



# PEACE IN LIBYA THE BENEFITS

## Benefits of Peace in Libya: Neighbouring Countries and Beyond Executive Summary



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Economic and Social Commission for Western Asia

# Benefits of Peace in Libya: Neighbouring Countries and Beyond

## Executive Summary

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United Nations publication issued by ESCWA, United Nations House, Riad El Solh Square, P.O. Box: 11-8575, Beirut, Lebanon.

Website: [www.unescwa.org](http://www.unescwa.org).

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# 1. Introduction and Objectives

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The outbreak of devastating conflicts around the Arab world in the aftermath of the Arab Spring has been a great concern for all political actors and international organizations in the region. These conflicts have caused great trepidation and fear. They have first led to serious political instability and, secondly, to the emergence of violence that has escaped the monopoly of legitimate State-led violence. This period was marked by the development of armed groups and terrorism that were a great source of instability and fragility for state institutions in many Arab countries. Conflicts have also led to significant political and economic instability, resulting in setbacks in the commitments of countries in the region to achieve their sustainable development goals (SDGs).

Alongside their macroeconomic and sectoral consequences, conflicts have had devastating effects on regional cooperation in the Arab region. Thus, trade flows, investments in the region and remittances have all been affected by wars and have reduced regional cooperation among countries.

Since the outbreak of conflicts, the United Nations Economic and Social Commission for Western Asia (ESCWA) has been focusing on their socioeconomic effects, carrying out important studies and research to show the impact of these conflicts on countries in the region and on regional cooperation. It has also undertaken important advocacy work with governments, political and social actors and civil society in the region to raise awareness of the destructive effects of these conflicts and the dire need to restore peace and development.

This study is part of the Libya Socio-Economic Dialogue (Libya SED) project carried out by ESCWA. The project is intended to provide a multi-layered platform for Libyan citizens at the national and sub-national levels to debate and discuss their

desired socioeconomic vision of Libya and the related policy options and trade-offs they will need to adopt. The platform also addresses the structural challenges of forging a new social contract and State institutionalization and advancing a sustainable development framework for the country. In this regard, and in order to inform the Libya socioeconomic dialogue participants when discussing the recovery process and the required alternative socioeconomic frameworks for sustainable development in Libya, ESCWA has initiated two studies: one that seeks to study the economic cost of the conflict (ESCWA, 2020), and another that measures the impact of peace in Libya on regional cooperation, which is the topic of this study.

ESCWA (2020) showed that the war caused a significant loss of Libya's economic potential, which we estimated at 783 billion Libyan dinars (\$580 billion)<sup>1</sup> in the period from 2011 to the present day. These losses will be even greater if the conflict continues beyond the year 2020 and could reach 628.2 billion Libyan dinars (\$465 billion) between 2021 and 2025. The conflict would cost the Libyan economy a total of 1,411.6 billion Libyan dinars (\$1,046 billion) between 2011 and 2025.<sup>2</sup>

This report will focus on the consequences of ending the conflict and establishing peace in Libya on regional cooperation, and in particular on trade with Egypt, the Sudan and Tunisia. The report also provides a quantitative assessment of the economic impacts of peace in Libya on regional cooperation. This work is all the more relevant as the United Nations-led negotiations between the Libyan parties are bearing fruit. The end of this conflict will mark the beginning of Libya's reconstruction. It will also give new impetus to cooperation among countries in the region.

<sup>1</sup> When the report was published in Dec 2020, the exchange rate was 1.35 Libyan Dinar to \$1 (02 Dec 2020).

<sup>2</sup> According to the Central Bank of Libya, the exchange rate is 4.46 Libyan Dinar to \$1, as of 03 June 2021.

## 2. Libya and Regional Economic Cooperation

Libya is a member of the Pan Arab Free Trade Area (PAFTA), the Arab region's largest trade agreement. Moreover, Libya is a member of the Arab Maghreb Union (AMU) and the Common Market for Eastern and Southern Africa (COMESA), and has bilateral trade agreements with Jordan and Morocco as well. In addition, Libya is the only Southern Mediterranean country - except for the Syrian Arab Republic - that has not yet concluded a Free Trade Agreement with the European Union (EU). More recently, Libya has signed, but has not yet ratified, the African Continental Free Trade Area (AfCFTA) agreement that will create the largest free trade area in the world starting in 2021.

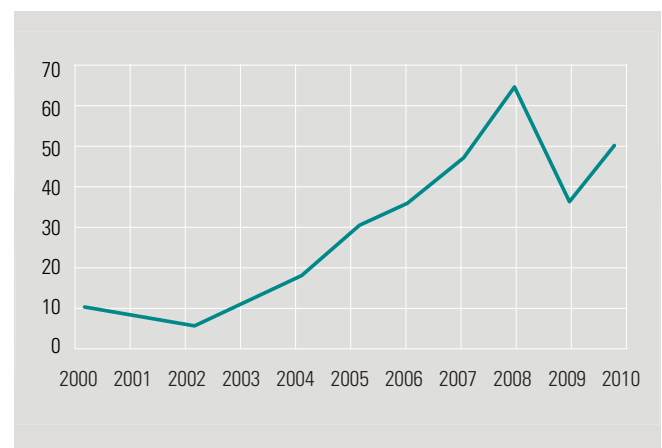
Figure 1 shows that Libya's total exports before the crisis displayed unstable performance, noting an increase from \$13 billion in 2000 to \$62 billion in 2008. After a sustained rise in the value of exports to the world since 2002 and achieving the highest record in the country's history in 2008, these exports declined dramatically at the beginning of 2009 because of the global financial crisis, which slowed demand and triggered a fall in global oil prices. Libya's exports experienced a minor recovery in 2010, but that was halted by the political change that took place in the country beginning in 2011.

