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REPORT

**ON THE IMPACT OF CONFLICT AND POLITICAL TENSION ON THE
SOCIO-ECONOMIC DEVELOPMENT OF THE ESCWA REGION:
CURRENT AND FUTURE CHALLENGES**

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Summary

Countries at the centre of conflicts and instability in the region of the Economic and Social Commission for Western Asia (ESCWA) experience the highest levels of destruction in their economic and human capital. These conflicts are compounded by domestic and global challenges and such spillover effects as conflict-driven displacement, communal tensions and exorbitant military expenditures continue to hamper the realization of the full development potential of the region significantly. Demographics and the youth bulge, climate change, water scarcity and the food crisis also have the potential of translating into domestic disturbances and even wars.

Instability and conflict in the Middle East have cost the region around US\$12 trillion in missed economic growth and development over the last two decades. Increasing military expenditures have turned the Middle East into the most militarized region in the world as seven out of the ten highest military spenders in the world are countries in the region. Needless to say that these funds could have been better used for development purposes.

Between 1980 and 2009, the population of the Arab region more than doubled. The urban population has surged, putting tremendous pressure on the infrastructure and the ability of the Government to deliver essential services. In the attempt to bridge the gaps in the delivery of essential services, informal networks have appeared, some of which have been used for political purposes, a development which may add an additional threat to social cohesion and stability.

A leading challenge for the region is to secure the future of its youth who require greater access to economic opportunities, quality education, recreation, and participation. Lack of access of youth to employment opportunities creates frustration and may also lead to domestic disturbances and tensions.

Climate change and water scarcity may also hold serious implications for the ESCWA region. While climate change cannot be directly ascribed to the atmosphere of conflict in the Middle East, it is likely to act as a threat multiplier – exacerbating water scarcity and tensions over water within and between nations. The fight over natural resources could lead to conflicts of different dimensions.

Lastly, many countries in the ESCWA region have been hit by the food crisis. In addition to high levels of poverty and food insecurity for large swaths of the population, large numbers of vulnerable households who managed to escape out of poverty fall back into poverty because of rising food prices. Beside its obvious impact on the economy and on households, food insecurity could translate into instability.

In conclusion, efficient and capable public institutions can make a difference in addressing national and regional challenges. Enhancing their capacity should rest high among development priorities.

I. INTRODUCTION

1. This report seeks to highlight the impact of conflict and political tensions on the socio-economic development of the ESCWA region as mandated by numerous ministerial session resolutions. These include resolution 282 (XXV) of 29 May 2008, entitled “Mitigating the impact on development of conflict, occupation and instability in ESCWA member countries”, which requests the ESCWA secretariat to intensify its efforts to raise awareness of the potential impact of conflict and instability on development. Similarly, resolution 271 (XXIV) of 11 May 2006, entitled “Strengthening the role of ESCWA in addressing the impact of conflict and instability within the context of social and economic development”, requests the ESCWA secretariat to intensify its endeavours to enhance the capacity of member countries to assess, predict and respond to socio-economic and political challenges posed by conflict and instability through monitoring, analysing and reporting on the repercussions of conflict and instability on the socio-economic development in Western Asia.

2. The objective of this report is to generate debate among experts, policymakers and decision makers taking part in ESCWA’s ministerial session of May 2010. The themes highlighted here do not constitute an exhaustive or definitive list of the ramifications of continuous occupation, conflict or political tensions which the region has been subjected to and is expected to continue to face. Furthermore, the report seeks to highlight a number of regional and international social, economic and environmental dynamics that have significant implications on the ESCWA region, in particular on conflict-afflicted and least developed countries (LDCs). Global and regional trends and spillover effects of conflict have compounded already existing socio-economic challenges at the national level of most ESCWA States, thereby continuously expanding the list of development priorities for national Governments as well as development practitioners.

3. The first part of the report outlines the direct impact of occupation and conflict on the socio-economic development of crisis-afflicted countries and discusses the most pressing spillover effects and regional challenges. The second part examines several global trends that are poised to translate into potential regional challenges, particularly if coupled with the ramifications of conflict and its spillover effects.

II. CURRENT CHALLENGES: THE IMPACT OF OCCUPATION, CONFLICT AND SPILLOVER EFFECTS

4. For the last decades, a number of countries in the ESCWA region have experienced different degrees of intermittent or protracted conflicts and perpetual political tensions. According to the Economic Intelligence Unit, conflict in the Arab world has cost between 742,000 and 848,000 lives since 1980.¹ Occupation, conflicts and tensions have invariably had a negative impact on socio-economic development, undermining people’s opportunities to obtain sufficient food, proper employment, health care, education and other essentials vital for human security. Hardest hit in the ESCWA region were Iraq, Palestine, the Sudan and Yemen.

5. Israeli occupation of Palestinian territory remains the leading cause of hardship for the Palestinian people. The strict Israeli-imposed regime of closures and mobility restrictions, particularly on the Gaza Strip, the barrier in the West Bank and continuous Israeli settlement expansion have increased poverty and unemployment rates to disturbing levels. National estimates place unemployment rates, including discouraged workers in Palestine, in the third quarter of 2009 at 31.4 per cent (42.3 per cent in the Gaza Strip and 17.8 per cent in the West Bank).² The United Nations Development Programme (UNDP) places overall poverty levels in 2008 at 68 per cent, and the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) further estimates that 90 per cent of Gazans are now partially or wholly dependent on international aid for food. Based on its Food Security and Vulnerability Analysis

¹ *The Economist*, Waking from Its Sleep: A special report on the Arab world, 25 July 2009, p. 3.

