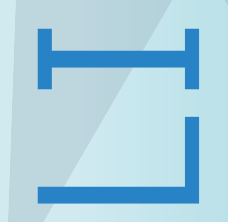




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# What Prospects for Stabilisation and Reconstruction in the Middle East and North Africa?<sup>1</sup>

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## Introduction

A common assumption among policy-makers and pundits is that stabilisation and reconstruction will come after conflicts in the Middle East and North Africa region have been settled. Indeed, in most previous cases, conflict settlements – brought about by the decisive victory of one party or by the successful conclusion of a peace agreement – had always preceded post-war stabilisation. Internationally-assisted reconstruction, intended as both the physical rebuilding of destroyed infrastructure and the rehabilitation of the economy and governance institutions, were considered part and parcel of stabilisation efforts<sup>2</sup>.

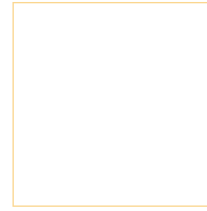
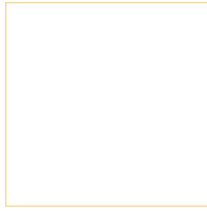
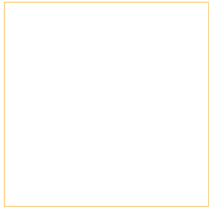
The MENA region's wars do not seem to fit this model. Although violence has begun to diminish, the conflicts are not over. No comprehensive settlement has been achieved to date, and the drivers and root causes of conflicts are not being addressed.

Stabilising the MENA region remains a top priority on the international agenda. However, the new concept of stabilisation is elusive and ill-

1. This policy brief draws on the very rich discussion at the final roundtable of the MEDirections' Annual Conference 'Exiting War Economy Dynamics: What Future for Stabilisation and Reconstruction in MENA', Florence, 19-20 November 2018. The author is grateful to the conference participants for their insightful contributions. The opinions expressed in this policy brief are solely those of the author.

2. Graciana del Castillo (2008), *Rebuilding War-Torn States. The Challenges of Post Conflict Economic Reconstruction*, Oxford University Press, p. 9-26.

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defined<sup>3</sup>, often hiding the diverging political objectives of the international, regional and local players involved. There is no agreement on what the final outcome of stabilisation should be, nor on the appropriate tools to achieve it.

Meanwhile, the situation on the ground is moving towards a reconstitution of political and economic systems with strong similarities to the pre-2011 situation. Old political and economic elites are returning and reconstruction has already begun in Syria and Iraq. Because of the political economy dynamics at play, reconstruction will likely be used to re-establish patronage-clientelist mechanisms and to pay back friends and allies. The result might well be increasing corruption, inefficiency, exclusion and inequality, and new conflicts in the medium-to-long term cannot be excluded. To avoid major unintended consequences, international actors will need to consider local and regional political economy actors and dynamics when thinking about the future of conflicts, as well as when planning reconstruction policies and actions in the MENA region.

## The Quest for Stability

The protracted wars in Syria, Libya and Yemen, as well as the succession of crises in Iraq since 2003, are complex and multidimensional. While the situation in each country is unique, the conflicts that started in 2011 (or after the 2003 US invasion in the case of Iraq) have several features in common. They have deepened social and political fragmentation along ethnic, sectarian or tribal lines, as well as resulted in economic collapse and severe humanitarian crises. The negative effects of these conflicts have spilled over into neighbouring countries through refugee flows, the criminalisation of trans-border trade, increased trafficking and people smuggling, as well as the movement of armed groups across state borders. Direct and indirect interventions by state, non-state and transnational actors have made the resolution of these conflicts particularly difficult<sup>4</sup>.

