

The Political Economy of Post-Conflict Reform in Arab Societies

Adeel Malik and Chahir Zaki



THE POLITICAL ECONOMY OF POST-CONFLICT REFORM IN ARAB SOCIETIES¹

Adeel Malik² and Chahir Zaki³

Working Paper No. 1600

November 2022

Send correspondence to:

Adeel Malik

University of Oxford

adeel.malik@qeh.ox.ac.uk

¹ This paper is part of the ERF Project on “*Conflict and Post Conflict Transition to Peace Building and Development in War-Afflicted Arab Countries*”

² Associate Professor of Economics, Oxford Centre for Islamic Studies and Oxford Department of International Development. University of Oxford.

³ Professor of Economics, Faculty of Economics and Political Science, Cairo University and Economic Research Forum, Email: chahir.zaki@feps.edu.eg

First published in 2022 by
The Economic Research Forum (ERF)
21 Al-Sad Al-Aaly Street
Dokki, Giza
Egypt
www.erf.org.eg

Copyright © The Economic Research Forum, 2022

All rights reserved. No part of this publication may be reproduced in any form or by any electronic or mechanical means, including information storage and retrieval systems, without permission in writing from the publisher.

The findings, interpretations and conclusions expressed in this publication are entirely those of the author(s) and should not be attributed to the Economic Research Forum, members of its Board of Trustees, or its donors.

Abstract

This paper offers a simple analytical framework on the political economy of post-conflict reform in Arab societies. Highlighting the importance of temporality, we argue that policies towards post-conflict reform need to be cognizant of how power was distributed prior to conflict, how the configuration of power shifts during the conflict, and what are the likely impacts of current policy interventions on future political equilibria. We also emphasize the need to recognize and address the multiple commitment challenges and coordination failures inherent in instituting post-conflict reform. Post-conflict institution building also ought to explicitly recognize the complexity and contradictions of the reform space, and the interests and incentives of various actors involved. This requires a shift of emphasis away from idealized institutional outcomes (e.g. elections, transparency, control of corruption, etc.) to intermediate processes. We conclude the paper by outlining the key features of macroeconomic policy reform in this brittle political economy context. In this regard, we highlight the need to avoid the time inconsistency problem where policies that are optimal in the short-run may not be perceived to be optimal in the long-run and therefore remain unimplemented.

Keywords: Political economy, reforms, macroeconomics policies, post-conflict.

JEL Classifications: D74, Q34

ملخص

تقدم هذه الورقة البحثية إطاراً تحليلياً بسيطاً حول الاقتصاد السياسي لإصلاح ما بعد الصراع في المجتمعات العربية. وإذ تسلط الأضواء على أهمية الطابع الزمني، فإننا نجادل بأن السياسات الرامية إلى إصلاح ما بعد الصراع تحتاج إلى أن تكون مدركة لكيفية توزيع السلطة قبل الصراع، وكيف يتغير تكوين السلطة أثناء الصراع، وما هي الآثار المحتملة للتدخلات السياسية الحالية على التوازنات السياسية المستقبلية. وتشدد أيضاً على الحاجة إلى الاعتراف بتحديات الالتزام المتعددة وإخفاقات التنسيق المتأصلة في إجراء إصلاح ما بعد الصراع والتصدي لها، كما ينبغي أن يعترف ببناء المؤسسات في مرحلة ما بعد الصراع اعترافاً صريحاً بتعقد وتناقضات حيز الإصلاح، وبمصالح وحوافز مختلف الجهات الفاعلة المعنية. وهذا يتطلب تحويل التركيز بعيداً عن النتائج المؤسسية المثالية (مثل الانتخابات، والشفافية، ومكافحة الفساد، وما إلى ذلك) إلى العمليات الوسيطة. وتختتم الورقة بإيجاز السمات الرئيسية لإصلاح سياسات الاقتصاد الكلي في هذا السياق الهش للاقتصاد السياسي. وفي هذا الصدد، تسلط الضوء على الحاجة إلى تجنب مشكلة عدم الاتساق الزمني حيث قد لا ينظر إلى السياسات المثلى في الأجل القصير على أنها الأمثل على المدى الطويل، وبالتالي تظل دون تنفيذ.

1. Introduction

What is the scope for policy and institutional reform in post-conflict Arab societies? What political factors should undergird such reform? These are hugely pertinent questions in the context of Arab societies which are both conflict-prone and face specific political challenges of reform. This paper takes a stab at these questions by offering both a simple political economy framework and some general insights on macroeconomic policy reform in Arab states. We begin with the admission that defining a post-conflict stage is not a straightforward exercise. Indeed, while it can be defined as the transition between war and peace, some criteria might be used to describe a post-conflict country such as signing treaties or agreements, repatriation of refugees and disarmament. Yet, Frere and Wilen (2015) argue that it is difficult to define post-conflict countries for two main reasons. First, in several cases, conflicts do not necessarily end with the signing of official peace agreements given that less violent conflicts might replace more violent ones. Second, the post-conflict concept is a politicized term given its implications for the society (in terms of the role of international donors, government stability, etc.). This is why it is important to perceive this concept as “*a transition continuum where the achievement of different milestones signifies progress towards a more sustainable peace*” (Brown et al. 2011). Independent of any peace agreement countries in conflict may eventually reach, the viability and sustainability of their post-conflict transition would depend on the nature of political and economic reforms they implement in the post-conflict phase. This is of particular importance as sometimes the chosen policies are not reversible.

Arab countries are of particular interest for several reasons. First, they are some of the most conflict-prone countries characterized by the number, frequency, and type of conflicts. The region has seen protracted conflict since the early twentieth century. These involved both major flashpoints such as the Israeli-Palestinian conflict, the Iran-Iraq war in 1980s, and the two Iraq wars but also civil wars in Lebanon and Algeria. Arab countries also experienced different waves of political instability starting with the Arab uprisings in 2010-2011 (Egypt, Tunisia) and the second wave in 2018-2019 (Algeria, Lebanon and Sudan) or countries that suffer from civil conflicts (Syria, Libya, and Yemen). Second, it important to analyze the deep discontent that eventually led to these different conflicts. Several authors attribute it to the “breakdown of the prevailing social contract” after independence (e.g., Loewe et al., 2021); others to emerging perceptions of inequality (Devarajan and Ianchovichina, 2018); to the youth bulge, unemployment, and political and economic exclusion (Paasonen and Udal, 2016; Makdisi and Soto forthcoming) or to the progressive inability of governments to finance ever increasing energy and food subsidies (Auktor and Loewe, 2021). While prior research has mainly focused on social dimensions as a reason behind of conflicts or political instability, the literature on macroeconomic policies in post-conflict MENA countries is rather scant. Third, and most importantly, while different governments try to implement different macroeconomic reforms, such efforts may not be effective if the social and political aspects of reforms are not taken into consideration.

Against this background, the objective of this paper is twofold. First, it provides the basic elements of a possible analytical framework for post-conflict reform in Arab societies. Second, it presents the main characteristics of macroeconomic policies that have to be adopted in both the short (stabilization policies) and the long (structural reforms) term in order to avoid the time inconsistency problem. The latter refers to the fact that some policies that were optimal in the short term are no longer perceived to be optimal in the long run and might not be implemented.

The remainder of the paper is organized as follows. Section 2 presents the political economy framework. Section 3 analyzes the implications of the theoretical framework for economic policies in post-conflict countries, with a special focus on Arab societies. Section 4 is dedicated to the different types of macroeconomic policies in both the short and the long term. Section 5 concludes and presents some policy implications.

2. A Conceptual Framework

In this section, we try to highlight the basic elements of a possible analytical framework for post-conflict reform in Arab societies. To develop such a framework, it is important to start with an analytical frame that is simple, parsimonious and tractable. This implies that many crucial aspects might be initially omitted but the relevance of these could be explored in further extensions and elaborations. The main ideas are based on prior work by one of the authors (Malik 2017) for the World Bank. The framework takes temporality seriously. That is to say: post-conflict reform needs to be situated within an evolving political economy milieu where what happens *before, during* and *after* the conflict will be crucial to the analysis. Attention to the temporal dimension is a crucial feature of mainstream institutional analysis, since political economy is the analysis of the long *durée* where institutional constraints originate from deeply embedded structures of power, which persist over time.

Our framework thus emphasizes the need to develop a “moving picture” view of political economy (Pierson 2004). In this milieu, policy interventions in time, t , need to be situated in an institutional continuum. Such interventions should be informed by the pre-conflict distribution of power in time, $t-1$, and the institutional possibilities that could be achieved in time, $t+1$. Thus, on the one hand, post-conflict reform is crucially influenced by the prior institutional structure and power distribution in a society. On the other, policy interventions in time, t , can reinforce or create new inequalities in time, $t+1$. Such interventions can be a step towards creating a cooperative equilibrium in the future or unintendedly generate perverse institutional incentives and outcomes.