During the same period, imports followed an upward tendency, passing from around \$4 billion to \$18 billion between 2000 and 2020.

During the pre-crisis period, oil's contribution to total exports varied from 91 per cent in 2002 to 96 per cent in 2009 and 2010.

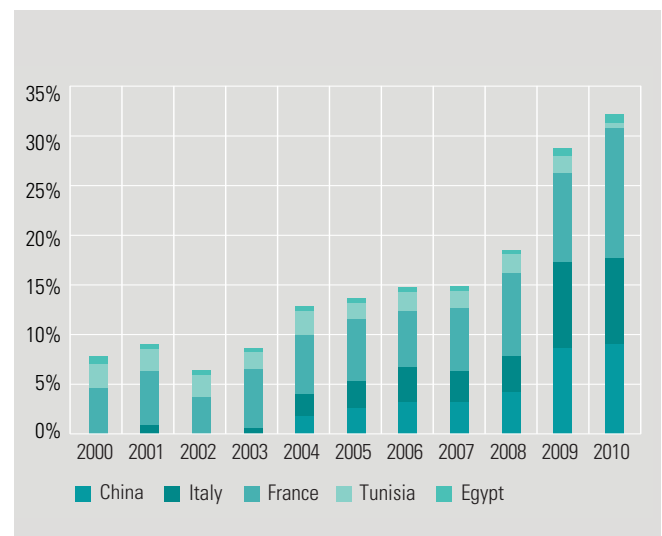
Contrary to exports, imports are much more diversified, which is normal since Libya is highly dependent on food and machinery and transport equipment imports to meet the needs of its population. These two categories

**Figure 1 Evolution of Libya's exports of goods, including oil, 2000-2010 (\$ billion)**



Source: Author's calculations using the COMTRADE database.

**Figure 2 Destination of Libyan exports to selected countries during the period 2000-2010 (percentage of total exports)**



Source: Author's calculations using the COMTRADE database.



accounted for between 50 per cent and 60 per cent of total Libyan imports of goods during the period 2000-2010.

Libya's key trading partner is the European Union. Even without any bilateral trade agreement, that trade accounted for almost 78 per cent of the country's exports and 49 per cent of its imports on average during the period 2000-2010. However, the importance of the EU for Libyan trade experienced a significant decline over the same period, mainly due to the emergence of other trade partners. In 2000, the EU absorbed 85 per cent of total Libyan exports of goods, against 78 per cent in 2010. On the other hand, the share of the EU in total Libyan imports passed from 62 per cent in 2000 to only 42 per cent in 2010. Despite this decline, however, Libya continues to be a key energy exporter to the EU, and the EU continues to be Libya's largest export market.

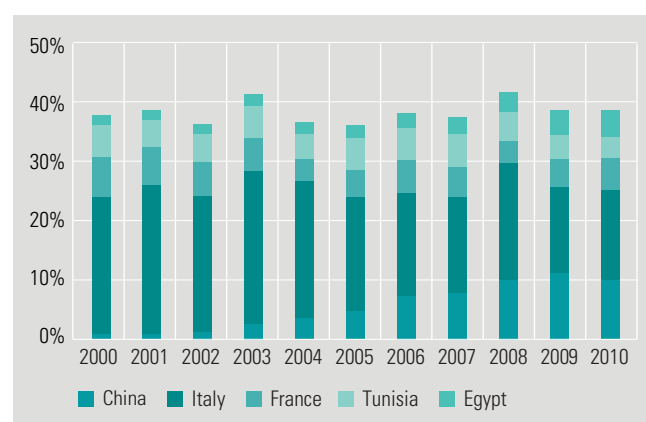
If we look at exports and imports at the country level, Italy and France have been among the major trade partners for Libya. Indeed, approximately 24 per cent of total Libyan imports were supplied by these two countries during the period 2000-2010, against 12 per cent of Libyan exports being absorbed by these two countries. However, the importance of these two countries for Libya's trade flows experienced significant changes between 2000 and 2010, passing from 30 per cent to 21 per cent of total Libyan imports, and from 5 per cent to 22 per cent of total Libyan exports.

As far as the Arab countries are concerned, Tunisia represented a major trade partner to Libya in the region. While only around 2 per cent of Libyan exports during the period 2000-2010 were destined to the Tunisian market, 4.4 per cent of Libyan imports originated from Tunisia over the same period. Egypt was Libya's second major Arab trade partner, with 3.2 per cent of Libyan imports over the period 2000-2010 having originated from Egypt, against only 0.5 per cent of Libyan exports being absorbed by Egypt (figures 2 and 3).

