introduced considerable political reforms. Iraq in particular has come a long way since 2014. Its comprehensive review of its political system (especially the repeal of the De-baathification law and the empowerment of municipal government) has contributed to the integration of Arab Sunnis, and hollowed out the support the community previously gave to the Islamic State. Now reduced to an Iraqi rather than regional terrorist group, IS is on the brink of extinction.

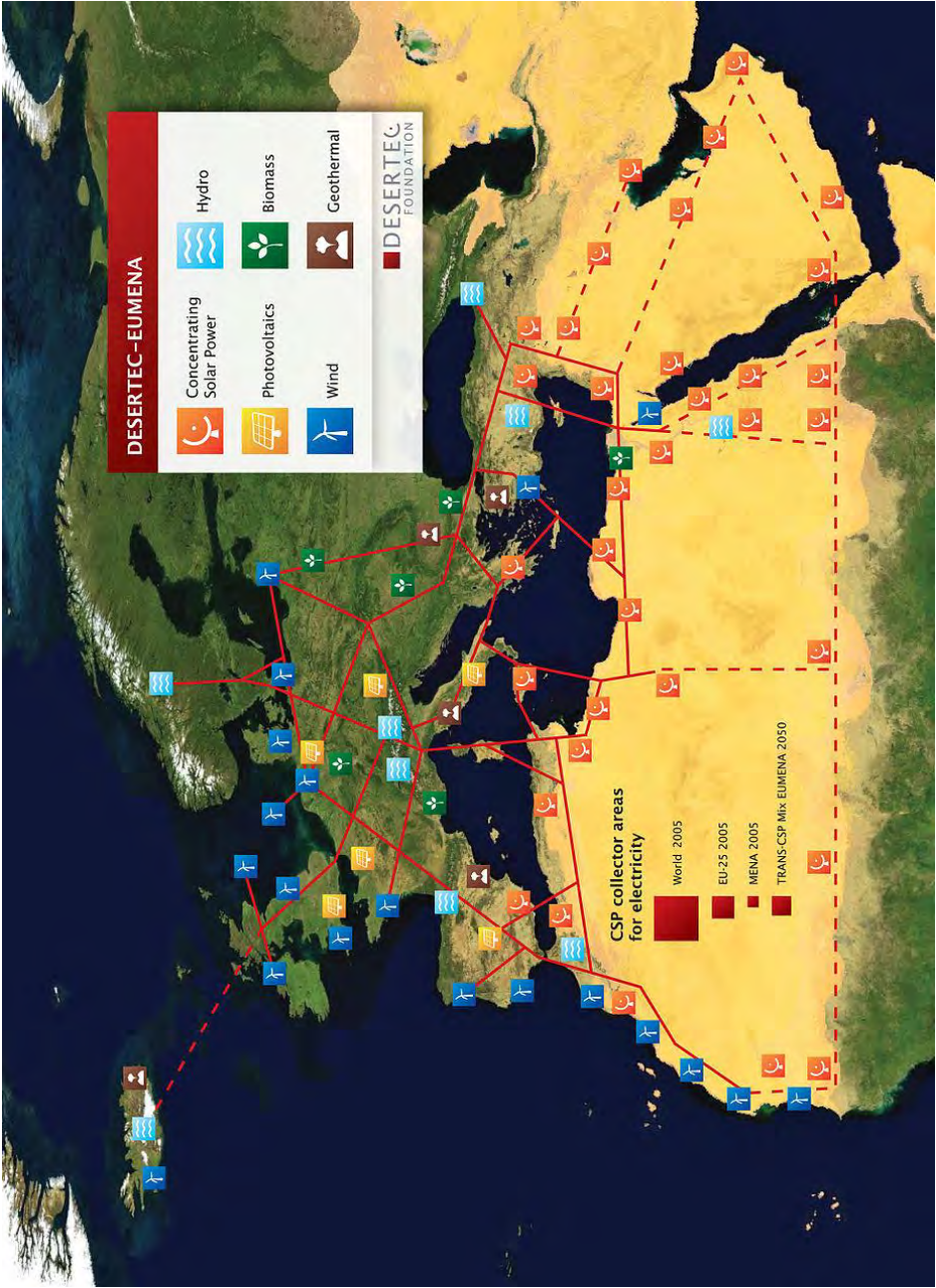
Figure 15. Effects on unemployment of a reform package to strengthen Arab economic integration



Note: The results reflect the relative variation between the levels projected for 2020 by the reference scenario and the proposed scenario.
Source: ESCWA simulation using the MIRAGE model.

Source: United Nations Economic and Social Commission for Western Asia, *Arab Integration: A 21st Century Development Imperative* (Beirut: 2014), p.180. (Figures expressed in percentages).