The main elements of this analytical approach are summarized in Figure 1. While considering the framework in Figure 1, it is important to qualify that we are not imposing any linear structure in this analysis. In fact, the process of moving from one period to the next is likely to be characterized by strong nonlinearities, which could be manifested through the existence of complementarities, interaction between various actors, threshold effects, multiple equilibria, and feedback loops. All

of these generic concepts become alive in a multi-party conflict setting defined by high levels of uncertainty. Equally, we cannot say with certainty how long it might take to move from one period to the next.

The framework adopts a broad conception of political economy. It takes into account, power in its multiple dimensions—economic, political and coercive. The role of formal and informal institutions as well as actors and their incentives are identified as crucial elements. Within this broad institutional setting, policy interventions in time, t , face specific political economy dilemmas, such as problems of credible commitment and coordination failures. The success of post-conflict reform depends on recognizing and addressing these institutional challenges. At the same time, when it breaks pre-war institutional equilibrium, conflict can open new institutional possibilities by acting as a critical juncture and ushering a period of uncertainty where different options for radical institutional change emerge and where the policy choices adopted in period t could have enduring consequences into the future (Capoccia 2015). We will explore whether such institutional possibilities are present in the Arab context.

The remainder of this section spells out the individual elements of this political economy framework. We summarize the relevant institutional parameters of a country's historical legacy that are crucial for understanding the genesis of conflict and appreciating the political economy constraints within which infrastructural interventions need to be made. We then highlight the nature of post-conflict order that interventions by domestic and global policymakers need to achieve or avoid.

2.1. Pre-conflict distribution of power (t-1)

It is widely understood that political economy structures are historically embedded. Post-conflict reform does not take place in an institutional vacuum and need to take account of the pre-war institutional legacy (Berdal and Zaum 2013; Collier et al. 2003). The role of historical legacy assumes further salience in our context, since it provides an important element into explaining the genesis of conflict. How does one identify the relevant legacy factors from the vast canvass of history? A possible starting point is to map the pre-conflict distribution of power. In essence, this entails posing the following questions:

- Who holds power in a society?
- What is the nature of formal and informal institutions?
- What do we know about the leading actors and their incentives?

In light of this, we structure our discussion below into three inter-related dimensions: power, institutions and actors.

Power.—A broader understanding of the overall distribution of economic, political and coercive power in a society is essential for initiating effective post-conflict reform. Broadly construed, one

can describe this under the conceptual rubric of what Acemoglu and Robinson describe as *de facto* power. This requires that we study how economic resources are distributed in a society, who controls these resources and what is the nature of conflict around this distribution. While mapping *de facto* power, one also needs a better understanding of the nature of overlap between economic and political power. To complete the picture, we need to ask two further questions: Who controls the means of violence and who has the ability to solve collective action problems in a given context?

A generalized caricature of Arab countries would indicate the primacy of centralized control structures where autocrats have tried to play divide and rule tactics to weaken societal forces. Combined with the region's strong security and coercive apparatuses, this means that conditions for collective mobilization remain weak. Patronage is used to substitute for organized articulation of interests. The merchant class is typically allowed to operate under a climate of fear that privileges established businesses with known ties to state elites. Moving beyond these generalized accounts, however, it is important to have greater empirical specificity on the questions set out above to map the distribution of economic and political power, and identify the nature of latent conflict over these resources. Admittedly, any such mapping of power distribution will reveal significant heterogeneity within and across countries.

Institutions.—The prior distribution of power determines the types of institutions that shape economic and political exchange in a country. Following Douglass North's original conceptualization, institutions are defined as rules of the game that act as constraints on human behaviour (North 1990). They shape the underlying institutional incentive structure. In this conception, institutions do not just consist of parliaments and bureaucracies but represent an entire gamut of rules and regulations that govern economic, political and social exchange in a society. An example that is closer to home would be Syria's Law No. 10 or Iraq's post-occupation constitution; the latter shapes both political power and the allocation of resources. Importantly, institutions represent both the regulatory framework as well as the enforcement environment. This is particularly relevant in the Middle Eastern context where the enforcement of laws is both selective and inconsistent.

Finally, while setting out the institutional inheritance of conflict-prone countries, it is important to consider the role of both formal and informal institutions. Typically defined as consisting of beliefs, norms and conventions, the role of informal institutions is inadequately studied in mainstream institutional analysis. However, they can be especially pertinent in the Middle Eastern context where religious beliefs and social solidarities determine the scope of cooperation and conflict. Similarly, tribal, ethnic and sectarian affiliations remain important markers of group identity in many Arab societies. An important aspect of these informal institutions is that they are embedded in history and interact with formal institutional structures (Greif 2006). In the Arab context, for example, the history of border-making defined the spatial boundaries of tribal and

ethnic identities. These divisions are, in turn, exploited by formal power structures as part of their strategy of divide and rule.

Given that informal institutions display greater persistence and are self-enforcing in nature, they can influence the effectiveness of formal policy interventions. They are particularly relevant for reconstruction programmes, since one of the core objectives of such programmes would be to rehabilitate displaced communities. An important cost of conflict is the loss of social capital that is built up over time, and tends to sustain community cohesion. Thus, policy interventions during and after conflict need to pay close attention to their possible unintended impact on informal institutions. A disregard of informal institutions can compromise the success of infrastructural interventions. Equally, since the involvement of local communities can reduce the cost of implementing policy reform, greater sensitivity to informal institutions can be an important component of these projects. As the Iranian experience with faith-based reconstruction programmes has shown, religious beliefs and norms can be used to reduce the cost of interventions and increase compliance through their reliance on voluntary participation and community input, thereby lending greater legitimacy to the reconstruction process.

Actors and incentives.—Beyond the macro focus on power and institutions, it is also critical to understand the composition, differential bargaining power and incentives of elite actors. As the literature on civil war onsets suggests, the horizontal economic and political power distributions among social groups as well as the degree of state capacity are argued to affect the probability of civil war outbreak (Cederman, Weidmann, and Gleditsch 2011; Fearon and Laitin 2003; Østby 2008). While these actors are likely to vary across countries, the common elements of elite power in the Arab world would possibly include members of security services, religious elites, influential members of merchant communities and tribal leaders, among others. Identifying these elite actors and their strategies for dominance during the pre-conflict period is an essential element for mapping the distribution of power. Bargains among these elites give rise to political settlements, whereby economic resources are allocated in proportion to the power of different elite factions.

At the same time, it is important to identify elites and groups who might be excluded from these power arrangements and nurture grievances over time. Placing these perspectives in a continuum, we can then track how civil wars disrupt local political settlements and re-order power in favour of some groups as opposed to others. Developing a concrete sense of the shifting distribution of power in the wake of civil war is essential for identifying actors who might favour or oppose particular policies. One might then ask: What is the relative power of representatives of local communities, rebel groups, informal businesses and organized criminal groups? What are their incentives? In addition, are they possible spoilers or facilitators in reform?

An additional complication in the Middle Eastern context is that these actors are not solely domestic, but also regional and international. The latter possess their own set of incentives and

strategies, and have traditionally played a role in nearly all post-conflict reform efforts (including reconstruction) since the Second World War. Like domestic actors, they have an important bearing on the reform prospects. The goals and incentives of these different actors can diverge, which makes bargaining and coordination efforts central to any successful post-conflict reform. Their feasibility, in turn, would partly depend on the ability to design incentive-compatible arrangements.

Persistence and change in institutional structures.—Having mapped the pre-conflict distribution of power, it is important to highlight patterns of institutional continuities and change in the wake of conflict. A static consideration of these three “building blocks” is of limited use as they are likely to change during fighting: violent conflicts are likely to alter the actors, power balance and especially the institutional matrix in place compared to the onset. From a strictly theoretical perspective, the following three scenarios are possible.

First, most pre-war institutional structures may persist despite the outbreak of violence. For instance, insurgency may be restricted to a limited area and hence the overall institutional matrix in most parts of a country remains intact. At the national level, Syria would conform to this pattern since pre-war institutional equilibrium that stabilized authoritarian rule in the past has remained broadly intact despite important ruptures in peripheral regions.

A *second* possibility is that the pre-war institutional equilibria and structures may be broken so that (rudimentary) institutions that emerge during the conflict assume prominence. This would be an instance of discontinuous institutional change. Besides the destruction of physical infrastructure, civil wars affect the political and economic institutional infrastructure as societal orders are in a flux, social networks are broken, and the balance of power shifts between actors. Crucially, wartime political and economic institutional structures do not only affect reform and reconstruction efforts during civil war, but may persist into the post-conflict period, increasing the risk of corruption and flawed governance (Pugh 2013). Institutional ruptures are particularly evident where conflict and foreign interventions have dramatically changed the rules of the game. In both Iraq and Libya, centralized control has given way to a decentralized politics of spoils where sectarian and ethnic groups compete for resources. The emerging political settlements have intensified opportunities for corruption and state capture.