Foreign direct investment (FDI) inflows into Libya have been constantly increasing since the lifting of the United Nations sanctions in 2004, but showed a significant decline in 2009 due to the global financial crisis. However, the drop in FDI inflows into Libya continued its downstream trend following the violent demonstrations and civil conflicts that started in 2011.

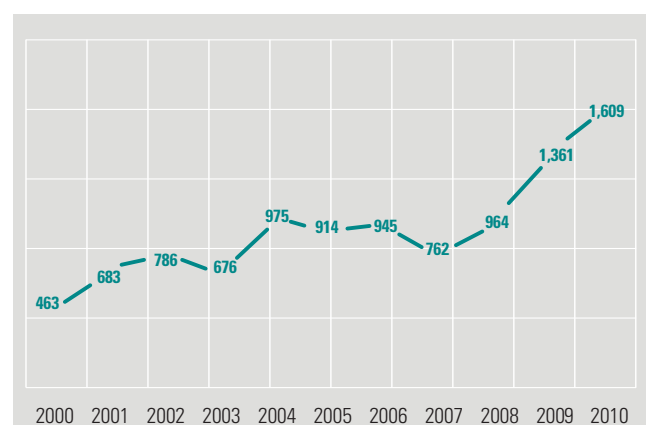
Libya has for decades been a key destination for foreign workers from all over the world, particularly from sub-Saharan Africa, the Arab region and Asia, as its economy has been heavily dependent on

**Figure 3 Source of Libyan imports by selected countries during the period 2000-2010 (percentage of total imports)**



Source: Author's calculations using the COMTRADE database.

**Figure 4 Libya: Remittance outflows, 2000-2010 (\$ million)**



Source: Author's calculations using the World Bank database.

foreign labour. According to a publication by the International Organization for Migration on labour migration dynamics in Libya (IOM, 2020), before the 2011 revolution, an estimated 1.35 million to 2.5 million migrant workers were based in Libya, employed mainly in the health and construction services and, to a lesser extent, in the agriculture and oil industries. Generally, almost two-thirds (64 per cent) of migrants in Libya come from Libya's neighbouring countries, particularly Chad, Egypt, Niger, the Sudan and Tunisia.

Libya has been a net source of remittance outflows since at least 2000. Remittance outflows have reached their highest value - \$1.6 billion - before the crisis in 2010, before falling to \$650 million in 2011. They then grew sensitively starting in 2012 to reach a historical level of \$3.2 billion in 2013, before falling again progressively to \$1.1 billion in 2014, to reach only \$744 million in 2018 (figure 4).

### 3. Peace in Libya and the Regional Cooperation Agenda: The Methodology

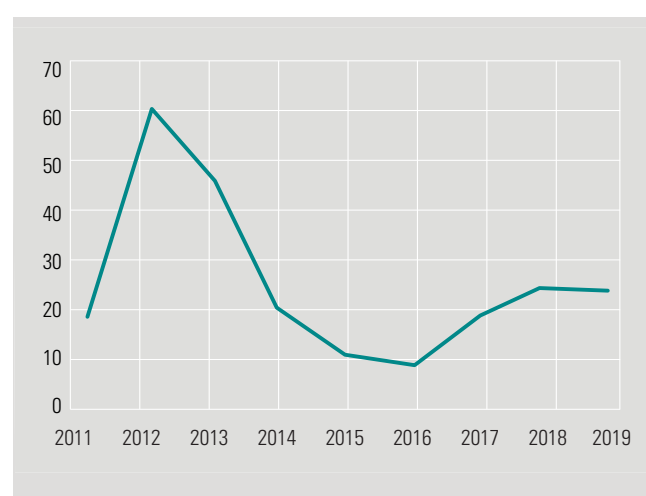
The volatility of world oil prices and the armed conflict have greatly disrupted Libya's oil production and its capacity to export during the period 2011-2019. Figures 5 and 6 show that Libya's total exports displayed unstable periods, fluctuating significantly between 2011 and 2019.

The EU remained Libya's key trading partner during the crisis, despite a significant decrease of its importance in Libya's foreign trade. During the period 2011-2019, 70 per cent of Libyan exports were absorbed by the EU, while 40 per cent of Libyan imports originated from the EU, against 78 per cent and 49 per cent, respectively, during the period 2000-2010. At the same time, trade flows with members of the Association of Southeast Asian Nations plus China, Japan and Korea (ASEAN+++)

A closer look at the Libyan trade with key partners reveals that significant changes occurred during the conflict period (2011-2019) compared to the pre-crisis period (2000-2010). First, Italy and France were still important partners, but within a completely different context. Indeed, only 16 per cent of total Libyan imports were supplied by the two countries during the period 2011-2019, compared to 24 per cent during the period 2000-2010. However, 20 per cent of total Libyan exports were oriented towards these two countries during the period 2011-2019, against only 12 per cent in the period 2000-2010 (figure 7).