3. For an analysis of the stabilisation process in post-Cold War conflicts see Paul K. Davis ed. (2011) *Dilemmas of Intervention. Social Science for Stabilisation and Reconstruction*, Rand, National Defense Research Institute

4. For an analysis of MENA conflicts and their interrelation see Joost Hilterman, *Tackling the MENA Region's Intersecting Conflicts*, International Crisis Group, 22 December 2017

After years of bloody conflict, violence seems to be finally diminishing. However, despite continuing international mediation efforts in Syria, Yemen and Libya, no inclusive, lasting political settlements addressing the root causes of the uprisings seem likely to be reached in the short term<sup>5</sup>. In Syria, on the contrary, the regime's complete military victory over its opponents is considered to be increasingly probable. In Iraq, the post-2003 power-sharing system led to institutionalisation of sectarianism and collusion between the political elite, armed groups and business actors. The negative consequences of this political system played an important role in the rise of the Islamic State (IS), and are still present in post-IS Iraq<sup>6</sup>.

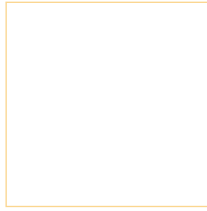
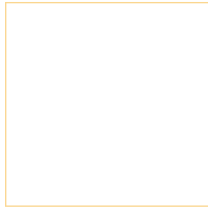
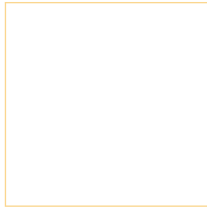
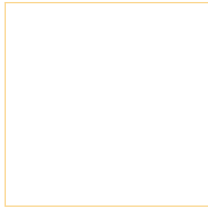
Tough questions, like those concerning the choice of political governance model, decentralisation or federalism, or more diversified and equitable economic systems – which for some time have been put forward as possible solutions to authoritarianism and instability – seem to have been put on hold. The West-promoted search for a new, regional order in the MENA has also stalled, leaving space for continuing geopolitical confrontations and rivalry between regional powers.

In view of the immense human suffering and economic destruction caused by wars, as well as of their continuing impact on the region and beyond, international, regional and local actors are searching for means to achieve stability. "Stabilisation" is now the guiding principle for international actors' policies. The problem, however, is that it is not clear what stabilisation entails. Beyond consensus on the need to move towards a durable end to the violence, international and regional players disagree explicitly or implicitly on what the final outcomes, objectives and instruments of stabilisation should be.<sup>7</sup> The post-Cold War tenets of liberal democratic peace-building included the promotion of democracy, good governance, rule of law and the strengthening of well-functioning market economies. But this model, with its unresolved questions

5. Muriel Asseburg, Wolfram Lacher and Mareike Transfeld, *Mission Impossible? UN Mediation in Libya, Syria and Yemen* SWP Research Paper, 8 October 2018

6. Sarwar Abdullah, 'After IS, Iraq's Major Challenge is Corruption', *Fikra Forum*, 2 August 2018

7. Saskia Van Genugten, *Drawing Lessons from Stabilisation Operations in the MENA Region*, BLOG, 28 November 2017



on the role of external and local players and insufficient levels of international engagement and long-term investment, has shown its limitations in Afghanistan and Iraq. It is today openly contested by many non-Western actors involved in the MENA crises who consider the peace-building model as a tool to expand western influence in the region.

One thing is clear. For many international players, including those in the West, the number one priority for stabilisation is addressing the situation of state failure and power vacuums, which have marked the regional context over the past eight years. This situation has had many repercussions in terms of outflows of jihadists and refugees, disruptions in oil production, and regional disorder. It is also perceived as the main source of instability and threat in the region and beyond. The restoration of authority and national sovereignties is thus seen as the solution to the problem, even if it entails a risk of allowing the return of authoritarian regimes based on exclusionary rule.

Meanwhile, in Syria, as in Iraq and to a lesser extent in Libya, the focus among international actors has already shifted to reconstruction. Reconstruction is not just the urgent physical rebuilding of destroyed houses and infrastructure, or the rehabilitation of an economy or institutions. It also has re-distributional economic and political effects, creating winners and losers. Because of the reality on the ground, short-term political considerations are likely to dominate the scene. What will this mean for the reconstruction of war-torn MENA countries or their collapsed economies and state institutions? How is reconstruction likely to impact the broader region?