In many spheres of governance, these new institutional arrangements represent a radical break from the past. One such sphere is state capacity, which has been badly fragmented in both post-occupation Iraq and post-Gadhafi Libya. With the dispersal of coercive authority to competing militia groups in Libya and to competing security structures in Iraq means that these states have institutionally regressed to a more elementary challenge of state-building where even establishing

the monopoly of violence has become a more distant prospect.⁴ The construction of para-military structures in both countries has empowered new actors who will actively resist the consolidation of state security structures (Kalyvas 2015). Another instance of fragmentation of state capacity is evident through the fracture of central banking operations in Libya and Yemen. Together, these represent major institutional ruptures that carry profound implications for post-conflict reform initiatives in the region.

A *third* hybrid scenario is the combination of above two possibilities, where persistence and change co-exists to the extent that some institutional elements of the pre-war period persist while others change. Compared to the above two possibilities, the hybrid scenario is probably a more realistic representation, since most civil war contexts witness varying degrees of persistence of pre-conflict institutional features even as other elements radically change to give rise to alternative social orders with new contenders for power (Berdal and Keen 1997:797; Cramer 2006). A relevant example is Burundi where the war-time institutional equilibrium persisted despite the elite turnover and international democratization efforts (Berdal and Zaum 2013). The new informal actors and groups that emerge during situations of conflict benefit from the nexus between illicit organized crime and black economy. The resulting institutional incentive structure tends to outlast these actors.

There are powerful echoes of this in the Middle East. A stark reality in Libya, Yemen and—to some extent in—Syria is the growing informalization of economic and political power since the outbreak of conflict. The post-war institutional realities represent both a rupture from and a reinforcement of prior institutional equilibria. Both Arab regimes and foreign powers have instrumentalized violence to achieve political and geo-political ends. To achieve this, they have empowered shadow networks who derive rents through their control over informal economy and capture of state resources. These wartime economic orders exhibit continuity from pre-war political economies with respect to formal and informal institutions. If anything, they represent an intensification of prior maladies of governance.

An example is state-business relationship in Syria. While typically economic power has remained concentrated among a closed circle of regime-affiliated businessmen, conflict has further consolidated the power of these businessmen. War has afforded new opportunities to acquire abandoned assets at throwaway prices, allowing connected businesses to fill the gap left by merchants who fled the country in the wake of civil war. Such continuities pose an interesting challenge to the political economy literature where intense conflict typically represents as a moment of institutional rupture and destroys the pre-war institutional equilibrium, thereby opening the space for new institutional possibilities. The Middle Eastern reality is a far cry from this

⁴ In Iraq parallel security forces were conscripted through the creation of PMF (Popular Mobilization Forces). Ostensibly geared towards fighting ISIL, the PMF practically represent a bifurcation of Iraqi security forces.

theoretical possibility, however, as conflict has only intensified pre-existing institutional challenges. Even where war has led to a breakdown of old hierarchies, it has decentralized rent seeking and violence.

To summarize, in order to design effective post-conflict interventions, it is important to understand the patterns of continuity and change in institutional structures in the wake of conflict.

2.2. The post-conflict order (t+1)

Situating post-conflict reform efforts in an institutional continuum requires considering not just the past but also future. While most post-conflict reform efforts are designed to achieve key objectives in the short-term, which, in many instances, include putting in place the basic infrastructure to allow the resumption of normal life and the rehabilitation of displaced communities. However, there is plentiful evidence that major brick and mortar investments—such as dams, railroads, canals or highways—can generate both positive and negative spill-overs, thereby creating winners and losers. They can expand the productive frontier but can also unintentionally reinforce or create new inequalities.

While wars and conflict can radically alter social structures and result in large-scale destruction, they can also end up levelling the playing field by destroying the hierarchical structures of inequality that predate the war (Scheidel 2017). Yet, at the same time, civil wars may enhance differences within communities leading to social stratification and distinctions between privileged and less privileged members (Torjesen 2013). Thus, actors may use their newly acquired power to institutionalize their privileged position. This can have an enduring effect on the long-term distribution of power and resources. For all these reasons, it is important to conceive policy reform as part of an evolving political economy where even well-intentioned interventions can reinforce adverse institutional equilibria. Thus, while designing reform initiatives it is crucial to consider both their short-term economic impact but also possible implications for future political equilibria.

Political economy is not just about recognizing institutional constraints. If carefully conceived and executed, reform efforts can help a country recover from civil war and, through their economic dividends, they can also consolidate peace. In other words, suitably designed reform efforts can increase the relative benefits of peaceful conflict over the use of violence, hence reducing the risk of renewed conflict and offering a way out of the “conflict trap” (Clément 2005; Collier et al. 2003; Del Castillo 2008). In fact, post-conflict reform can help to create a *cooperative* equilibrium between conflicting parties by increasing the relative payoff of continued cooperation (Foote et al. 2004; Koford 2003 ; Kurrild-Klitgaard 2004). To achieve this, reforms can change the time horizon of actors away from short-term concerns of survival to enable long-term cooperation.

2.3. Political economy of intervention in time, t

We next return to the central element of this framework, the scope for policy intervention during time, t . After outlining the crucial factors influencing the periods before and after critical junctures, we outline the specific political economy challenges that apply to policy interventions in the post-conflict period. The main argument is that these challenges emanate from the immense uncertainty created by a civil war like situation that dissuades local and international actors away from investing in long-term public goods. Credible commitment and coordination are two other important political economy challenges that any reform effort has to recognize and address.

Uncertainty.—Uncertainty concerning the final distribution of power and the nature and stability of future institutions is a central obstacle to economic exchange and post-conflict reform (Coyne and Pellillo 2011). It reduces investments and productivity since actors fighting for survival tend to have short time horizons, which tends to militate against long-term investments. This inherent uncertainty affects reform efforts via two key obstacles: commitment problems and coordination failures.

Commitment problems.—Given the uncertainty about future behaviour of different actors and the widespread use of violence, post-conflict reform faces multiple commitment problems. Policy reform requires governments and private actors to commit resources over several years, initially to aid reconstruction efforts. Agents in a conflict setting may be hesitant to commit to such efforts or their commitments may lack credibility, since the private incentives of these agents can run counter to the aims of possible reform initiatives. Since actors face strong incentives to renege on their promises in future, promises made in period t lack binding credibility in period, $t+1$. Such temporal disconnect between incentives and choices is a classic political economy challenge. Such commitment problems ‘arise when political power is not in the hands of the beneficiaries of the promised policies’ (Acemoglu and Robinson, 2006).

Commitment problems are major obstacles to post-conflict reform since the fear of security of investments fosters underinvestment of physical and human capital (Besley and Persson 2010; Flores and Nooruddin 2011). At least four credible commitment problems can be identified with regards to post-conflict reform. First, fighting parties face credible commitment problems as each side has to commit to avoid future violence and to move to non-violent forms of contestation (Walter 1997, 1999). This requires the development of mechanisms to enforce peace agreements and foster trust in commitment of the other group (Flores and Nooruddin 2011). Second, if the outcome is a clear military victory, the winner faces challenges to make credible commitments to their citizens not to exploit their power or to share power with regional elites (Fearon 1998; see Olson 1993). Third, in order to foster economic development, former fighting parties or the winner(s) must credibly commit to reforms to restrict state power while providing property rights and contract enforcement. To incentivize domestic and international investors, signals of parties’ commitment to non-violence must be viewed as credible. Fourth, external actors, such as foreign

states and international organizations, must convince the local populations of the sincerity of their long-term commitment to post-conflict reform (Coyné and Boettke 2009). Finally, parties to the conflict might worry that power sharing agreements made in the presence of external powers might “unravel” in future when the external constraints are less binding.

These commitment problems can be particularly acute in the Arab context due to a variety of reasons. Firstly, the sheer scale of uncertainty could dis-incentivize actors from making credible promises. Secondly, the complex nature of conflict with multiple actors competing for strategic influence makes it more difficult to elicit credible commitments. The involvement of multiple strategic actors means that more sophisticated mechanisms for coordination and commitment would need to be devised. In the Iraqi context, for example, citizens would need to judge the credibility and commitment of both indigenous actors (e.g. various ethnic and sectarian groups in Iraq) as well as the external actors involved (e.g. US, Iran, Saudi Arabia). Thirdly, the latest wave of civil wars in the Middle East have fragmented key institutions and pillars of the state. For example, in Libya and Yemen there is no unified central bank anymore. In fact, competing factions control different parts of the institution. In this context, institutions are themselves a source of conflict, which further exacerbates the commitment problem.

Coordination failures.—Given the multitude of actors involved and the difficulty to commit them to cooperative outcomes, coordination problems are rife in initiating post-conflict reform. The various domestic and international actors that are directly or indirectly involved in conflict—including former opponents—may find it difficult to coordinate their actions towards one set of socially preferred outcomes. These actors may stand at cross-purposes in terms of their divergent incentives on the nature of post-conflict order. Some of these actors might have committed huge resources in conflict and fear the possibility of sunk investments. Others might view reform initiatives as antithetical to their geo-political interests. In particular, actors might be more hesitant to commit during an on-going conflict as it can tilt the position in favour of one party or another. Coordination problems may even arise among former allies, especially after the end of fighting, as members of the same coalition can have divergent interests in post-conflict outcomes (Barreyre 2015). Such scenarios underscore the importance of global governance and the role of convening power of multilateral institutions, especially foreign donors, in solving commitment and coordination problems.