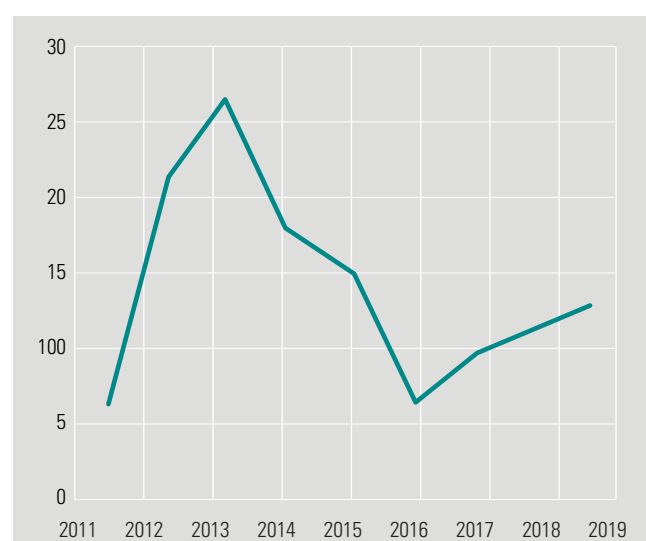
As for the Arab countries, Tunisia and Egypt were still major trade partners of Libya during the crisis, as their shares in total Libyan trade did not experience any significant change. Their respective shares in total imports from Libya varied between 3 per cent and 4 per cent, both before and during the crisis (figure 8).

■ Figure 5 Evolution of Libya's exports of goods, including oil, 2011-2019 (\$ billion)



Source: Author's calculations using the COMTRADE database.

■ Figure 6 Evolution of Libya's imports of goods, including oil, 2011-2019 (\$ billion)



Source: Author's calculations using the COMTRADE database.

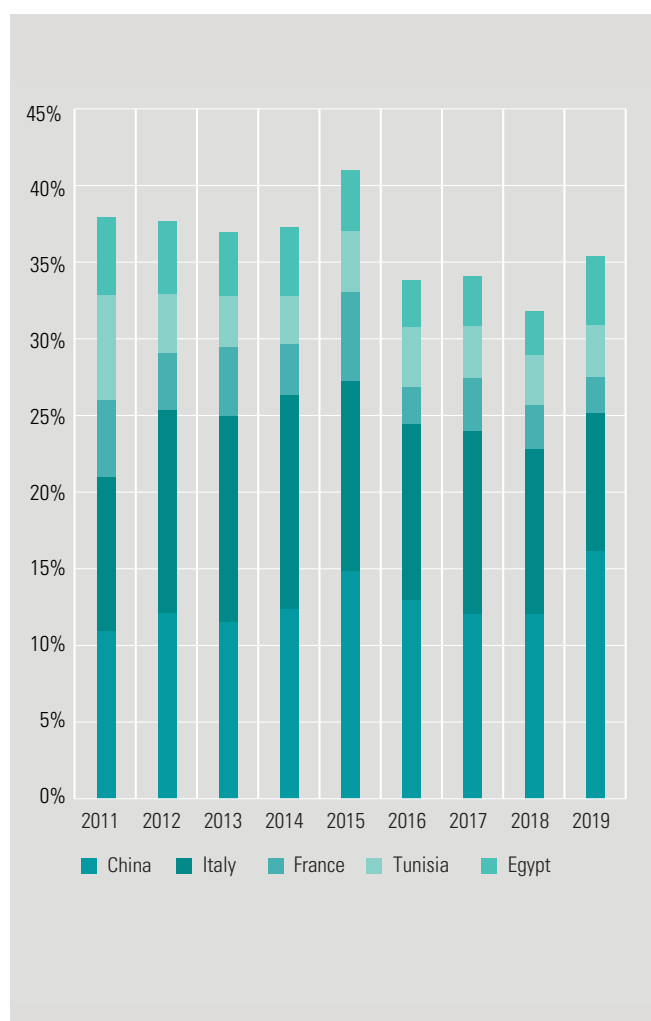
Foreign direct investment inflows into Libya dropped significantly following the violent demonstrations and civil conflicts starting in 2011. While the country was successful in attracting \$1.2 billion worth of FDI in 2012, that amount fell again the following year and stalled in 2014. As a result, the stock of FDI in the country has remained “artificially” unchanged since 2013 at \$18.5 billion, despite significant destruction that partially or even totally, impacted several projects.

Remittance outflows have reached their highest value - \$3.2 billion - during the crisis in 2013, before falling to \$680 million in 2017 and then growing slightly in 2018 (figure 9).

Figure 10 shows that Egypt is the most important Arab recipient of remittances from Libya, followed