² Palestinian Central Bureau of Statistics (PCBS), *Survey of Palestinian Labour Force*, 2009.

Report of December 2009, the World Food Programme maintains that almost 38 per cent of Palestinians are food insecure (25 per cent in the West Bank and 61 per cent in the Gaza Strip). In addition, 11 per cent of Palestinians in the West Bank and 16 per cent in the Gaza Strip are vulnerable to food insecurity.

6. Iraq continues to suffer from the socio-economic and humanitarian ramifications of violence, instability and tensions in the aftermath of the 2003 invasion led by the United States. Iraq still struggles from the legacy of international sanctions and conflicts in previous decades. Millions of Iraqis have been displaced internally and to neighbouring countries. The unemployment rate stood at 18 per cent in 2008. A further 10 per cent of the labour force is comprised of part-time workers seeking to work more hours, and 450,000 youth enter the job market annually.³ In 2009, 23 per cent of the population lived below the poverty line of US\$2.2 per person per day.⁴ These figures, combined with rising food prices and other factors have rendered a large portion of the population vulnerable to food insecurity, which is exemplified by the 20 per cent decrease of protein consumption among Iraqis.⁵ Out of all Iraqi households, 3.1 per cent are food insecure, another 9.4 per cent are vulnerable to food insecurity,⁶ and 9.1 per cent of Iraqi children under five years are underweight.⁷ The deterioration of the health system in Iraq has also had its toll on children and infants. Under-one and under-five mortality rates in 2008 were reported at 36 and 44 per 1000, respectively.⁸ In addition, the adult literacy rate in Iraq for 2003-2008 was a mere 74 per cent, while traditionally the country enjoyed one of the highest literacy rates in the region.⁹

Least developed countries

7. In its latest triennial review of the list of LDCs in 2009, the Committee for Development Policy used the following three criteria for the identification of LDCs: (a) a low-income criterion (gross national income (GNI) per capita under US\$905); (b) a human capital status criterion; and (c) an economic vulnerability criterion. To be added to the list, a country must fulfil all three criteria. In addition, since the fundamental meaning of the LDC category, namely the recognition of structural handicaps, excludes large economies, the population must not exceed 75 million.¹⁰ In the ESCWA region, the Sudan and Yemen are considered as LDCs.

8. In Yemen, the level of human development remains far below desirable levels, which is caused by security, political and other domestic challenges. The Human Development Report published in 2007 reveals that 45.2 per cent of the population live below the income poverty line of US\$2 per day and that 15.7 per cent live in abject poverty, defined as living on less than US\$1 per day. Unemployment is high, at around 16.5 per cent, according to estimates by the International Monetary Fund (IMF). Development efforts are further obstructed by the limited supply of skilled labour, with very low literacy and school attendance rates for both men and women. With a high fertility rate and a young population, the serious labour issues facing Yemen are expected to increase, especially since access to education as well as the educational infrastructure are inadequate. According to the United Nations Children's Fund (UNICEF), adult literacy in Yemen was an alarming 59 per cent in 2003-2008,¹¹ compared with an average literacy rate of more than 60 per cent for

³ United Nations Office for the Coordination of Humanitarian Affairs (OCHA), Inter-Agency Information and Analysis Unit (IAU), *Iraq Labour Force Analysis 2003-2008*, January 2009, p. 2.

⁴ OCHA, *Iraq 2010 Humanitarian Action Plan*, December 2009, p. 9.

⁵ *Ibid.*, p. 15.

⁶ World Food Programme (WFP), *Comprehensive Food Security and Vulnerability Analysis – Iraq*, 2008, p. 54.

⁷ *Ibid.*, p. 66.

⁸ United Nations Children's Fund (UNICEF), *Statistical Tables 2009*, available at: <http://www.unicef.org/rightsite/sowc/statistics.php>.

⁹ *Ibid.*

¹⁰ See: <http://www.unohrlls.org/en/ldc/related/59/>.

¹¹ UNICEF, *At a glance: Yemen – Statistics*, available at: http://www.unicef.org/infobycountry/yemen_statistics.html.

low-income countries. The statistics are even starker when broken down by sex: 65 per cent of Yemeni women are judged illiterate, compared with 27 per cent of men. These drastic figures are mainly caused by lacking access to basic education, particularly for girls: in 2005, only 63 per cent of eligible girls were enrolled in primary schools, and just 30 per cent in secondary schools.¹²

9. The Sudan has suffered from recurrent civil wars and conflicts during the past decades, which severely affected human development in the country. Human development indicators reveal the extent of this impact. In 2007, unemployment was reported to be at 19.4 per cent.¹³ In the same year, 90 per cent of the population in the southern Sudan and 60-75 per cent in the north were reported to be living under the US\$1 per day poverty line.¹⁴ The Sudan also suffers from the highest child mortality rates in the region, with the under-one and the under-five mortality rates at 70 and 109 per 1000, respectively, in 2008.¹⁵ Furthermore, 2000-2007 data indicate that an alarming 41 per cent of children less than five years of age are underweight.¹⁶ In addition, data recorded between 2003 and 2008 reveal that the literacy rate among adults in Sudan is a mere 61 per cent.¹⁷

Regional spillover effects

10. The ESCWA region has been beset by a number of regional spillover effects generated by conflict and political tensions. While not definitive or exclusive, the report will focus on conflict-driven displacement, communal tensions, the economic cost of conflict and exorbitant military expenditures.