Another set of coordination challenges can arise in the provision of complementary inputs. Even the most straightforward brick and mortar investments require clarification of property rights, involvement of multiple government departments, and provision of complementary inputs. All of these requirements necessitate coordination among relevant actors and institutions. In the broader policy realm, investment decisions in fiscal and legal state capacities also need to be coordinated. This is particularly relevant in the Middle Eastern context where conflict has either badly fragmented (Iraq) or destroyed state capacity altogether (Yemen and Libya), or ignited the question

of sovereignty (Syria). Finally, over the course of implementing reform, coordination problems arise and (re-)emerge in response to sudden shocks.

Hard vs. soft infrastructure.—Post-conflict reform can involve the rebuilding of both hard and soft infrastructure (Collier 2003; Coyne and Boettke 2009). While the former is largely concerned with constructing physical infrastructure, the latter involves a multidimensional process aimed at restoring the institutional structures that could re-establish economic and political exchange. The two visions of post-conflict reform can be complementary. Building “hard infrastructure” requires many regulatory and institutional inputs that can be delivered through supporting the development of soft infrastructure. A related issue is one of sequencing and phasing: Should hard infrastructure precede the creation of soft infrastructure? Answers to these are likely to differ depending on the underlying context. For example, policy interventions involving physical infrastructure can be useful to buy in regime interests and incentives. Similarly, resources earmarked for large infrastructure projects can be used to engage local populations and former rebels who need material incentives to disengage from violence.

Nature of civil war outcome.—In post-conflict contexts, the type of conflict outcome, whether there is a peace agreement or a clear victor, determines the type of coordination and commitment problems to be solved. By contrast, during conflict, the identity of the relevant actors is endogenous to the dynamics of conflict. Depending on who is winning, which opposition groups emerge and whether or not external actors actively interfere during conflicts, the numerical strength and power of these actors is likely to change. Importantly, in most active conflict zones there are powerful actors who might actually benefit from the continuation of violence. For instance, leaders of fighting groups, warlords, organized criminal groups or religious actors, business leaders can benefit from the war economy and are not necessarily motivated to pursue public interest. They rely on the continuation of fighting since their power is rooted in wartime activities as collective power and organization become crucial. Moreover, they rely on conflict capital and social bonds that are created by the shared experience of armed conflict (Cheng 2013). These could be potential spoilers for post-conflict reform and need to be properly compensated or brought on board to benefit from reform initiatives.

Institutional design and transition.—As highlighted above, conflict is recognized as a period of rapid political change, intense (and violent) competition and limited constraints on executive power (Walter 2017). When civil war brings a radical departure from the pre-war institutional equilibrium it can act as a critical juncture. During critical junctures, where political agency becomes crucial, the varying sets of actors engage in elite bargaining in order to reach political settlements which shape institutional reforms and thus the long-term post-conflict order. Thus, institutional design is usually a collective effort between various parties in the wake of a civil war. The crucial challenge is to create institutional arrangements that are compatible with the incentives of multiple actors.

These incentives in turn may change as a result of the developments initiated by the outcomes of earlier policy interventions. For instance, if reforms to foster economic growth quickly after the end of a conflict are successful, some less powerful groups and actors may gain economic and thus political power. Thus, processes of institutional design and institutional transition tend to occur together implying that reform processes may not necessarily follow a linear line of development. Rather, institutions may be revised and reformed during the implementation of reform initiatives. One critical implication of this is that the first set of institutions implemented during early post-conflict reform initiatives may be “second-best options” which are more viable than the preferred ones. This highlights the importance of anchoring policy interventions within a carefully understood process of institutional change. Transplanting final outcome institutions without a due regard for the process could be counter-productive.

3. Implication: Post-conflict reform in Arab societies

It is clear from the above discussion that credible commitments are central for post-conflict reform, since they extend actors’ time horizons and elicit greater willingness for institutional reform. The commitment problem is, however, likely to be more acute in the Middle Eastern context driven in part by the sheer scale of uncertainty and the multiplicity of actors involved. Institution-building in fragile state can incentivize warring groups to stake their competing claims in new arrangements. Thus, when the political settlements that bring an end to war are fragile, institutional reforms can also potentially exacerbate rather than alleviate conflict-related insecurity. This is more likely to happen when institutional reform directly feeds into conflict-related agendas of organized factions. It is precisely this possibility of multiple equilibria that makes institutional reform in post-conflict states such as messy affair. In designing future policy options, it is therefore important to recognize from the very outset the complexity of the task.

Post-conflict reform should also be construed as part of a dynamic political economy framework where policy interventions are placed in an institutional continuum. Policies should be informed by prior institutional structures and mindful of avoiding unintended consequences that are unfavourable for long-term development. Intervention at time, t , can have long-run consequences, especially when the scale of intervention is large and possesses increasing returns characteristics. Crucially, in line with arguments of path dependency (Pierson, 2002), sequencing matters for reform efforts. In the Arab context, sequencing of reform is important.

There are many facets of such sequencing. For example, the complementarity between hard and soft infrastructure. The two could be inter-connected. For instance, the establishment of property rights (a key element of soft infrastructure) often needs to precede the introduction of “hard” infrastructure projects. It is also important to have a clear sense of priority in terms of choosing different aspects of institution building. Rather than insisting on a broad array of “final outcome” governance reforms, such as anti-corruption initiatives and democracy promotion through multi-

party elections, it might be more important to plug the gaps in state capacity that are directly needed for the success of post-conflict order (Mansfield and Snyder 2007). This is because state building involves the emergence of a credible enforcer while democratization implies a restriction of the state power. In contexts of weak state capacity, democracy promotion may in fact make state building harder. Low levels of state-capacity are also considered to be a major reason for civil war outbreak (Fearon and Laitin 2003), and has been an important casualty of conflict in the Middle East over the last 15 years.

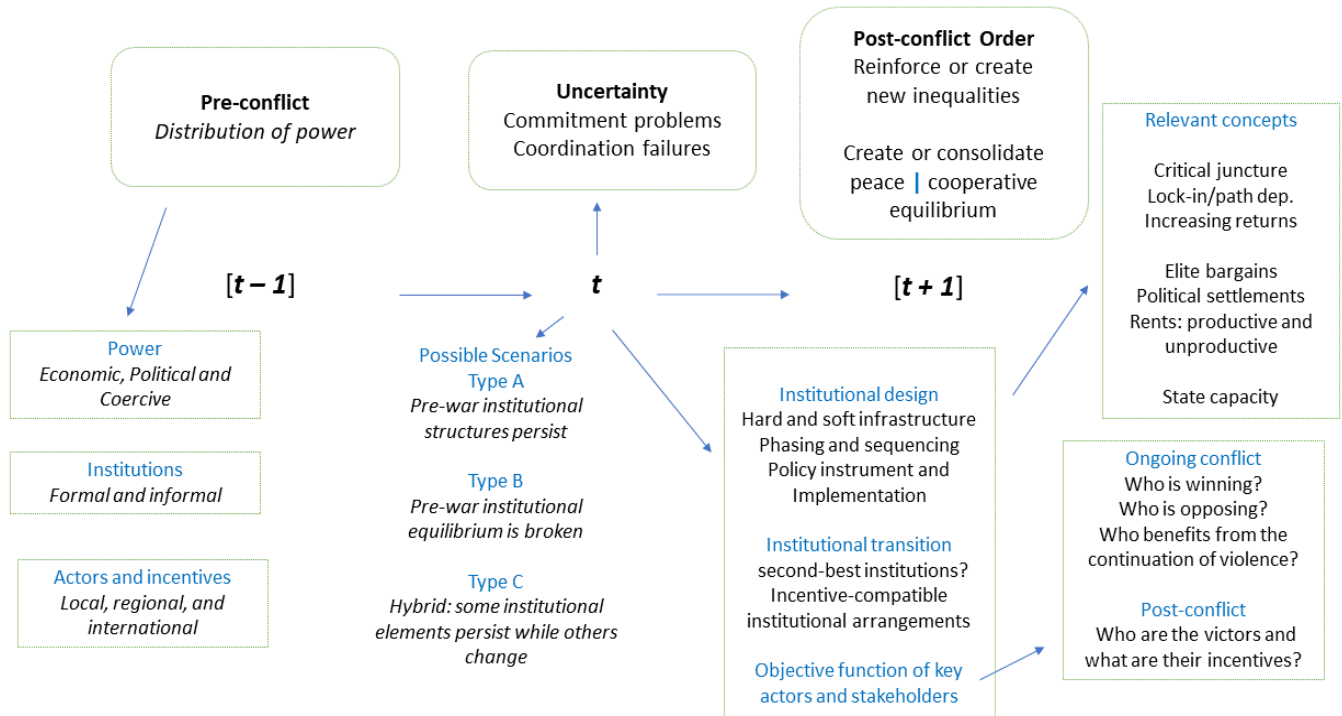
This brings us to an even more difficult trade-off that any post-conflict reform initiative would have to brace in the Middle Eastern context. It is the inherent tension between achieving short-term stabilization and long-term institution building. Given the large-scale destruction of physical assets, social networks, and the extent of mass displacements, the more urgent task would be to bring daily life back on its feet. Apart from being a humanitarian imperative, such short-term recovery is also deemed crucial for fostering support for democratic institutions (Dobbins 2003). Stabilization efforts can, however, end up lending indirect legitimacy to the incumbent regime. Or, it might require working with informal actors who emerged as beneficiaries of the war economy.