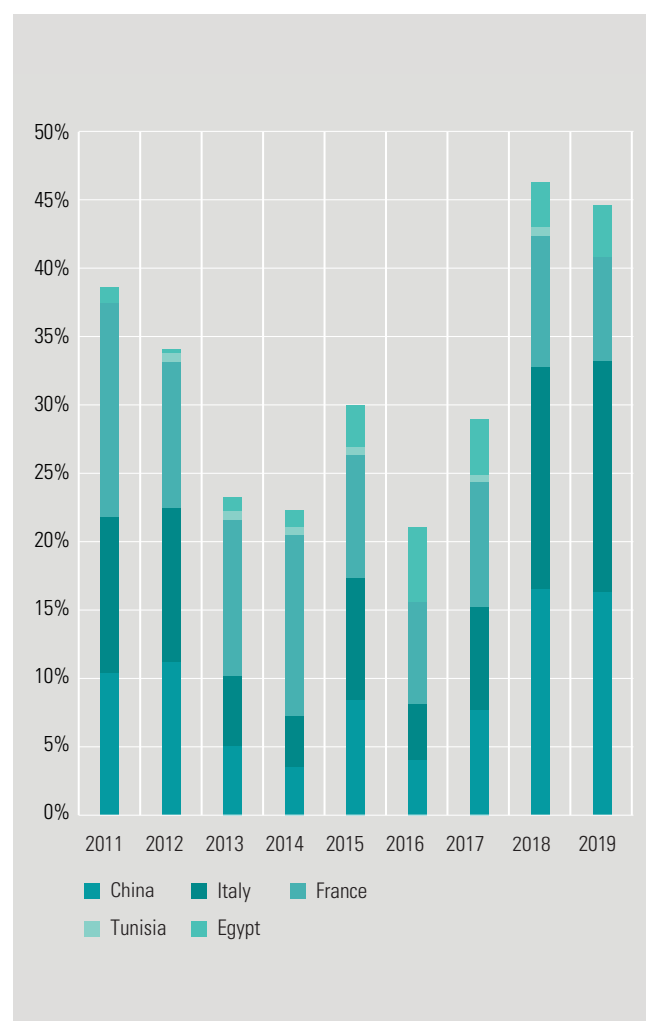
by Tunisia. A total of \$4.631 billion was sent from migrant workers in Libya to Egypt in 2010-2012, compared to \$0.720 billion sent to Tunisia. Egypt and Tunisia absorbed around 96 per cent of total remittances sent to Arab countries during the three years 2010-2012. However, since 2013, the situation changed dramatically, and remittances received by Egypt and Tunisia declined to just \$0.109 billion in 2017. In addition, the World Bank data shows that remittances received by both Algeria and the Sudan were too low, never exceeding \$1 million. It is worth noting, however, that the World Bank’s estimates may not be relevant for neighbouring countries as most of trade and transfers are made through informal channels.

**Figure 7 Source of Libyan imports by selected countries during the period 2011-2019 (percentage of total imports)**



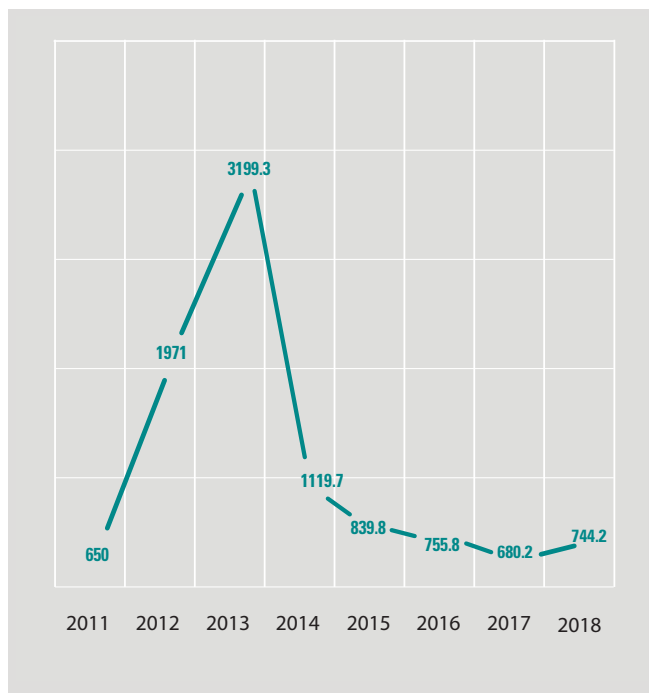
Source: Author's calculations using the COMTRADE database.

**Figure 8 Destination of Libyan exports to selected countries during the period 2011-2019 (percentage of total exports)**



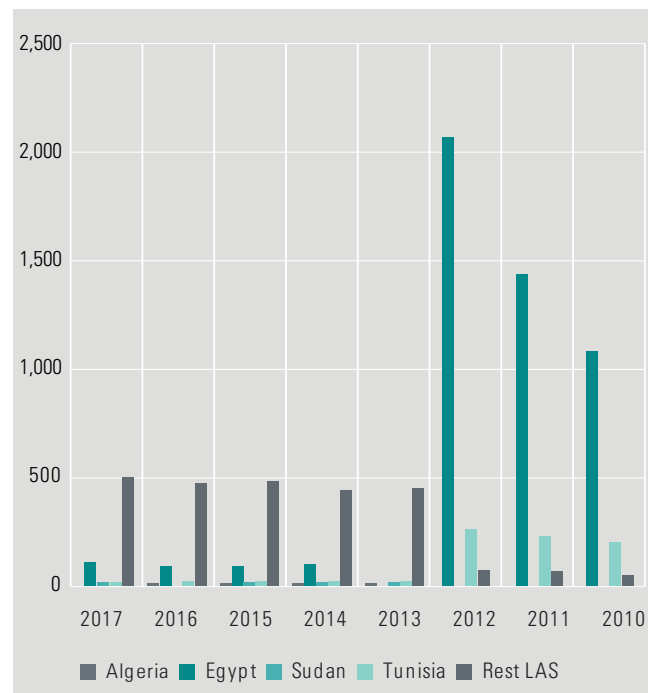
Source: Author's calculations using the COMTRADE database.