### Losers and Winners: The Political Economy of Reconstruction

Socio-economic issues have played a critical role as conflict drivers: neglect and marginalization of less productive, peripheral regions; significant shortcomings in social and local development; and unequal rent distribution from natural resources. These have created deep political and socio-economic divides in the MENA region. Neoliberal reforms and GDP growth in the 2000s, while increasing people's expectations, have deepened long-standing structural problems. Indeed, the 2011 uprisings were triggered by a widespread feeling of injustice among large parts of the population in the face of

rising inequality, exclusion from economic benefits, lack of opportunities for young people and rampant unemployment.<sup>8</sup>

The struggle for the control of resources – including state institutions, natural resources, trading routes, strategic infrastructure and foreign support – has been a crucial component of the military conflicts that have spread over the region since 2011. The fortunes of rival political factions and armed groups have, to a large extent, depended on their ability to gain and maintain such assets. Highly lucrative profiteering and rent-seeking activities provided by the conflicts have allowed many groups and networks to grow and thrive. These activities, though not necessarily illegal, have exploited the advantages provided by power and military force, and have often gone hand in hand with underground and illicit economies – including smuggling, trafficking and kidnap-for-ransom – in a complex system of economic relations linking actors and markets, locally, nationally and regionally.

High profits made through these activities are at the core of regional war economies. Over time, they have created a vast system of old and new vested interests and collusion. As such, the economies created by war are difficult to disrupt and they represent an important factor in the prolongation of the conflicts in Syria, Libya and Yemen.

At the same time war economies are producing new business elites, a composite combination of old regime crony-capitalists and newcomers looking for opportunities to invest or launder capital in highly profitable enterprises. Against this backdrop, if priority is given to stabilisation without the pre-existing political orders being fundamentally changed, the reconstitution of authority is very likely to also essentially reproduce the old patronage mechanisms of the pre-2011 regimes<sup>9</sup>.

In Syria, for instance, it is probable that the interests of the Assad regime and its military allies will shape future reconstruction and rehabilitation. Estimated in 2018 as costing \$350-400 billion, reconstruction has already whet the appetite of local and international actors close to the

8. See World Bank, Middle East and North Africa region, (2015) 'Inequality, Uprisings, and Conflict in the Arab World', *MENA Economic Monitor*; and Richard Javad Heydarian, 'The Economics of the Arab Spring', *Foreign Policy in Focus*, 21 April 2011

9. Steven Heydemann, 'Beyond Fragility: Syria and the Challenges of Reconstruction in Fierce States', *Brookings*, June 2018



regime. The regime will likely use it to distribute favours to clients and allies, thus consolidating its economic and political power. The perpetuation and deepening of pre-war political and economic dynamics will result in more corruption, waste, exclusion and inequality, while reproducing the same exclusionary and authoritarian traits which led to the uprising and war.<sup>10</sup>

In Libya, war economy dynamics have allowed the formation of networks comprising armed groups, criminals, corrupt businessmen and politicians. While enriching themselves, these networks effectively use predatory practices and illicit businesses to fund the continuation of their role in violence and in the perpetuation of the conflict. Their presence represents a major hindrance for the rehabilitation of the formal economy and Libyan institutions, often acting as spoilers of political and economic reforms. An effective reconstitution of political authority is therefore needed to put an end to predation by many groups and to control both licit and illicit networks.<sup>11</sup> This, in turn, may well require finding the appropriate incentives to permit the reconversion of some of these actors into legitimate political and economic players.

## The People Factor: Return and Reconstruction

MENA civil wars have resulted in a huge number of internally displaced persons (IDPs) and refugees. How return and reintegration are handled will be a key determinant of the direction that the stabilisation and reconstruction policies might take.

Social inclusion and a fair distribution of peace dividends to include IDPs and refugees would be key to rebuilding the social fabric of war-torn areas after many years of divisive conflict have accentuated ethnic, tribal, sectarian or social cleavages in those societies. The lack of fair and effective reintegration policies will have long-term social and political repercussions for post-conflict countries.