The presence of these informal actors can be associated with contradictory development outcomes. Despite being embedded in illicit trade, these groups can provide some degree of property rights protection, and can also influence the prospects of post-conflict institutional reform (Andreas 2004; Cheng 2013; Torjesen 2013). At the same time, empowering and legitimizing informal actors by granting them access to formal power could pose a long-term danger to societal interest (Bayart, Ellis, and Hibou 1999: 20-1). The challenge would be to take account of the existing institutional structures and recognize the incentives of these actors in a way that affords greater space for long-term concessions for state building.

This is admittedly a difficult balancing act and requires greater concern for the process and transition dynamics rather than a fixation on *final institutional outcomes* (e.g. democracy, rule of law, etc). It should also be based on a humble admission of the gaps in our intellectual understanding of how countries move from an inferior to a more superior institutional order, especially in the wake of conflict. We have a limited knowledge of the political economy of transition. There is considerable evidence to suggest, however, that the process of transition involves incentive-compatible institutional arrangements, elite bargains, and sharing of rents with spoilers. Dealing with the spoilers can involve both carrots and sticks. One approach would be to use targeted conditionality linked with foreign aid that seeks to hit the spoilers of reform through economic restrictions, targeted sanctions, and asset freezes. Such sticks can be used against actors who directly oppose reconstruction (Forman, 2002). However, prior experience on sanctions is mixed as they can drive economic activity into the informal economy. Another approach would be to offer monetary and non-monetary incentives to potential spoilers to prevent them from rocking

the boat. A mix of carrot and sticks can also be used to elicit cooperation from spoilers. Institutional development is, in the end, a very messy game that is laden with contradictions.

Figure 1. Conceptual Framework



Source: Authors' own elaboration.

4. On the Macroeconomic Reforms in Post-Conflict Countries

The conceptual framework presented above shows to what extent commitment and coordination are essential in a post-conflict framework. Yet, it is important to study the various reforms that are implemented in post-conflict countries in order to answer two key questions. On the one hand, we have to examine what is the type of macroeconomics policies that help these countries have a sustained economic growth in a post-conflict period. On the other, we analyze the trade-off that these countries might face between stabilization policies that are short term oriented and structural policies that target the long-term.

4.1. General Considerations

First, Eldeep and Zaki (2021) distinguish between stabilization and structural policies as follows. Stabilization reforms are a set of macroeconomic policies that aim not only at achieving price stability but also at adjusting supply and demand to achieve a stable or a lower output gap. In contrast, structural reforms are a set of policies aimed at strengthening the role of market forces and competition in the economy, while maintaining appropriate regulatory frameworks to remedy market failures. Thus, they change the level of potential GDP (Ostry et al., 2009). Distinguishing

between these two types of policies is important given that 40 percent of post-conflict countries have fallen back into conflict within a decade (Collier and Hoeffler, 2004). This points out the fact that the adopted policies can avoid conflicts in the short run, but if the root causes of the conflict are not addressed through long-term policies, conflicts are very likely to erupt once again. In other words, structural policies that lead to a real economic development and a change in the nature of the social contract can significantly decrease the risk of the recurrence of conflict.

Second, reform programs should, generally, aim to focus on the fundamentals of economic growth to prevent a return to conflict and moving forward with growth through: economic governance functions; restore the government's legitimacy; focus on sectors that create jobs; and stabilize the economy. Yet, this might lead to some "time inconsistency". The latter refers to the case where, over time, policies that were optimal in the short run are no longer perceived to be optimal in the long term. Indeed, if the government focuses solely on stabilization policies, less long-term policies will be adopted and thus, neither the structure of the economy will change, nor the initial reasons behind the conflict will be addressed.

Third, in order to avoid the conflict trap and given the existence of different factions, part of the literature examined the role of UN peacekeeping operation. For instance, Collier et al. (2008) that expenditures on UN peacekeeping operations in the post-conflict country have a large effect on decreasing the risk of renewed conflict with the figures suggesting that, when the expenditures are doubled, the risk of renewed conflict drops from 40 percent to 31 percent. This can be attributed to the fact that peace in the post-conflict countries is, generally, fragile and the presence of such forces can guarantee peace in the short term to speed up the recovery process.

Fourth, on the role of political institutions, no substantial evidence could be found that elections decreased the risk of conflict (Collier et al., 2008). Indeed, Hartzell and Hoddie (2003) focus, more broadly, on power sharing institutions among the internal factions' that are present in the post-conflict period. They argue that when more power is shared among the various factions the more likely peace will endure. Uganda provides a case in point. It is one of the most successful cases of transition to a post-conflict order. Uganda's success was not necessarily a result of implanting procedural democracy but rather a product of an inclusive political structure. Uganda's post-conflict regime ensured that all factions of the civil war were integrated in different organs of the state, including the national Army. Local councils and community-based organizations also formed a core component of Uganda's new political settlement. Economic growth in the post-conflict phase is likely to be higher when the leading faction of power in the wake of conflict is faced with greater checks on its exercise of absolute power and when post-conflict political dispensations are more inclusive in their character. By contrast, autocracies with greater concentration of power among a narrow set of elites provides an inhospitable environment for post-conflict economic recovery.

Finally, policies adopted must be tailored to the structural characteristics of the countries in terms of their fractionalization and the abundance of natural resources, being themselves important determinants of the conflicts eruption. Table 1 shows that we can identify four groups of countries as follows. Group 1 includes countries with ethnic and ideological homogeneity and that are oil rich: given their homogeneity, the probability of conflict recurrence is likely to be low. Moreover, as they are oil-rich, they have a fiscal space and might be less dependent on foreign aid. Group 4 is the exact inverse of group 1, which means that it includes countries with no oil (thus are highly dependent on foreign aid) and that are characterized by a high ethnic and ideological fractionalization. Between these two cases, two intermediate groups either are poor in oil or have a high level of ethnic and ideological heterogeneity.

Table 1. Countries classification

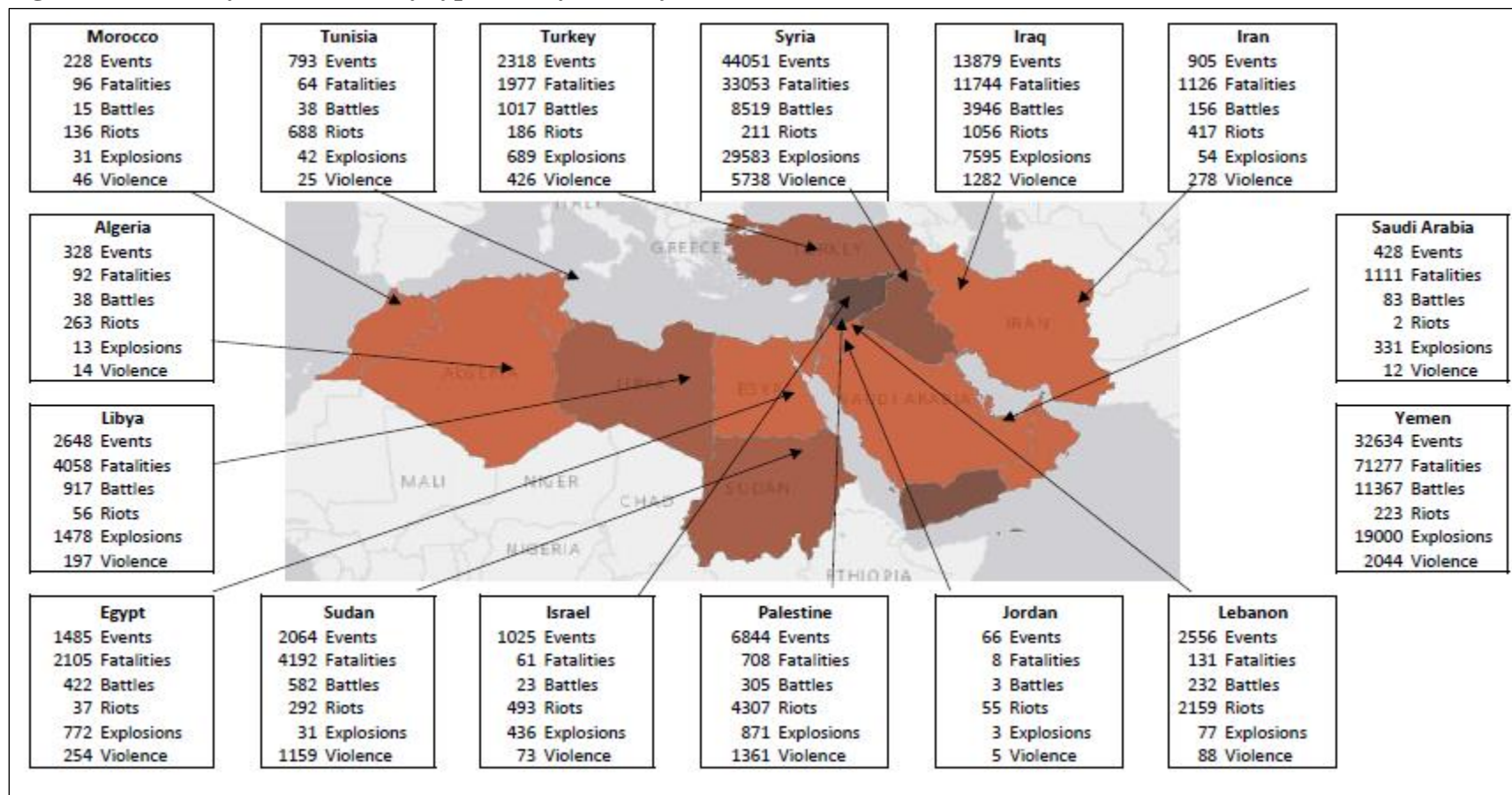
		Oil rich	Oil poor
Ethnic ideological homogeneity	and	Group 1	Group 2
		Fiscal space Low probability of a new conflict	No fiscal space Low probability of a new conflict Aid dependent
Ethnic ideological heterogeneity	and	Group 3	Group 4
		Fiscal space High probability of a new conflict	No fiscal space High probability of a new conflict Aid dependent