■ Figure 9 **Libya: Remittance outflows, 2011-2018 (\$ million)**



Source: Author's calculations using the World Bank database.

■ Figure 10 **Remittances sent from Libya by destination country in most of the Arab region, 2010-2017 (\$ million)**



Source: Author's calculations using the World Bank database.



## 4. Peace in Libya and the Regional Cooperation Agenda: The Results

In our study, we examined the economic effects of peace on Libya's main trading partners at both the international and regional levels. All the results show that peace in Libya will have positive economic effects on Libya's main trading partners, notably Italy, France and Turkey.

In this study, we will focus on the effects of peace on regional cooperation. At this level, our results show that peace in Libya will have major effects on regional cooperation with countries in the region on growth, employment, investment and trade.

### A. The growth effects

Our simulations show that the four countries in the region (Algeria, Egypt, the Sudan and Tunisia) will experience a gain in growth relative to the baseline scenario of the continuation of the Libyan

conflict, while peace in Libya will have much greater cumulative effects. Thus, growth in the Sudan will average 6.72 per cent higher than the baseline scenario over the period 2021 to 2025. The annual average cumulative growth gain will be 4.46 per cent in Egypt, 3.80 per cent in Tunisia and 2.67 per cent in Algeria over the same period (see table 1).

We were also able to estimate the gain in the value of peace in Libya for all economies. Our estimates show that Egypt's gain over the period 2021 to 2025 will be \$99.7 billion. The Sudan's gain over the same period will be \$22.7 billion. For Algeria, this gain over the same period will be \$29.8 billion, and for Tunisia \$9.7 billion (see table 1).

The total gain of peace in Libya for the region will be \$161.9 billion over the period 2021 to 2025, or an annual average of \$32.38 billion in gain in regional GDP.

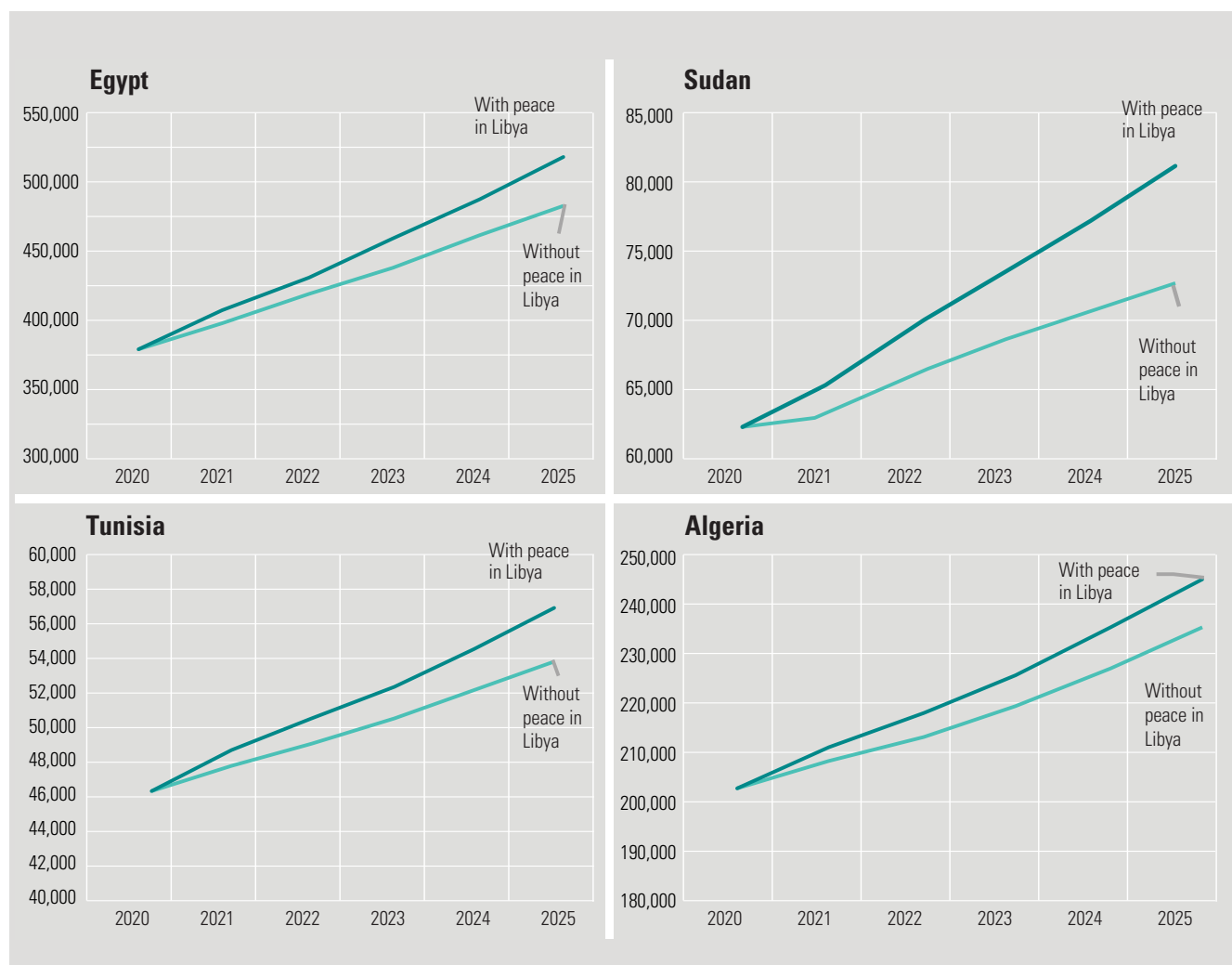
**Table 1 Real GDP levels (variation vis-à-vis the reference scenario in per cent)**