Conflict-driven displacement

11. Thirty-six per cent of all displaced persons in the world are to be found in the ESCWA region.¹⁸ Conflicts and instability have resulted in 7.6 million refugees and 7.2 million internally displaced persons. The continuation of conflict, the lack of viable political solutions, the lack of implementation of relevant United Nations resolutions, the absence of the rule of law and the disregard of the United Nations Charter and other international conventions constitute leading driving forces of displacement in the ESCWA region. These factors have prolonged the displacement predicament of certain refugee populations.

12. The 4.6 million Palestinian refugees account for more than 25 per cent of all refugees worldwide. The protracted situation of Palestinian refugees continues to be politically, socially and economically significant for the whole ESCWA region. The Sudan hosts 4.3 million internally displaced persons. 2.2 million persons have been internally displaced in Iraq, whereas another 2 million Iraqi refugees have fled to neighbouring countries. The number of Iraqi refugees actively registered with the United Nations High Commissioner for Refugees (UNHCR) in the region stands at close to 300,000, down marginally from the figures registered in the previous years. But not all refugees register with the regional offices and the actual number of refugees stands somewhere between 1.7 and 2 million.¹⁹ Other cases of internal displacement are the 300,000 Syrians expelled from the Golan Heights after the Six Day War of 1967. A very recent example of internal displacement are the approximately 500,000 Palestinian refugees following the Israeli military assault on the Gaza Strip in December 2008-January 2009. The number of internally displaced persons caused by the

¹² Economic Intelligence Unit (EIU), *Country Profile Yemen 2008*, p. 12.

¹³ ESCWA, *Survey of Economic and Social Developments in the ESCWA Region, 2008-2009* (E/ESCWA/EDGD/2009/2), June 2009, table 7.

¹⁴ UNDP, http://www.sd.undp.org/mdg_sudan.htm.

¹⁵ UNICEF, *Statistical Tables 2009*, op. cit.

¹⁶ UNICEF, Sudan Statistics, available at: http://www.unicef.org/infobycountry/sudan_statistics.html.

¹⁷ UNICEF, *Statistical Tables 2009*, op. cit.

¹⁸ ESCWA, *Trends and Impacts in Conflict Settings: The Socio-economic Impact of Conflict-driven Displacement in the ESCWA Region, Issue No.1* (E/ESCWA/ECRI/2009/2), March 2009.

¹⁹ *Ibid.*, p. 25.

Israeli war on Lebanon in 2006 stood between half a million and one million. About 32,000 Palestinian refugees and some Lebanese became displaced when the Nahr el-Bared refugee camp in northern Lebanon was destroyed during three months of fighting between the Lebanese Army and the terrorist militant group of Fatah al-Islam in May 2007.²⁰

13. Two major patterns of displacement emerge: emergency displacement and protracted displacement. The emergency-displaced face challenges in obtaining access to food, water, shelter and sanitation facilities, and access to education and health services. The protracted-displaced face the additional challenges of finding durable solutions. In most occasions, they cannot exercise their rights to economic and social self-determination and experience loss of identity and restrictions of movement.

14. The burden of hosting displaced populations in the region is disproportionately borne by Jordan, Lebanon, the Syrian Arab Republic (Iraqi refugees) and the Palestinian Authority (inside Palestine), which also host the largest populations of protracted Palestinian refugees. This burden has added to the economic challenges of these countries, and foreign assistance is insufficient.

15. Both emergency and protracted displacement in the ESCWA region have subregional and regional impacts apart from the political sensitivities they entail. In the first place, certain countries in the ESCWA region have limited financial and human resources, and displaced populations create additional financial, economic and social burdens for these countries. Secondly, Governments may have security fears from the large number of refugees crossing their borders as well as from potentially upsetting delicate communal balances. There are also serious political considerations, particularly pertaining to the Arab-Israeli final settlement peace talks.

16. While concepts of socio-economic justice, community responsibility, asylum and assistance to the displaced are ingrained in the legal statute and traditions of most ESCWA States, cooperation among these States needs to be intensified in order to mitigate the hardships of the displaced and assist host countries and concerned United Nations programmes to this end.²¹ These efforts should also cater towards enhancing reintegration and the return of the displaced.

Communal tensions

17. Conflict and political tensions in the ESCWA region have also revived communal tensions in a number of ESCWA countries, which intensified in Iraq during 2006-2007, in Lebanon in the May 2008 clashes, and during the Darfur and the Saada crises in the Sudan and Yemen. Foreign occupation and interference have also substantially exacerbated communal tensions.