10. Joseph Daher, *The Political Economic context of Syria's Reconstruction: A prospective in light of a legacy of unequal development*. Research Project Report 2018/05, RSCAS/Middle East Directions December 2018

11. Tim Eaton, 'Libya's War Economy: Predation, Profiteering and State Weakness', *Chatham House*, 12 April 2018

But displacement also has a high socio-economic cost and an opportunity cost in the reconstruction phase. In addition to safety and security, which are the pre-condition for return, returnees also need infrastructure and basic services, the provision of which could kick start economic growth. In turn, they could provide the bulk of entrepreneurs, workforce and consumers that are needed for reconstruction, for sustainable job creation, which reintegrates them effectively in the economy and creates the jobs needed to demobilise fighters. The rapid restoration and qualitative improvement of the education sector, heavily damaged by war, would be necessary to recuperate the lost school years for the younger generations, to upgrade the human capital and make it functional for reconstruction, recovery and future development.<sup>12</sup> A slow and difficult pace of return will have a negative impact on reconstruction as a result of lost opportunities and additional long-term costs.

Finally, the modalities and timing of their return could also have regional ramifications, for example Syrian refugees in Turkey, Lebanon, Jordan. Reducing the socio-economic challenges associated with hosting refugees in already-struggling neighbouring countries could spark better growth prospects in the regions involved. Consequences may also be felt in Europe, considering the role that the refugee issue plays in both the local political landscape and EU foreign policy.

However, the reality on the ground is not particularly promising. In Syria, in particular, the return of refugees and IDPs is primarily considered to be a security and political matter for the regime and its allies, with little attention paid to the economic dimension.<sup>13</sup> The return process is not expected to be massive or immediate, and will most likely be selective, by prioritising, for instance, women, children and the elderly. It will be carefully managed to ensure regime control continues on the ground.

In Iraq, the post-2014 displacement is only the most recent of a series of displacements that stretch back to 1968 and were accentuated by the 2003 US-led invasion and subsequent civil war. Problems for the return of pop-

12. World Bank, Middle East and North Africa region (2017) 'The Economics of Post-Conflict Reconstruction in MENA', *MENA Economic Monitor*

13. Fadi Adleh and Agnès Favier *Local reconciliation agreements in Syria: A non-starter for peacebuilding*, Research Project Report 2017/01, RSCAS/Middle East Directions, June 2017





ulation are likely to persist after the end of the war against IS, given the political and economic role that militias play in liberated areas and their control over resources and reconstruction projects<sup>14</sup>.

In Yemen, where the number of IDPs and refugees is estimated at three million, the economic situation is the most pressing underlying issue. Their return – once the hostilities cease and some basic security is restored – will largely depend on the availability of economic resources to rebuild the country after three long years of devastation brought about by the Saudi-led campaign, which in turn followed many years of economic decline<sup>15</sup>.

In addition to the continual engagement in predatory and rent-seeking behaviours, those elites that emerge as the ‘winners’ in reconstruction will therefore be driven by political concerns and objectives. This will prevent the full potential deriving from the return of refugees and IDPs from being achieved, while refugees will continue to represent a regional and international issue of contention, highlighting the various parties’ diverging priorities in the stabilisation process. The EU and neighbouring countries, for instance, are likely to push for refugees’ return, while the restored regimes will try to use their return as a bargaining chip.

## The External Actors

Internal and regional political and political economy factors will shape the stabilisation and reconstruction of war-torn countries in the MENA region. However, they are not the only factors to influence these processes. The availability of resources for reconstruction and external actors’ willingness to get involved in political and diplomatic attempts to resolve the conflicts will also be important. They will likely be driven by short-term political, tactical and commercial considerations, both at the international and regional levels.

The US administration, for instance, has openly stated that its stabilisation objectives in Syria are to ensure an enduring defeat of IS and to facilitate the conditions that would allow the safe and voluntary return of refugees. Addressing “bad governance” as a driver of crises and

14. International Crisis Group, ‘Iraq’s Paramilitary Groups: The Challenge of Rebuilding a Functioning State’ 30, July 2018

15. Sana’a Center for Strategic Studies ‘Policy Brief: Corruption in Yemen’s War Economy’, 5 November 2018

conflict – which has been very high on the US foreign policy agenda for the region in previous administrations – seem to have now disappeared from the agenda and with it, the will to actively participate in reconstruction and pacification<sup>16</sup>.