Source: Authors' own elaboration.

In our analysis, we mainly focus on MENA countries that are currently involved in different types of conflicts (see Figure 2 for a summary of such conflicts since 2019). For instance, in Group 4, we have Lebanon and Sudan. In Group 3, Libya and Syria can be included. As it was mentioned, this classification is important as it helps determine the type of macroeconomic policies to be implemented as well the degree of external aid dependency. It is worthy to note that this, while the abundance of natural resources and ethnic fractionalization can increase the likelihood of conflict eruption, countries characterized by scarce natural resources (Lebanon) or ethnic and ideological homogeneity (Libya) are not spared from conflicts. This is why this classification must be perceived as a way to better tailor macroeconomic transformational programs to the structural characteristics of post-conflicts countries.

In what follows, we analyze more thoroughly the different macroeconomic policies that need to be adopted in both the short-term (to stabilize the economy) and the long-run (to change its structure and reduce the risk of conflict eruption).

Figure 2. Summary of Conflicts by type and by country (2019-2022)



Source: Authors' own elaboration using the ACLED dataset.

4.2. What Type of Macroeconomic Policies?

Stabilization policies are short term oriented and can address cyclical imbalances but not likely to resolve the deep root causes that led to the conflict eruption. These policies include foreign aid and exchange rate policy, monetary policy and fiscal policy. Each one of these policies has to be reformed at both the short term (to guarantee stabilization) and the long term (to guarantee a greater potential of the economy). Yet, it is important to note that such reforms should be perceived as transformation programs given that post-conflict itself is a transition continuum. Such programs should unlock the country's potential in order to reach a more peaceful society.

Foreign Aid and Exchange Rate Policy

In a post-conflict period, there is an increase in aid flows to conflict-affected countries (groups 2 and 4 with a limited fiscal space). Collier & Hoeffler (2004) argue that, immediately after the conclusion of a conflict in a country, the two main sources that push the country in the direction of economic recovery are policy advice and foreign aid. On the former, this might be due to the fact the country's human capital and government tend to remain in disarray at least for the short-term. On the latter, aid can play an important role in the reconstruction of these economies and in consolidating peace and reducing risks of future conflicts. In this regard, Collier & Hoeffler (2004) show that the absorptive capacity of the economy is normal during the first three years post-conflict, however after this initial period the absorptive capacity becomes almost double the normal level. Hence, this would suggest that aid to the country should gradually increase over the course of the first decade post-conflict. However, historically this has not been the case; foreign aid usually reaches its maximum during the conflict, and decreases sharply rather than increase during the post-conflict years.

Yet, while foreign aid is necessary to address short-term challenges (and thus can be perceived as a stabilization policy), it can create other problems and is not sufficient to add long-term challenges. First, on the short term, it can lead to an exchange rate appreciation leading to a decrease in exports, an increase in imports and a deterioration of the external position of the country. Second, if foreign aid is allocated to non-tradables only, the tradable sector becomes uncompetitive, especially in the long run (Abu Ismail, 2021), which further negatively affects exports. Third, aid volatility can exert a negative impact on growth and thus deviates the country from its balanced growth path. Hence, in order to remedy such drawbacks, Soto and Eldabawi (2013) suggest that the free-floating exchange regime is not adequate for countries coming out of civil wars. In contrast, a managed regime might boost economic performance as it might keep the currency undervalued, which might increase the effectiveness of aid on output. Second, in order to increase the effectiveness of foreign aid, the literature highlights the importance of the quality of institutions to channel such flows to infrastructure and the delivery of social services. For example, Uganda's successful transition to a post-conflict order was ostensibly facilitated by foreign aid and better macroeconomic management. However, as argued earlier, this successful transition was undergirded by an inclusive political structure. Third, El-Badawi et al. (2007) show

also that the overvaluation of the real exchange rate during post-conflicts negatively affects catch-up growth. Yet, this negative effect can be moderated if financial institutions are developed (being a structural policy targeting the long-term).

Fiscal Policies

It is important to note that the deep popular discontent that eventually manifested itself in the uprisings has its roots in the changing role of the state as provider of public welfare whatever its merits or demerits may have been. Indeed, after independence, public employment and provision of subsidies became the cornerstones of the social contracts in MENA countries. Governments spent heavily on various endeavors to strengthen their own legitimacy. However, overtime government revenues could no longer financially maintain a growing public employment nor sustain subsidy spending, let alone growing frustration with lack of political freedom. This is why, with a new social contract, fiscal policies in post-conflict countries need to change.

Stewart et al. (2007) examine the structure of fiscal policies in post conflict countries. They argue that the objective of this policy is to address mainly horizontal inequalities among ethnic, racial, linguistic, regional, and religious groups as the latter can be the main source of conflict relapse. In addition, it is important to avoid higher levels of fiscal deficits to avoid higher levels of inflation that erode the purchasing parity of individuals and lead to another conflict. Reducing budget deficits may be achieved by some combination of tax rises and/or expenditure reductions. Yet, the higher the reliance on tax rises and the lower on expenditure reduction, the more likely the package is to reduce horizontal inequalities (across segments and regions).

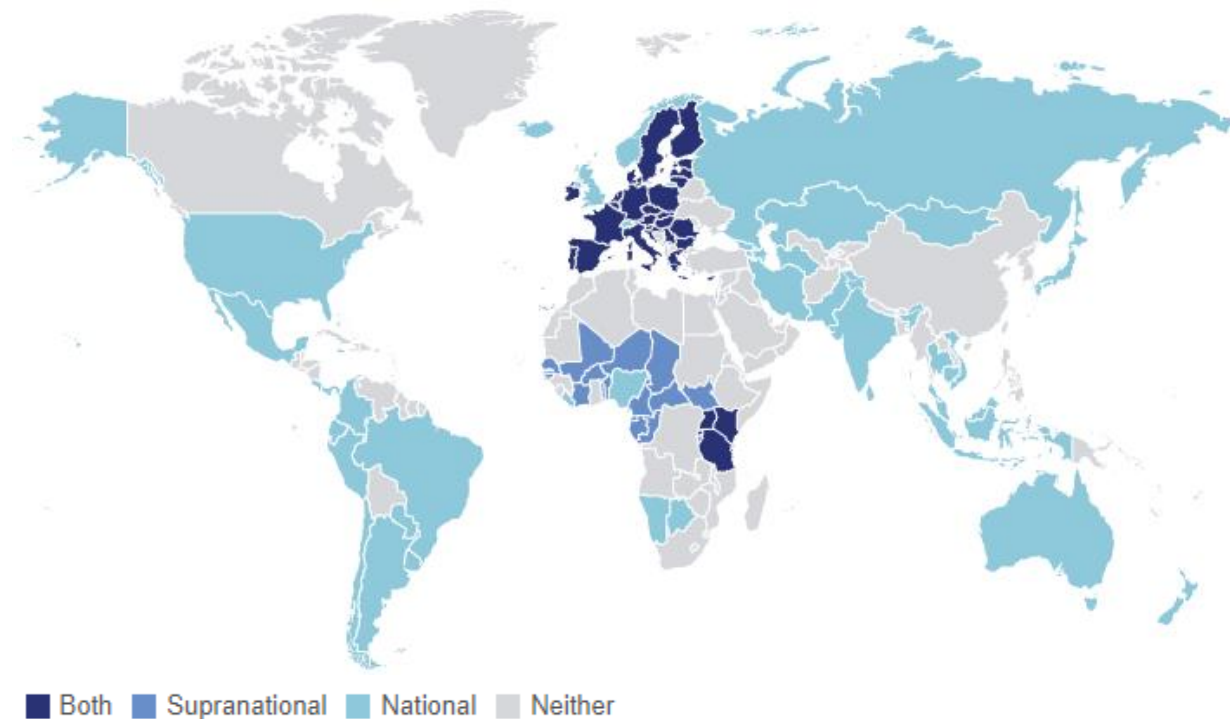
More specifically, in the short run, tax policies should increase revenues to meet the spending needs of the country and reduce inequalities (Polchanov, 2017). Hence, some studies argue that the direct tax progressivity (imposing higher taxes on the more privileged) is commendable, as it will not affect marginalized groups. In the same vein, imposing taxes on luxury goods and exempting basic goods is likely to lead to more equality without affecting the poorest categories of the population (Stewart et al., 2007).