Figure 16. Possible infrastructure for a sustainable supply of power to Europe, the Middle East and North Africa



Source: DESERTEC Foundation.

Although **Iran** formally ended its nuclear programme in 2016 after having achieved threshold status, this at first had a backlash effect in the Gulf States which did not trust Tehran's intentions. Mediated by the United Nations, a series of confidence-building measures finally contributed to a slowly but steadily improving situation of *détente*. The United Arab Emirates are now close to a deal regarding three islands in the Persian Gulf region occupied by Iran but over which the UAE claims sovereignty. *Rapprochement* between Iran and the Gulf has toned down sectarian rhetoric across the region, too. Hizbullah, which rode the sectarian wave in the decade of Syria's civil war, now has to reintegrate a Lebanese political landscape highly critical of its involvement. More importantly, Hizbullah's Syrian adventure has discredited its resistance narrative, and damaged it financially.

Although the region still faces challenges (such as the Israeli-Palestinian conflict, the Western Sahara issue, human rights abuses, lack of accountability and corruption), the foundations have now been laid not only for sound economic development, but also for social progress. Health care, schooling, public transport and infrastructure have all improved, creating an enhanced sense of well-being. The general air of stability has further stimulated the economy: foreign direct investment is increasing, as are innovations. Masdar City, the Emirati model city for sustainable urban development, is due to be inaugurated in 2025. Running mainly on solar energy, Masdar has provided an important impetus for renewable energy grids linking the Arab world to Europe. Both Desertec and Medgrid, sustainable energy projects connecting Europe to North Africa and the Middle East, long shelved for security reasons, are now back in the discussion. Shamstech, an emerging company based in the UAE, has managed to supplant China as regional hub for solar panel manufacturing. Yemen in turn has succeeded in turning its economy around through the expansion and export of liquefied natural gas.

Tourism is experiencing a boom in Egypt and Tunisia as a result not only of stability and an improved service culture: a generational change has led to the emergence of entirely new forms of tourism including creative and adventure tourism in the desert areas of Egypt, Tunisia, Jordan and even Algeria, tourism targeting older European travellers (hence tapping into Europe's ageing affluent population), and specifically urban tourism in cities such as Tunis, Alexandria, Beirut and Algiers (an entirely new phenomenon).

As a result of a recovering economy, most states have managed to cut subsidies substantially, and consolidated their fiscal deficits. Although high and volatile global **food prices** continue to be a problem for the Arab world, key mechanisms have been introduced which reduce their disruptive effects (exacerbated by climate change). Technological advancements have reduced the price of desalination, in turn improving agricultural production. Through a combination of buffer stocks, trade control and improved food production, Arab states have been able to manage their dependence on food imports significantly better than in the past.

The last decade has shown, yet again, that cooperation is the only way forward if Arab states want to progress on the economic as well as social front. Further integration is not only expected, but will most certainly impact on political integration, too. The League of Arab States, undergoing a major review in 2025, is likely to evolve from a multilateral to a supra-national body – although experts do not expect this to happen before 2040.

IV. UNLIKELY, BUT NOT IMPOSSIBLE: THE WILD CARDS

In futurology, wild cards are events with a high impact but a low probability. As a result, they contain a strong element of strategic surprise – the intense national and regional reaction to Mohamed Bouazizi's self-immolation is one example. The impact of such incidents can change whole systems and trends to an entirely new extent. While some can be detected by their 'weak signals' (indications, such as a high food price, that unrest might be expected), others can simply not be anticipated. Wild cards are significant because they stimulate strategic thinking and the reaction of bureaucratic systems to unforeseen or unanticipated developments. Imagining potentially disruptive and unexpected events can contribute to flexibility and agility when such surprises eventually occur – because even though they are never expected, wild cards manifest themselves with great regularity. The Arab Foresight Group has identified a series of wild cards which, while not exhaustive, indicate potentially disruptive future events in the region.

Chemical weapons in the hands of a non-state actor: the prospect of non-state entities or groups in possession of chemical weapons would not only change the strategic landscape in asymmetric conflicts (such as Syria or the Palestinian territories); it is also likely to draw outside powers into the region to avoid such a scenario being emulated elsewhere.

The House of Saud falls: the imminent demise of the Kingdom of Saudi Arabia is currently not widely credited, but given growing discontent among its young unemployed citizens such a scenario is not entirely unimaginable. If the Saud family loses control over its population just as Mubarak and Ben Ali did, this would shake up not just regional but international relations considerably.