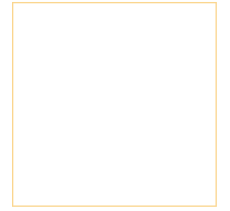
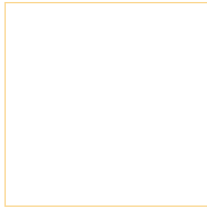
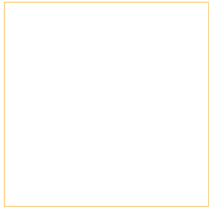
The European Union is facing important dilemmas. On the one hand, there is no political appetite to support reconstruction in countries like Syria, where the regime, accused of war crimes, has won militarily and will use reconstruction politically. The EU has repeatedly stated that support for reconstruction in Syria and the end of sanctions will depend on a credible political process that leads to a real political transition. On the other hand, the EU political priorities are to contain the jihadist threat and to end the refugee crisis. At some point, these might induce compromises to accommodate conflicting foreign policy needs. In addition, different member states’ offensive and defensive economic interests tend to push policies in diverging directions, as the case in Libya has shown.

Reconstruction fatigue is widespread among international donors who are facing multiple peacebuilding exercises in an environment of prolonged fiscal restraint. Having to respond to parallel crises and conflicts, the international community appears less and less capable of mobilising adequate financial resources.

On a more systemic level, the Trump administration’s transactional approach poses challenges to the peacebuilding model which has characterised the international community’s action in the post-Cold-War era. The full consequences of the rise of populism, sovereigntism and inward-looking approaches in the EU are not yet apparent, but they are also likely to feed a lack of willingness to get involved in long-term peace-building and reconstruction. Some isolated voices continue to call for a new Marshall plan for the MENA region, but the political and economic realities in the West make it highly unlikely to happen.

The private sector is often perceived as a promising substitute for the dwindling public funding and limited political interest in complicated post-conflict reconstruction. Hope is now placed on private investments and lending,

16. Emily Burchfield, ‘Stabilisation vs Reconstruction: What is the Long Term Role of the US in Syria?’, *Atlantic Council*, 9 February 2018



as well as public private partnerships. Local and foreign investors and/or financial markets have been called on to take up the difficult job. For instance, once the donor community realised that there was little hope in mobilising large amounts of public funding in last year’s Iraq Reconstruction Conference in Kuwait, it was quickly renamed the Iraq Investment Conference, in the hope that the private sector could play a major role.

However, this may be wishful thinking. Private investors are driven by profit opportunities and cost-benefit analysis, which take into account the potential risks of operating in certain markets, including reputational and regulatory risks. Post-conflict countries present numerous problems in terms of poor business environment, political risk, lack of legal guarantees and corruption – to mention but a few – which greatly reduce their attractiveness. They also have no bankable projects to attract international lending, no clear reconstruction planning and long-term economic vision for the future to provide a stable trajectory for their post-conflict development. As a result, international investors – with some limited exceptions in the oil and gas sector – tend to shy away.

Regional powers see reconstruction as a source of economic profit and an arena for the continuation of their rivalry for influence and hegemony. The regional security situation remains fluid and tensions around Iran are building up, after the US re-imposed sanctions. There is no sign of de-escalation in the Gulf nor any serious attempt to promote a new regional security order or to look at, for instance, the economic and political potentials of new models of regional integration, at least not in the short term. Regional powers continue to use conflicts, often through proxies, to promote geo-political and geo-economic interests. Because of the regional dynamics at play, they are unlikely to change this modus operandi any time soon. Nor can it be expected that major reconstruction funding projects from oil rich Gulf countries take place in this context<sup>17</sup>.

Finally, Russia and China, the new players in the post-conflict arena, are pursuing new realist and interest-based approaches. They have already been awarded important contracts in reconstruction and are positioning themselves to take advantage of upcoming opportunities. In

17. Michael Young, ‘As Arab States Normalize with Syria, Will this Push Them to Finance its Reconstruction?’, *Carnegie Middle East*, Diwan, 24 January 2019

their public discourse, stability is preferable to chaos and regime change, even if it comes at the price of restoring authoritarian regimes and a corrupt political economy. Stabilisation is promoted as the first step that in time will create the conditions for in-depth change in the region<sup>18</sup>. Power projection, geo-political and geo-economic interests often lie behind these statements. The conflicts in the MENA region have been the first in the post-Cold War era where these new international actors have played an important role. Inevitably, the post-conflict reality in the region will be influenced by their actions and policies.