At the spending level, expenditure policies have to meet two objectives: first, to fill the aggregate demand gap created by the collapse of private investment and exports (Hailu and Weeks, 2011); and second, to remedy horizontal inequalities through a more equitable provision of public services across different regions and groups of the country. For example, investments in social services, through the Program of Action and Measures to Address the Social Costs of Adjustment (PAMSCAD) help explain the relatively peaceful legacy of Ghana after the dispute between the Konkomba and Nanumba communities in the mid-1990s (Snyder and Bhavnani, 2005). In addition, reducing subsidies or gradual price deregulation is another measure that could be implemented in post conflict countries in order to generate some fiscal space. While this policy can cause a high inflation, it eliminates shortages and restores balance to the economy. Indeed,

Labus (2020) shows that, in the case of Serbia, neoliberal macroeconomic policies that championed price deregulation among other things, were relatively successful, though unpopular.

Three considerations are worthy to be mentioned in terms of spending. First, it is important to note that oil abundance is an important determinant of fiscal policy. In fact, oil poor countries (groups 2 and 4) have a lower fiscal space and are more dependent on foreign aid in the provision of social programs. This is why, as it was mentioned before, monitoring such flows will guarantee their efficient use. Second, for both oil rich and poor countries, the structure of public spending (current or non-productive and productive) matters. Kneller et al. (1999) and Chu et al. (2020) show that productive government spending increases the productivity of the economy thanks to a higher investment in physical and human capital and hence has a direct impact on growth. In contrast, non-productive or current expenditure affects citizens' welfare through subsidies, wages, and compensation of employees and government purchases. Yet, it is not likely to affect economic growth since it is immediately spent and consumed in the short term. Thus, it is important to balance between the immediate benefits of non-productive spending that is essential to stabilize demand in the short term on the one hand, and on the other, the gradual benefits of productive one that will be pronounced in the long-run. Second, in several post-conflict countries, one can observe that several austerity measures are implemented either by international donors or national governments (such as Syria that removed subsidies for oil derivatives in 2020 and 2021 and excluded around 600,000 families from its subsidy program in 2022 (Daher, 2022)). Such a policy might have two negative effects. At the macroeconomic level, austerity measures are associated to a depressed demand, which negatively affects the economy whereas the pie should be expanded in post-conflict times. At the social level, these measures can increase economic marginalization and political tensions, leading to conflict relapse. Third, from a longer-term perspective, both countries (oil poor or oil rich) need to develop a fiscal rule (revenue, expenditure, debt, or deficit rule) to guarantee that improve debt sustainability and increase the credibility of fiscal policy (IMF, 2022). Figure 3 shows that none of the conflict affected or post-conflict countries in the MENA region have adopted fiscal rules. Yet, in terms of policy credibility and commitment, such a reform is indispensable.

Figure 3. Number and types of fiscal rules (1985-2021)



Source: IMF dataset.

Finally, in the case of oil-rich countries (groups 1 and 3), it is important to note that the combination of an inflation-prone post conflict economy and large resource revenues can generate price increases (ESCAP, 2014). To avoid that, a natural resource fund could avoid public expenditure adding to inflationary pressures. This fund (that was created in Timor-Leste, for instance) will absorb the remaining export revenues to avoid inflationary pressures.

Monetary Policies

Starr (2004) argues that, given that governments finance military operations by printing money, post-conflicts periods are characterized by a high inflation, a degradation of the currency value and a potential substitution with foreign currencies. This is why several reforms are needed in short and the long term, especially in terms of the transmission channels of monetary policy.

To begin with, in the short term, it is important to move money from the realm of the old elites and powers to the realms of the common good (Starr, 2004). In addition, Hailu and Weeks (2011) argue that a fundamental aspect of the monetary policy should be to mobilize private resources for investment, mainly through remittances that have to be channeled to the formal banking system (especially for groups 2 and 4 that are poor in natural resources). In fact, post-conflict countries predominantly have a large diaspora due to the substantial outflow of migrants caused by the conflict. Williams (2020) studies the cases of the post-conflict countries of Montenegro, Kosovo and Bosnia & Herzegovina, all of which had experienced substantial outflow of migrants caused by the conflict and the creation of large diasporas. Though most of the diaspora do provide

financial remittances, the latter might not be effective for several reasons: limited financial development, unfriendly investment climate and the lack of capital and infrastructure that have been destroyed during the conflict. Therefore, Williams (2020) concludes that institutional change is essential if the diaspora is to be included in the economy and become a fully utilized resource for social and economic development for their home countries.

As per the long term, guaranteeing the Central Bank independence and accountability vis-à-vis the parliament is crucial to increase its credibility and hence commitment to implement the relevant policies. This was clear in the Croatian case that established an independent currency with a strong independent and accountable central bank⁵ that managed to have a very low inflation between 2 to 7%. Thus, it introduced the dinar in 1991 as a transitional currency and, in 1994, it was replaced by the kuna.

Table 2. Summary of Macroeconomic Policies in the Short and Long Term

	Short term – Stabilization policies	Long term – Structural policies
Exchange rate and aid	Spending on infrastructure and social programs with a managed exchange rate.	Good institutions Financial development.
Fiscal policy	Tax progressivity Provision of public services	Implementing a fiscal rule Structure of current vs. productive spending
Monetary policy	Moving money from the old authorities to the common good Channeling remittances into the formal banking sector	Central Bank Independence Financial development An investment climate that is friendly and efficient

Source: Authors' own elaboration.

4.3. Relevance for Arab economies

The policies presented above set the general lines for the appropriate macroeconomic policies to be implemented in post-conflict countries in both the short and long runs. Yet, such policies are always associated with distributional consequences that might exacerbate horizontal inequalities and ultimately create resistance to reform. In fact, the latter might erode the benefits of the constituencies initially benefiting from the distortions. Hence, the success and effectiveness of policy reform need to be assessed in the context of these existing political economy challenges. This gains particular salience soon after the end of war and the beginning of post-conflict period, since economic policies in this formative period can potentially lock-in distributional patterns that are difficult to reverse over time. Against this background, it is important to note the following.

⁵ The law governing the central bank gives it “operational autonomy and independence” while stating that it “shall be responsible to the Croatian Parliament” and that “in making decisions based on this Law and in their implementation [the Bank] shall neither seek nor take instructions from the bodies of the Republic of Croatia or the European Union or from any other body” (Article 2).

First, while implementing any macroeconomic reform, it is important to understand not only the economic, but also social and political dynamics behind structural imbalances in the MENA region. For instance, when it comes to informal cross border trade (ICBT) in the MENA region, Malik and Gallien (2020) show that oil is the most traded product by Algeria (with Morocco, Mali, Tunisia), Libya (with Tunisia, Egypt, Niger, Malta, Italy), and Iraq (with Syria, Turkey). Such flows are partly due to restrictions on formal economic activity (such as monopolies and high tariffs), price differential and geopolitical restrictions (such as sanctions and wars). While respective governments try to encourage movement from informal to formal trade by reforming subsidies, such efforts may not be effective if the social and political aspects of ICBT are neglected (which actors are involved, who are the beneficiaries, etc.). This is all the more important given that the period of conflict is not marked by a complete cessation of economic activity, but the transfer of economic activity from the formal to informal sectors. The controllers and beneficiaries of this informal sector will resist any macroeconomic reform that could potentially upend their privileges. Reform in this context is not just about adopting successful economic policies. It is also about making these policies “good politics” (Acemoglu and Robinson 2013).

Second, it is crucial to create effective bargaining structures to allow the government negotiate with different groups to avoid resistance against reforms. For instance, in several countries (such as Egypt, Lebanon, Algeria, Libya, and Sudan) a parallel exchange rate emerged for different reasons. Unifying the exchange rate through a currency devaluation is clearly associated with losses to those who had privileged access to foreign exchange at the official rate. While a clear and transparent policy is needed to make it credible and strengthen confidence in the future management of the exchange rate, the government has to allow bargaining structures with different constituencies. This was especially the case in Jamaica. In 1977, the government was in discussion with the IMF and the Jamaica dollar was likely to be devaluated. Yet, the devaluation decision and its extent were a source of divergence between the Bank of Jamaica and career officers of the ministry of finance. This is why the compromise they reached was a dual exchange rate: one with a 15% devaluation and the other with the old rate that was retained for some transactions. Later, as this dual system failed to clear the market, a crawling peg regime was adopted (Worrell et al., 2000).