18. The Arab Human Development Report 2009 points out that “empirical observation confirms that, in the Arab countries, ethnic, religious, sectarian, and linguistic differences can be associated with persistent group struggles, especially in countries where the population is not homogenous. In countries such as Iraq, Lebanon, Somalia, and Sudan, ethnic, religious and tribal loyalties have become the axis along which communities have been mobilized to press for inclusion or separation.”²² If left unchecked, communal tensions may become a formidable and potentially unstoppable force of fragmentation and disintegration across the ESCWA region and beyond, undermining reform efforts, marginalizing human rights and religious values, and flaming disorder and civil discord. Communal tensions are also an impediment to the emergence of an inclusive, active civil society and polity throughout the region, one that celebrates inclusive civic duties and rights over narrow exclusive identities.²³ This is clearly illustrated in an examination of the

²⁰ Ibid., p. 28.

²¹ ESCWA, *Trends and Impacts in Conflict Settings: The Socio-economic Impact of Conflict-driven Displacement in the ESCWA Region*, op. cit.

²² UNDP, *Arab Human Development Report 2009*, p. 56.

²³ ESCWA and Heinrich Boell Foundation, *Unpacking the Dynamics of Communal Tensions: A Focus Group Analysis of Perceptions among Youth in Lebanon* (E/ESCWA/ECRI/2009/5), September 2009, pp. 1-2.

dynamics of communal tensions, where it became apparent that – at the microlevel – four building blocks are at interplay, reinforcing communal tensions, namely the reproduction of communal identity, the compartmentalization of intercommunal social relations, the exclusionary spaces of social relations and the clientelistic nature of the political system.²⁴

The cost of instability and conflict

19. Instability and conflict in the Middle East have cost the region around US\$12 trillion in missed economic growth and development over the last two decades, according to a special report published by the Strategic Foresight Group.²⁵ Compared to the size of its economy, Iraq has suffered the largest loss. Its gross domestic product (GDP) could have been more than 30 times of its present size. If the opportunity loss of Iraq is examined since 1980, when it entered a period of warfare – first with Iran, then Kuwait (with crippling sanctions) up to the invasion led by the United States, its GDP would be at least 50 times higher than its actual 2010 GDP. The report forecasts Iraq's GDP in 2010 to be US\$59 billion, and its opportunity loss since the first Gulf War of 1991 is estimated at US\$2.3 trillion.

20. If sustainable peace is attained, the Strategic Foresight Group maintains that every household in the Middle East will gain. The average family income in Egypt will go up by US\$500, in Jordan by US\$1,250 and in Saudi Arabia by US\$5,000 per year.

21. Domestic and international conflicts have driven military expenditures, as almost half of ESCWA countries experienced war in the 1990s, while almost all countries have bordered another country experiencing war. Military expenditures, measuring about 7 per cent of regional GDP in 1996, were detracted from sustainable development spending.²⁶ The conflicts in the region have made the Middle East the most militarized region in the world. Seven out of the ten highest military spenders in the world are countries in the Middle East.²⁷

22. The export of oil, the main resource of the ESCWA region, has benefited both oil producing and non-oil producing countries, namely through worker remittances or intraregional investment flows. Yet, the erratic course of oil-led growth has contributed to the existence of an economic model characterized by the fragility associated with changing trends in intraregional spillovers. Oil-related generated revenue, whether in the capital- or labour-intensive countries, was also unable to mitigate the heavy costs associated with conflict and instability. Oil-led growth has thus generated weak structural foundations in Arab economies, which have turned into import-oriented and service-based economies. These types of services “fall at the low end of the value adding chain, contribute little to local knowledge development and lock countries into inferior positions in global markets”.²⁸ The major challenge facing ESCWA countries is the need to diversify their economies out of oil-led growth and into the industrial export-led growth that such countries in South Asia as Indonesia and Malaysia have successfully experimented with. Otherwise, the sustainability of these

²⁴ Ibid.

²⁵ Waslekar, S. et al., 2009, *Cost of Conflict in the Middle East*, Strategic Foresight Group: Mumbai. The report uses 97 different parameters to measure costs in financial, economic, social, political, military, environmental, and diplomatic terms for the entire region. The year 1991 is used as a point of departure for calculations up to 2010 and scenarios are developed for 2010-2025. The report includes data on Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Palestine, Qatar, Saudi Arabia, Syrian Arab Republic and United Arab Emirates from 1991 to 2010.

²⁶ *The Economist*, A Special Report on the Arab World, 25 July 2009.

²⁷ Waslekar, S. et al., op. cit.

²⁸ UNDP, *Arab Human Development Report*, op. cit., chapter 5: Challenges to economic security, citing United Nations Conference on Trade and Development (UNCTAD) figures from 2008. The share of services in GDP thus exceeds 50 per cent in all non-oil producing countries and hovers around 65 per cent in such countries as Bahrain, Jordan, Lebanon or Morocco accounting for more than 50 per cent of employment in most Arab countries. The prevalence of service-based economies has happened at the expense of industrialization. Thus, Arab countries were less industrialized in 2007 than in 1970 even if some countries such as Jordan, Oman, Tunisia or the United Arab Emirates have made considerable progress in that respect. Manufactured goods made up less than 11 per cent of total commodity exports.

economies could come under greater strain, which could lead to major social and economic instability and even conflict.