	2021	2022	2023	2024	2025	Average	\$ billion
Egypt	1.89	3.05	4.29	5.58	6.91	4.46	99.7
Sudan	2.44	4.34	6.43	8.67	11.02	6.72	22.7
Tunisia	1.84	2.77	3.72	4.70	5.70	3.80	9.7
Algeria	1.27	1.94	2.62	3.31	4	2.67	29.8
Turkey	0.07	0.10	0.12	0.14	0.16	0.12	5.5
France	0.06	0.08	0.09	0.11	0.13	0.09	13.1
Germany	0.02	0.03	0.04	0.04	0.05	0.04	7.5
Italy	0.04	0.05	0.06	0.07	0.08	0.06	6
Rest of Europe	0.03	0.04	0.05	0.06	0.07	0.05	14.8
Sub-Saharan Africa	-0.04	-0.05	-0.06	-0.07	-0.07	4.46	-6.1

**Source:** Author's estimations using the amended ATSM.



■ Figure 11 Real GDP evolution in Libya's neighbouring countries



Source: Author's estimations using the amended ATSM.

## B. The effect on employment

Our estimates show a significant drop in unemployment in the countries of the region resulting from the growth gain that will take shape in neighbouring countries, as well Libya's opening up to the region's labour force following peace. The Sudan will experience a significant drop in unemployment, estimated at -13.93 per cent over the period 2021 to 2025. The decrease will also be -8.84 per cent in Egypt, -6.07 per cent in Tunisia and -2.18 per cent in Algeria.

## C. The effect on investment

Similarly, investment will increase in the various countries of the region once peace is established in Libya. This increase is the result of both the gain in growth in the various countries and the resumption of

export growth to the Libyan market. We measured this investment growth at an annual average of 8.98 per cent over the baseline scenario of continued conflict over the period 2021 to 2025. This increase will be 5.98 per cent for Egypt, 5.49 per cent for Tunisia and 2.01 per cent for Algeria over the same period.

## D. The effect on trade

Another major effect that our study highlighted is the effect on trade. Our results show that peace in Libya will promote greater cooperation among the countries of the region.

Our estimates show that the peace agreement in Libya will increase trade for the benefit of neighbouring countries, compared to other regions of the world.

It should be stressed that peace in Libya will contribute to boosting the external exchanges of countries in the region more significantly than that of other regions.

The effect on trade will be even greater if we look at the region's exports to Libya, which will be greater than the progress of the other regions.

### **E. The sectoral effect**

Our estimates show that the end of the conflict and the establishment of peace in Libya will lead to an important sectoral effect and the consolidation of the diversification efforts of the concerned countries.

This trend can be seen through the study of the evolution of value added in the various neighbouring economies and the evolution of their sectoral exports to Libya.

Thus, in parallel with the effects of growth and diversion of trade flows, the end of the conflict and the establishment of peace in Libya will have diversification effects on neighbouring economies

through the strengthening of industrial and manufacturing activities.

The sectoral effect is also evident in the nature of exports from neighbouring countries to Libya after the end of the conflict.

Our estimates show that manufacturing is the sector that will benefit the most from peace and reconstruction in Libya.

In the end, our study and estimates have shown us that regional cooperation will emerge stronger from peace in Libya. First, a growth effect resulting from peace will translate into gains in growth, investment and employment in neighbouring countries.

Peace in Libya will also have a trade effect and strengthen cooperation among neighbouring countries at the expense of other regions of the world.

Peace in Libya will also have a sectoral effect and will strengthen the diversification of the economies in the region.



## 5. Conclusion and policy options

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This study allowed us to measure the impact of a peace agreement and the end of conflict in Libya on regional cooperation.

Our results clearly demonstrate that peace in Libya will benefit the region's economies and strengthen regional cooperation.

Ultimately, the end of the conflict and the return of peace to Libya will be major developments with vast and significant consequences. Peace will bring an end to this destructive conflict that has come at such a high cost for human life and progress, and will subsequently promote the return of security and order throughout the country.

Peace will save the significant cost of this conflict on the Libyan economy and society. The resulting gains can once again be invested to meet the needs of the Libyan economy and allow the country to return to its path towards achieving the SDGs.

This study allowed us to focus on the regional dimension of peace, which will benefit neighbouring countries and strengthen regional cooperation.