## Conclusions

Experience shows that if stabilisation and reconstruction fail, a relapse of violence is more likely. Some fifty percent of conflicts after WW2 have re-ignited because reconstruction efforts have been mishandled<sup>19</sup>. It is vital that post-conflict countries get this process right and the international community should help in this direction. While unintended negative consequences of external assistance are well known for the MENA region – in terms, for instance, of aid dependency or induced distortions – inaction is not an option, particularly for the EU, which is likely to pay a high price if instability continues across its southern border.

The peace-building model adopted in many post-Cold War conflicts envisaged a protracted effort to assist post-conflict countries in exiting war economies, and to ensure the successful reconstruction and rehabilitation of infrastructure, governance institutions and the economy. Looking particularly at a strategic approach for post-conflict MENA countries in the economic area – in addition to stabilising the macroeconomic framework – economic rehabilitation would require increasing sustainable growth, creating jobs and fighting inequality. Long-term projects would also be needed, such as the diversification of the economies away from hydrocarbon dependence, and their upgrading in the global value chain. Diversification would also be essential to weaken rentier state dynamics.

18. Paul Cochrane, ‘After the war: Who’s going to pay for Syria’s reconstruction?’ *Middle East Eye*, 17 November 2017

19. Barbara F. Walter, ‘Conflict Relapse and the Sustainability of Post-Conflict Peace’, *World Bank*, September 2010



In order to do this in an inclusive and participatory way, a new social contract would be needed to address some of the root causes that are at the origin of the conflict cycle. It could replace the old social contract – which is based on participation in the sharing of rent through subsidies in exchange for limitations in political freedoms and in the accountability of regimes – with a new version built on consensus around basic economic principles and how to divide rents in a way that is beneficial for social development and individual growth. A new vision for the state and the economy, allowing for inclusive reconstruction, the investment of oil rent in addressing people’s basic needs together with the needs of future generations, as well as the upgrading of human capital. Reconstruction would also need to consider issues related to the relationship between the centre and the regions, to avoid that development remains focused on major cities, with entire regions and communities remaining marginalised. Issues of decentralisation and local development would need to be seriously tackled.

As we have seen in this brief, the post-conflict political economy of MENA countries is not going to facilitate processes of inclusive reconstruction. The absence of inclusionary political processes might intensify the struggle over resources and prolong war economy dynamics long after the end of hostilities. Because of the situation on the ground, commitments to complex political processes at the national and regional levels are unlikely, as are large-scale public funding schemes to meaningfully address reconstruction needs in the MENA region. Ambitious initiatives to support reconciliation, state and institution building, and to guide post-conflict countries on the path to long-term, sustainable stabilisation and reconstruction are also improbable.

The persistence of low-intensity conflicts along geographical, ethnic and sectarian lines, and a context in which a no-war, no-peace situation prevails across the region and rivalries continue is a probable scenario. Against this backdrop, there is a need for a realistic approach on the part of the international community and particularly the EU in addressing the challenges arising from stabilisation and reconstruction in the MENA region. Donors should actively use their political influence and diplomatic offices as well as leverage their reconstruction assistance to help pursue the strategic objectives highlighted.<sup>20</sup>

20. On an interesting approach to reconstruction in Libya see: various authors, ‘Empowered Decentralization: A city Based Strategy for Rebuilding Libya’, *Brookings*, 2019

The response to the complex challenges probably lies in flexible and adaptable strategies. At the micro level, it will require adopting a bottom-up approach and looking for acceptable partners in the reconstruction process, such as local communities, municipalities, small businesses, civil society and youth organisations. On a more macro level, an integrated holistic approach will need to be backed by appropriate and sufficient political and economic leverage.

Significant economic and trade incentives together with more ambitious long-term projects for the region, which aim for instance to foster trans-Mediterranean and trans-regional connectivity, as well as the participation of the MENA in the EU value chain, would probably go a long way. Even in the type of environment that is emerging in post-conflict MENA countries.

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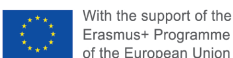
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## Middle East Directions

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