23. Enhancing the functional relationship among ESCWA member States, with regard to infrastructure and trade, would not only have a positive impact on the economic performance of individual States but would also mitigate the impact of conflict and quell the likelihood of intraregional tensions. Intraregional trade figures would improve promptly as tariff and non-tariff barriers remain large within the region. Indeed, customs clearance procedures constituted the most important source of non-tariff trading costs, with the average company spending 95 man-days every year resolving problems with customs and Government authorities.²⁹ Transport-related infrastructure and real trade costs (trade facilitation) remain among the most important constraints. Further action to reduce the trade costs associated with trade facilitation, enforcement of standards and other non-tariff policies are thus needed. The developmental benefits of such measures would trickle down to crisis-afflicted countries and assist in terms of solidifying national coping strategies, whether through trade, employment generation, remittances, direct aid or development programmes originating from the region. Here again, such measures would mitigate intraregional tensions and provide the necessary development infrastructure to generate the much-needed economic growth for the region. Indeed, a considerable growth-conflict nexus does exist, since lack of growth limits poverty reduction and increases the risk of conflict, while it creates inequality and undermines human security.³⁰

24. The lack of intraregional trade and the excessive reliance on oil, in addition to the cost of conflict and lost opportunities as a result of crisis, its spillover effects and increased military expenditures incurred by all ESCWA member countries, have diverted scarce resources from development, diminishing, in particular, the necessary funds and other vital resources to tackle future challenges.

III. EMERGING REGIONAL AND GLOBAL CHALLENGES

Demographics and the youth bulge

25. Between 1980 and 2009, the population of the Arab region has more than doubled, surging from 173 million in 1980 to 352.2 million in 2009 (5.2 per cent of the world population). The population of the region is expected to reach 428.4 million by 2020, assuming that fertility rates will continue to decline according to the medium variant scenario. The most populated countries in the region are Egypt, with 83 million, and the Sudan, with 42 million.³¹ The urban population has passed from 75.9 million in 1980 (44 per cent of the region's population) to 173.4 million in 2005 (54.6 per cent of the total population),³² putting tremendous pressure on the infrastructure as the ability of Governments to deliver essential services is increasingly strained, while local underprivileged populations compete for scarce resources to secure their livelihoods.

26. This trend has increased the importance of informal networks in bridging the gaps of the public sector, at least where the delivery of essential services is concerned. State institutions are no longer able to fully mitigate social tensions, especially in the context of rapid population growth, urbanization, high

²⁹ It should be noted that lately a marked improvement in customs clearance procedures has however taken place, with a substantial decline in the number of required documents and signatures, and a reduction of clearance times and bribes. In 2001, tariffs were ranked among the most important barriers to intraregional trade; in 2008, they were ranked last. See Hoekman, B. and Zarrouk, J., *Changes in Cross-Border Trade Costs in the Pan-Arab Free Trade Area, 2001-2008*, World Bank, August 2009.

³⁰ Mansoob Murshed, S., *Turning Swords to Ploughshares and Little Acorns to Tall Trees: the Conflict-growth Nexus and the Poverty of Nations*, background paper for the United Nations (DESA) World Economic and Social Survey, 2006, available at: http://www.un.org/esa/policy/wess_background_papers.htm.

³¹ ESCWA, *The Demographic Profile of the Arab Countries*, 26 November 2009.

³² Ibid.

unemployment and a depleted natural resource base.³³ In some countries, particularly those afflicted with crisis, these informal networks are politicized and employ an exclusionary discourse that has the potential of undermining State-building efforts, threatening social cohesion, stability and even creating civil strife.

27. In addition, the number of youth aged 15-24 has increased from 33.7 million, or 19.5 per cent, in 1980, to 67.9 million, or 20.9 per cent, in 2005. The youth population is expected to increase to 73 million by 2015 and to 81.4 million by 2025. Some 60 per cent of the population is under 25 years, making this one of the most youthful regions in the world with a median age of 22 years compared to a global average of 28.³⁴

28. The population growth in these age groups will eventually be translated into increased numbers of people that need to be integrated into the labour market. It is projected that the working age population will reach 176.9 million by 2015 and 220.6 million by 2025, constituting 44.9 per cent and 47.8 per cent, respectively, of the total population of the region.³⁵ Young people will have to compete for limited resources in such fields as education, employment, health, housing and social services. Countries in the region will have to create systems to integrate young people into the working force. Countries of the region suffering from occupation, conflict and political tensions are particularly exposed.

29. If the economic situation stagnates, the danger exists that the brightest will decide to emigrate, thus exacerbating the brain drain problem. Large-scale migration, however, is not an alternative in the current worldwide climate of general economic crisis and the usual refusal of industrial countries to take large numbers of migrant populations. Whether young people in the ESCWA region become fully integrated and productive in their societies depends to a large extent on how well Governments and other such actors as the private sector will invest in the development of skills of this labour force. Countries must provide the means to help youth access quality education and meet their demand for high-skill occupations. The ability of conflict-affected countries to provide these means to their youth remains a particular challenge.