From this point of view, it is important that countries in the region are increasingly and collaboratively involved in finding a solution to end this conflict, as they will also benefit from the dividends of peace.

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# List of Libya Project Publications

Document number	Title	العنوان
E/ESCWA/CL6.GCP/2020/TP.3	An Introductory Study on the Status, Challenges and Prospects of the Libyan Economy Part I of a Baseline Study for the Libya Socioeconomic Dialogue Project	دراسة تمهيدية عن الاقتصاد في ليبيا: الواقع والتحديات والأفاق الجزء الأول من دراسة أولية لمشروع الحوار الاجتماعي والاقتصادي الليبي
E/ESCWA/CL6.GCP/2020/TP.2	An Introductory Study on the Status, Challenges and Prospects of the Libyan Society Part II of a Baseline Study for the Libya Socioeconomic Dialogue Project	دراسة تمهيدية عن المجتمع في ليبيا: الواقع والتحديات والأفاق الجزء الثاني من دراسة أولية لمشروع الحوار الاجتماعي والاقتصادي الليبي
E/ESCWA/CL6.GCP/2020/TP.1	An Introductory Study on the Status, Challenges and Prospects of Governance and Institutions in Libya Part III of a Baseline Study for the Libya Socioeconomic Dialogue Project	دراسة تمهيدية عن الحوكمة والمؤسسات في ليبيا: الواقع والتحديات والأفاق الجزء الثالث من دراسة أولية لمشروع الحوار الاجتماعي والاقتصادي الليبي
E/ESCWA/CL6.GCP/2020/TP.8	The economic cost of the Libyan conflict	الكلية الاقتصادية للصراع في ليبيا
E/ESCWA/CL6.GCP/2020/TP.5	Economic cost of the Libyan conflict Executive Summary	الكلية الاقتصادية للصراع في ليبيا ملخص تنفيذي
E/ESCWA/CL6.GCP/2020/2	Benefits of Peace in Libya : Neighbouring Countries and Beyond	السلام في ليبيا: فوائد للبلدان المجاورة والعالم
E/ESCWA/CL6.GCP/2020/2/ SUMMARY	Benefits of Peace in Libya :Neighbouring Countries and Beyond Executive Summary	السلام في ليبيا: فوائد للبلدان المجاورة والعالم ملخص تنفيذي
E/ESCWA/CL6.GCP/2021/TP.1	Vision for Libya: towards prosperity, justice and strong State institutions	رؤية ليبيا: نحو دولة ازدهار والعدالة والمؤسسات
E/ESCWA/CL6.GCP/2021/ POLICY BRIEF.1	Towards an inclusive national identity in light of a just citizenship State	نحو هوية وطنية جامعة في ظل دولة العدالة المواطنة
E/ESCWA/CL6.GCP/2021/ POLICY BRIEF.2	Social protection system	منظومة الحماية الاجتماعية
E/ESCWA/CL6.GCP/2021/ POLICY BRIEF.3	Human capital, youth and women empowerment, and the integration of militant forces	رأس المال البشري وتمكين الشباب والمرأة ودمج المسلحين
E/ESCWA/CL6.GCP/2021/ POLICY BRIEF.4	The role of the State in sustainable economic development and the strategic positioning of Libya in the global economy	دور الدولة في التنمية الاقتصادية المستدامة والنموذج الاستراتيجي لليبيا في الاقتصاد العالمي
E/ESCWA/CL6.GCP/2021/ POLICY BRIEF.5	Strengthening the State authority and the rule of law through a fair and independent justice system, and human security based on human rights and the principles of comprehensive justice	تعزيز سلطة الدولة وسيادة القانون في ليبيا: دور مبادئ حقوق الإنسان والعدالة الشاملة في إرساء منظومة مجتمعية عادلة، وقضاء نزيه ومستقل، وأمن إنساني مستدام
E/ESCWA/CL6.GCP/2021/ POLICY BRIEF.6	Restoring trust and reconciliations to establish a national charter	ترميم الثقة والمصالحات: الطريق نحو تأسيس ميثاق وطني ليبي
E/ESCWA/CL6.GCP/2021/ POLICY BRIEF.7	Building a State of institutions, regional integration and international cooperation	بناء دولة المؤسسات والتكامل الإقليمي والتعاون الدولي
E/ESCWA/CL6.GCP/2021/ POLICY BRIEF.8	Mechanisms for economic reform and recovery	آليات الإصلاح والتعافي الاقتصادي





The present report focuses on the consequences of ending the conflict in Libya and securing agreement on regional cooperation, in particular regarding trade with Egypt, the Sudan and Tunisia. The report provides a quantitative assessment of the economic impact of a peace agreement in Libya on regional cooperation. Peace in Libya will also result in significant gains in growth, employment and investment for countries neighbouring Libya, namely, Algeria, Egypt, the Sudan and Tunisia.

Peace in Libya will end a destructive conflict that has come at such a high cost for human life and progress, and will subsequently promote the return of security and order throughout the country. Peace will limit the significant cost of the conflict for the Libyan economy and society. The resulting gains can be invested in meeting the needs of the Libyan economy, thus allowing the country to strive towards achieving the SDGs.