War between Saudi Arabia and Iran: both states have been engaging in aggressive rhetoric, but Riyadh in particular has beefed up its air force and navy over the last decade. Feeling threatened by Iran as it is, Saudi Arabia could use the prospect of an Iranian closure of the Strait of Hormuz as a pretext to strike Iranian targets. This would engage not only the whole region, but outsiders as well.

Energy technology revolution: the development of cheap and secure energy provisions and storage would change the balance of wealth in the region considerably; it would force oil-producing states to review their economic and social posture, while it would work in the favour of those reacting promptly to innovation.

A Russian proxy war: the antagonism with Russia could very well continue to be played out in the region – Moscow could engage even more forcefully in Egypt and expand to Algeria and even Saudi Arabia. This would most certainly lead to a Western reaction.

Death of Bashar al-Assad: in his late forties when the Syrian civil war began, Assad's death of natural causes is unlikely; were he to die prematurely this might open the way for negotiations – depending on who the regime would appoint to take his place.

IS attacks the West: a mass terrorist attack by the Islamic State on Western ground, resulting in several thousand victims, could entail a forceful and perhaps even large-scale military reaction.

Disintegration of the Gulf Cooperation Council: Qatar, Kuwait and Oman leave the GCC, leaving it as a mouthpiece for Saudi interests in the region. This would constitute a significant setback to Arab integration efforts.

A new Nasser emerges: a leader with a strong regional backing emerges, comparable to Gamal Abdel Nasser. A powerful force driving a regional agenda, such a figure could have either a positive or a negative impact on regional relations. Under current circumstances, such an individual would be likely to emerge in Egypt, Iraq or perhaps Tunisia.

Natural catastrophe fosters cooperation: long-postponed Arab integration could very well be triggered, at last, by a natural catastrophe making cooperation a necessity rather than a choice. Given the prospects of climate change, such a catastrophe could take the form of floods, sandstorms, landslides or severe droughts – but an explosion at Iran's nuclear reactor Bushehr, located in an earthquake-prone area only 300-500km away from the Gulf States, is also imaginable.

War between Egypt and Ethiopia: Ethiopia's construction of Nile dams has displeased Cairo since work began on the project in 2011; Egypt has threatened military intervention more than once. For Egypt and the region, this would mean a serious economic setback.

Islamic State becomes a state: the consolidation of territory in Northern Iraq and Eastern Syria, export of oil and provision of services has already lent IS the aura of statehood; should it maintain its control and even come to be recognised by other states, this would not only change the map of the area, but perhaps have a cascade effect.

Kurdistan becomes a state: encouraged by surrounding developments, territories with majority Kurdish inhabitants in Syria and Iraq could self-declare statehood. This would have an impact not only on Iraq or Syria, but potentially encourage other groups in the region to seek separate states.

CONCLUSION

As the Arab world and its neighbours are undergoing a difficult transition, the role of outsiders is changing too. Middle Eastern and North African countries have become more assertive in their dealings with Western counterparts at a time when assistance from international donors is more essential than ever; the American 'pivot to Asia' seems to have left a strategic vacuum which may potentially be filled by states such as China, India or Brazil – but most importantly, Arab states are increasingly relying on themselves to address the issues with which they are confronted.

As this report shows, all Arab states face an array of common challenges ranging from youth unemployment to climate change and terrorism. This might provide the necessary impetus for Arab cooperation, but in particular it shows that bilateral approaches are no longer enough. None of the abovementioned issues can be tackled by national governments alone; outsiders need to take this into account when providing the vital assistance they can offer.

Whether through existing or new bodies, multilateralism is the answer to Arab problems – only in 2015, it is a matter of necessity and no longer of choice. Be it economic integration or intelligence sharing, the solutions are always regional and never purely national. If Arab states take the wrong turn at this crossroads, they will face not only protracted instability, but lose important gains made over the last few decades. If the future is to begin now, Arab states have to act.

ANNEXES

ABBREVIATIONS

AFESD	Arab Fund for Economic and Social Development
AQAP	al-Qaeda in the Arabian Peninsula
CBM	Confidence-building measures
FDI	Foreign direct investment
GAFTA	Greater Arab Free Trade Area Agreement
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GNI	Gross National Income
IEA	International Energy Agency
IPCC	International Panel on Climate Change
IS	Islamic State
ISIL	Islamic State of Iraq and the Levant
IT	Information Technology
mb/d	million barrels per day
MENA	Middle East and North Africa
Mtoe	million tonnes of oil equivalent
NPT	Nuclear Non-Proliferation Treaty
OECD	Organisation for Economic Cooperation and Development

SLR	Sea level rise
SSA	Sub-Saharan Africa
UAE	United Arab Emirates

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