30. Youth unemployment constitutes a serious challenge to many Arab countries and to the region as a whole. This trend is particularly disturbing if we take into account that Arab countries need about 51 million new jobs by 2020 to incorporate youth into the labour market. Otherwise, these young entrants will face an empty future with the possibility that exacerbated tensions may lead or contribute to conflict.³⁶

31. Some 40 per cent of high-school and university graduates between the ages of 15 to 25 do not find work on entering the job market, and the number of unemployed people among the educated is a worrying fact.³⁷ The challenge remains to turn the youth bulge, which presently constitutes an economic challenge, into a major economic opportunity. A youth population of this size as in the ESCWA region represents a demographic gift that can be turned into a dynamic group which can be economically active, innovative and with the capacity to generate income, savings and investment.

³³ In that regard, the World Bank concludes that, in order for citizens to play their part in development and to reduce the risks of conflict at the local level, community institutions of self-management and self-regulation need strengthening and better integration into revitalized local Governments. See World Bank, 2008, *Social Development in MENA*, Sector Brief, World Bank: Washington D.C.

³⁴ UNDP, *Arab Human Development Report*, op. cit., citing the United Nations Population Fund (UNFPA).

³⁵ Ibid.

³⁶ UNDP, *Arab Human Development Report*, op. cit.

³⁷ Education is central to the future of the region. Various stakeholders in the region regard education as their most important development challenge, and education reform is at the top of the reform agenda of many Governments in the region. Reforms in the education sector must target the region's ability to provide quality education that prepares young people in the region to compete in the global economy. In 2008, the World Bank launched a regional education report, entitled *The Road Not Traveled*. The report aims to support policymakers in the region in developing more effective education strategies that are based on global and regional experiences in the sector.

32. Youth need greater access to economic opportunities, quality education, recreation, and political participation. The present lack of access, in combination with rising expectations brought about by education and the information revolution, creates frustration among youth and may even threaten the social fabric.³⁸

Climate change and water scarcity

33. Climate change may hold serious social and economic implications for the ESCWA region, and could potentially become a new source of conflict and instability. By the middle of the century, researchers predict an increase of 2.5 to 3.7° Celsius in summer and 2.0 to 3.1° Celsius in winter, which will diminish rainfall and, in turn, the flow of rivers and streams.³⁹ This development will exacerbate the water shortage problem, particularly in a region where population is growing rapidly and where water demand already exceeds the actual water resources available. In addition, this will also have a negative impact on agriculture. The region already uses 88 per cent of its water resources in agriculture.⁴⁰

34. Moreover, deserts already cover more than 86 per cent of all Arab countries, which leaves only 14 per cent of arable land. Almost one fifth of the total area is threatened by desertification. Between 1 and 2 per cent of the total area is lost each year due to salinization and urban expansion.⁴¹ Climate change will again aggravate the situation.

35. The global increase in sea levels, which are expected to rise between 0.1 and 0.3 meters by 2050, will also pose challenges to the region. In addition to rendering the region more arid, coastal population centres will be severely affected. Significant portions of the inhabitants of coastal cities and settlements will be forced to leave their homes, thereby creating new waves of displaced groups throughout the region.

36. The weather is likely to become more unpredictable, and the region will probably experience an increase in extreme rainfall, which may again result in an increase in such natural disasters as floods.

37. In terms of regional stability, climate change also poses some real concerns. Climate change may increase competition for scarce water resources, and consequently increase the militarization of strategic natural resources, thus increasing the possibility of regional conflicts.

38. Climate change may also lead to destabilizing migration patterns that could contribute to tensions between communities and populations. It may also hinder economic growth, thereby worsening poverty levels. Increased poverty, together with new waves of displaced populations and coupled with existing socio-economic challenges, is most likely to lead to social instability, increased communal tensions, and civil strife in a number of countries.

39. Drawing water from shared watercourses and aquifers remains of utmost importance for ESCWA member countries. However, much of these freshwater resources are shared with such countries outside the Arab region as Turkey and Israel. Differing perceptions regarding water rights between riparian countries have time and again lead to political tensions and remain a potential source of conflict.

40. In some instances, political tensions and conflict translate into the reduction of economic opportunity and lack of cooperation over water and energy projects. Governments need to cooperate in order to find innovative solutions to regional water and energy problems. At the State level, countries rarely collaborate in research and do not share national data within the region. This results in expensive projects at the national

³⁸ World Bank, *Social Development in MNA*, op. cit.

³⁹ Brown, O. and Crawford, A., *Rising Temperatures, Rising Tensions: Climate change and the risk of violent conflict in the Middle East*, International Institute for Sustainable Development (IISD), Canada, New York, Geneva.

⁴⁰ Ibid.

⁴¹ Ibid.

level to resolve supply problems and limits the development of regional projects, which could be more efficient.

41. Existing conflicts also undermine the ability of the region to adapt to climate change. Sometimes, the consequences of conflict are tangible and manifest themselves in the physical destruction of infrastructure and the loss of forest and water resources.

42. Additionally, lack of statehood, as is the case in Palestine, complicates participation in international processes. The Palestinian lack of statehood has very real implications on the country's ability to get access to water or to fund adaptation projects vital for its population.⁴² The West Bank is located at the banks of the Jordan River, yet the Palestinian Authority (PA) has no rights to waters of the river. The PA, as observer State to the United Nations, cannot be a signatory to the United Nations Framework Convention on Climate Change (UNFCCC). Furthermore, the PA is not eligible for international funding under such international instruments as the Clean Development Mechanism (CDM) or the Global Environment Facility (GEF).

43. Possible future strategies worth considering are to foster a culture of conservation, to adapt to the impacts of climate change, and to enable or facilitate regional cooperation and international engagement. The optimization of water allocation among the agricultural, industrial and domestic domains and the implementation of optimal water productivity strategies remain urgent priorities. In fact, the ESCWA region should heavily invest in improving water availability and distribution.⁴³ Major investments in irrigation will be necessary and are a part of the fundamental solution to reduce food insecurity.

Food insecurity

44. In the Arab region, an estimated 21 million people receive food relief, mainly in Iraq, Mauritania, Palestine, Somalia, and the Sudan.⁴⁴ The main short-term challenge constitutes in responding to the needs of those crisis zones that have been severely affected not only by rising prices, but also by conditions of conflict and drought. It should be noted that four countries in the region, namely Iraq, Libya, the Sudan and the Syrian Arab Republic, have faced economic sanctions over the past decades. The blockade of Gaza has also changed the eating habits of the population. Close to one million people in the Gaza Strip are food insecure, representing 61 per cent of the population.⁴⁵ Food insecurity has markedly increased in the Gaza Strip after the Israeli military offensive at the end of 2008, which destroyed farms and fields, along with livestock. Chronic malnutrition has risen over the last years and such micronutrient deficiencies as anemia as well as vitamin A and iodine deficiencies among children and women have reached the level of a severe public health crisis. Households in Gaza have not generally reduced the quantity of food but they have reduced the quality. The intake of food rich in micronutrients and good quality proteins has been reduced in favour of carbohydrates, which are easier to produce and obtain and cheaper in price. Remittances and local charities have also helped. However, most of the coping strategies do not suffice and can have a permanent cost on lives and livelihoods, through poorer health and nutritional status, excessive indebtedness and loss of future opportunities for higher skills and better-paid job opportunities. The nutritional status of the population has also been lowered by the limited availability of qualified health services, limited access to safe water sources and sanitation facilities, and a poorly diversified diet.

⁴² For instance, Palestinian representatives were not involved in the peace and water negotiations between Jordan and Israel in 1994.

⁴³ The total capital investment needed to increase desalination capacity in the Arab States over the next three decades is calculated to amount to US\$73 billion or an annual average of US\$2.6 billion over the next 28 years, according to the League of Arab States and UNDP, *Development Challenges for the Arab Region: Food Security and Agriculture*, Volume 2.

⁴⁴ *Ibid.*, p. 22.

⁴⁵ Food and Agriculture Organization (FAO) and WFP, *Food security and vulnerability analysis report*, December 2009.

45. Many countries in the ESCWA region have been hit by the food crisis. The high vulnerability of many ESCWA countries to the rising food prices calls for a radical change in the macroeconomic and agricultural development policies in order to be better prepared for the next crisis. Global challenges for world agriculture to produce sufficient food have become of critical concern for the region. Most countries in the region are net importers of cereals and therefore have been hit hard. According to an IMF source, the majority of countries in the region have been negatively affected by the food crisis, which also manifests itself in their trade balances.⁴⁶ Poor households remain more vulnerable to change than wealthy ones. The danger lies in the possibility that large numbers of vulnerable households who managed to escape poverty fall back into poverty because of rising food prices. The share of the population living under the food poverty line in Yemen has risen from 12.5 per cent in 2005/6 to 27.2 per cent in December 2007.⁴⁷ According to estimates, the proportion of the population living below the poverty line in Lebanon, Egypt and Yemen increased to 13.5, 33.68 and 53.9 per cent, respectively, after December 2007.⁴⁸ Egypt is one of the two largest wheat importers worldwide.

46. In oil-producing countries, however, the increase in fuel exports has outweighed the leakage caused by higher food import bills. The rise in the oil price has been positive for oil-producing countries, but has not affected such non-oil producing countries as Jordan, Lebanon, Morocco, and the Syrian Arab Republic, where the impact of the rise in oil prices has been negative. The merchandise trade balance is not a concern for oil-producing countries in the context of the food crisis, but is a major concern for non-oil producing countries.

47. It needs to be acknowledged that the food security challenge has become quite worrying for the Arab region. Food subsidies are perceived as important in promoting political stability. Beside its obvious impact on the economy and on households, food insecurity also presents a major external political challenge. A decision to implement an austerity package that included subsidy cuts led to instability in the Sudan during the presidency of Jaafar Nimeiry.⁴⁹ In 2008, protestors in Egypt objected to the high cost of food prices and the lack of food security.

48. Several urgent actions are required, including the possible creation of an Arab Food Security Fund to finance responses to the needs of the six to eight million people in dire need of food relief. Plans have to be established to prevent the further deterioration in the conditions of the most food-insecure households in LDCs and Palestine. An assessment and monitoring system to study the effects of trade liberalization and regional conflicts on food security should be considered.

Public sector modernization

49. The driving forces for institutional development in the ESCWA region stem from the social, economic and technological innovations that have materialized globally in recent decades. These innovations have put Governments under growing strain to respond to the evolving demands of their citizens and to function within the increasingly complex global and regional environments. In that sense, it has become indispensable for Governments to adapt to new problems and develop the necessary institutional capacities to solve them.

50. State institutions must respond to domestic priorities, whether poverty, demographics and unemployment, educational deficits, environmental strains or excessive urbanization. At the same time, State

⁴⁶ The impact on trade balances for the majority of Arab countries was projected to be more than 1 per cent of the GDP in 2008, according to the speech given by Mark Plant, Deputy Director, Policy Development and Review Department, IMF, at the Panama Chamber of Commerce, Industry and Agriculture, on 19 June 2008, cited in: League of Arab States and UNDP, *Development Challenges for the Arab Region: Food Security and Agriculture*, op. cit.

⁴⁷ Ibid.

⁴⁸ Ibid., p. 14.

⁴⁹ Ibid., p. 21.

institutions need to adapt to newly emerging challenges while making sure that their economies are effectively integrated into the global economy.

51. Existing institutional infrastructure, namely the human capital or the cadre of civil servants and the physical infrastructure necessary for the efficient operation of State institutions, needs to be enhanced in order to attain these goals. However, the fact that public institutions lack the capacity to design, implement and manage reform programmes is a key issue to be addressed in the generally limited economic reform in the Arab world. Consequently, the State often has been unable to mitigate the negative side effects of some reforms, thus creating a popular backlash against the entire process.⁵⁰

52. This state of affairs is worsened by internal and external pressures resulting from conflict in crisis-affected countries. Such pressures severely curtail the capacity of State institutions to provide such basic services as water, sanitation, health, and education. The provision of such services, however, is crucial if economic revitalization and social cohesion, not to mention the provision of security and equal access to social services, are to be addressed.

53. Given the specificity of conflict-affected countries in terms of needs and priorities where institutional development is concerned, it may be useful to approach public sector modernization differently, depending on which type of economy is addressed, namely, conflict-affected countries, labour-intensive economies, and resource-intensive economies. While institution development and modernization should be an indigenous process with the full ownership and participation of all national stakeholders, each group of economies experiences specific challenges. The oil-rich countries of the ESCWA region may have different sets of priorities in institutional development than the non-oil producing countries, and vice versa.

54. Developing an approach towards modernization along those lines could enhance the functional relationship among ESCWA member States, which remains a vital necessity if water scarcity, youth bulge, food insecurity and other challenges are to be tackled. All these are, in essence, regional issues that are impossible to resolve or even mitigate at the national level.

55. Human capital remains the backbone of any institution, in particular in the public sector. In the ESCWA region, the development of the public sector will require the adoption of modern practices concerning human resources management, monitoring and evaluation, planning and budgeting, and mainstreaming good governance practices. Conflict and crisis management as well as the management of foreign assistance are also significant issues for the ESCWA region. These reforms need to be sector-specific and coupled with the latest adaptable sectoral technologies and innovations. Such reforms crosscut conflict-afflicted countries and those that have a history of stability.

56. Finally, public institutions need to enhance their capacities to provide strategic responses to global and regional challenges outlined in the paper; reform strategies for building a stronger, cleaner and fairer economy; and create better settings for increased linkage between the public and private sectors. Institutions would also need to enhance their capacities to explore how economic growth translates into better opportunities for all citizens, especially the most vulnerable or marginalized, and to make the most of the young and dynamic populations which characterize the ESCWA region.

⁵⁰ However, according to a World Bank analysis, the Middle East and North Africa region in recent years has managed to pull through some important business reforms, with two thirds of its economies reforming. The region, once known for prohibitive entry barriers, was marked by bold reforms in three countries, Saudi Arabia, Tunisia and Yemen, which eliminated the minimum capital requirement for starting a business. Jordan reduced its requirements by 96 per cent in 2008. Yemen also launched a one-stop shop to make it easier to start a business, and Egypt's property registry reform led to increased title registration and a 39 per cent increase in revenues from property registration. For the region overall, property registration takes about 37 days from start to finish, which is considerably lower than other regions. See: World Bank, *World Development Indicators Fact Sheet 2009 – Middle East and North Africa*, World Bank: Washington D.C.

Conclusion

57. The spillover effects of conflicts in the ESCWA region are compounded by domestic and global challenges and continue to significantly hamper the realization of the full development potential in the region. Conflict-driven displacement, communal tensions and exorbitant military expenditures are among the most significant ones. Demographics, the youth bulge, climate change, water scarcity and the food crisis have the potential of translating into domestic disturbances and even wars.

58. Efficient and capable State institutions need to be developed. The creation of strong regulatory frameworks is essential for the development of a dynamic and effective private sector. State institutions need to be capable of delivering core Government functions, specifically such basic services as health, education, and water, among others. Efficient and capable public institutions will make it easier to address national and regional challenges.

59. It remains critical to understand individual crises and how they are interconnected. Support and participation of all regional stakeholders and global actors in the formulation and implementation of solutions also remains decisive. A regional concerted effort needs to be articulated for every challenge. Governments, through their national specialized public institutions, need to work in concert with such regional organizations as the League of Arab States, the United Nations system and other international organizations in order to address challenges more effectively.