Third, as argued by Acemoglu et al. (2008), in fragile states, such as post-conflict countries, a “*seesaw effect*” might be observed. According to this effect, reform in one dimension of policy against the will of powerful political elite can lead to the implementation of other policies that will be as distortionary as the old policies. Therefore, the ruling class will keep switching between macroeconomic policies to satisfy their political constituencies. This point poses a challenge in Arab countries, where institutions are generally weak and checks and balances are needed to avoid such contradictions in economic policy.

Fourth, given that several countries suffer from different conflicts, Arab countries are likely to experience the “*bad neighbor effect*” as suggested by Chauvet et al. (2011). This can be explained by several channels such as unstable borders and insecurity (that can affect tourism, being an important sector in MENA countries) and movement of refugees to neighboring countries (that might exert pressure on the health and education infrastructure). These impacts can generally shape the macroeconomic performance of post-conflict countries.

Fifth, the literature on the impact of sanctions (economic, trade, investment and financial sanctions) shows diverse effects on post-conflict countries. On the one hand, Escriba-Folch (2010) shows that, using a sample of 87 wars, sanctions are negatively associated with the duration of intrastate conflicts as they increase the cost of continuing fighting. Yet, on the other, Farzanegan and Hayo (2019), using Iranian province level data from 2001 to 2013, show that international sanctions negatively affected more the growth rate of the shadow economy than the formal one. From a social perspective, this is of particular importance given that the informal sector is an important buffer in MENA countries, especially during crisis times. In addition, the negative effect on financial flows might be substantial (decrease of FDI, portfolio investments, etc.) as it has been highlighted by Gurvich and Prilepskiy (2015) in the Russian case. Obviously, this might delay reforms and recovery given the limited availability of foreign currency and thus resources.

Finally, the role of international donors in post-conflict settings can be fraught with contradictions. On the one hand, support from multilateral donors, such as the IMF and World Bank, can provide the much needed financial and technical support for reforms and can be used to tie the hands of ruling elites, such support can also exacerbate pre-existing institutional challenges. In forthcoming work, Morrow (2022) shows that when the underlying system of public goods distribution is unequal, World Bank funding can actually increase horizontal inequalities. Furthermore, the use of blanket IMF conditionality on trade and exchange rate reform needs to be tailored to the context of fragile conflict-prone settings. All of this calls for a greater nuance in how donor support is designed and delivered.

5. Conclusion

We provide in this paper the basic elements of a possible analytical framework for post-conflict reform in Arab societies. We analyze the main characteristics of macroeconomic policies that have to be adopted in both the short (stabilization policies) and the long (structural reforms) term in order to avoid the time inconsistency problem.

Several points are worthy to be highlighted for post-conflict countries from a political economy perspective. First, commitment challenges are a fundamental feature of post-conflict settings. Reform that recognizes and addresses these challenges are more likely to succeed. Second, it is important to analyze the political economy of reforms from a more dynamic lens. This requires that we understand how power was distributed before conflict, how the configuration of power

shifts during conflict, and who are the actors and their incentives. A more temporal approach is essential for designing effective interventions. Third, post-conflict institution building needs to take into account the complexity and contradictions of the reform space. This requires a greater nuance, and a shift of focus away from final outcomes (e.g. elections, transparency, control of corruption, etc.) to intermediate processes (what will set actors onto a more productive institutional path with second-best outcomes). Rather than insisting on an ideal set of institutions, attention needs to focus on a more realistic pathway towards reform. Inclusive political transitions with decentralized input from key constituencies are more important than elections per se. Yet, inclusion is not synonymous to sectarian power sharing. It also necessitates a focus on sequencing. And, the need for compensation to actors who stand to lose out from reform. These different points confirm the findings of Acemoglu and Robinson (2013) who argue that, while implementing economic reforms, it is important to consider the impact of reforms for future political equilibria. For example, other sensible economic reforms (such as prudent fiscal and monetary policy) might be bad politics in the wake of a fragile political transition. This could invite potential backlash from various factions whose support is crucial for moving the country firmly into a post-conflict stage.

From a policy perspective, it is important to approach macroeconomic reforms (at the monetary, fiscal and exchange rate levels) from both a stabilization (short term oriented) and a structural (long term) lens. This will guarantee that macroeconomic policies do not suffer from a time inconsistency problem. Moreover, policies adopted must be tailored to the structural characteristics of the countries (such as their fractionalization and the abundance of natural resources) that were initially the reason behind the conflicts eruption. In addition, ownership of such reforms is crucial for successful execution of policies. This is especially related to the role of donors and international actors who can provide the required financial support. Yet, if reforms are imposed (with no sense of ownership), such reforms can exacerbate horizontal inequalities and lead once again to conflict relapse.

Thus, macroeconomic reforms must be analyzed through a more comprehensive approach (with its political-economic factors and its time horizons) not just specific measures that help stabilize the economies in the short term.

References

- Acemoglu, D., Johnson, S., Querubin, P., & Robinson, J. A. (2008). When does policy reform work? The case of central bank independence (No. w14033). National Bureau of Economic Research.
- Andreas, Peter. 2004. "The Clandestine Political Economy of War and Peace in Bosnia." *International Studies Quarterly* 48(1): 29–52.
- Athukorala, P., & Jayasuriya, S. (2013). Economic Policy Shifts in Sri Lanka: The Post-Conflict Development Challenge. *Asian Economic Papers*, 12(2), 1–33.
- Barreyre, Nicolas. 2015. *Gold and Freedom: The Political Economy of Reconstruction*. Charlottesville: University of Virginia Press.
- Bayart, Jean-François., Stephen Ellis, and Béatrice Hibou. 1999. *The Criminalization of the State in Africa*. Oxford: International African Institute in association with J. Currey.
- Berdal, Mats and Dominik Zaum. 2013. "Introduction: Power after Peace." In *The Political Economy of Statebuilding*, eds. Mats Berdal and Dominik Zaum. Abingdon: Routledge, 1–14.
- Berdal, Mats, and David Keen. 1997. "Violence and Economic Agendas in Civil Wars: Some Policy Implications." *Millennium: Journal of International Studies* 26(3): 795–818.
- Besley, Timothy, and Torsten Persson. 2014. "The Causes and Consequences of Development Clusters: State Capacity, Peace, and Income." *Annual Review of Economics* 6(1): 927–49.
- Besley, Timothy, and Torsten Persson. 2010. "State Capacity, Conflict, and Development." *Econometrica* 78(1): 1–34.
- Brown, G., Langer, A., Stewart, F., (2011). "A Typology of Post-conflict Environments", Centre for Research on Peace and Development, Working Paper n°1. Available at: <https://lirias.kuleuven.be/bitstream/123456789/330374/1/wp01.pdf>
- Capoccia, Giovanni. 2015. "Critical Junctures and Institutional Change." In *Advances in Comparative Historical Analysis*, eds. James Mahoney and Kathleen Thelen. New York: Cambridge University Press., 147–79.
- Del Castillo, Graciana. 2008. *Reconstruction, Rebuilding War-Torn States: The Challenge of Post-Conflict Economic*. Oxford: Oxford University Press.
- Cederman, Lars-Erik, Nils B. Weidmann, and Kristian Skrede Gleditsch. 2011. "Horizontal Inequalities and Ethnonationalist Civil War: A Global Comparison." *American Political Science Review* 105(03): 478–95.
- Chauvet, L., Collier, P., & Hoeffler, A. (2011). The cost of failing states and the limits to sovereignty. In *Fragile states: Causes, costs and responses* (pp. 91–110). Oxford University Press.
- Cheng, Christine. 2013. "Private and Public Interests. Informal Actors, Informal Influence, and Economic Order after War." In *The Political Economy of Statebuilding*, eds. Mats Berdal and Dominik Zaum. Abingdon: Routledge, 63–78.

- Clément, Jean A. 2005. *Postconflict Economics in Sub-Saharan Africa, Lessons from the Democratic Republic of the Congo*. Washington, D.C.: International Monetary Fund.
- Collier, Paul, V. L. Elliott, Havard Hegre, Anke Hoeffler, Marta Reynal-Querol and Nicholas Sambanis. 2003. *Breaking the Conflict Trap: Civil War and Development Policy*. Washington DC and New York: World Bank and Oxford University Press.
- Collier, P. (2009). Post-conflict recovery: How should strategies be distinctive? *Journal of African Economies*, 18(Supplement 1), i99–i131. <https://doi.org/10.1093/jae/ejp006>
- Collier, P., & Hoeffler, A. (2004). Aid, policy and growth in post-conflict societies. *European Economic Review*, 48(5), 1125–1145.
- Collier, P., & Hoeffler, A. (2006). Military expenditure in post-conflict societies. *Economics of Governance*, 7(1), 89.
- Collier, P., Hoeffler, A., & Söderbom, M. (2008). Post-Conflict Risks. *Journal of Peace Research*, 45(4), 461–478.
- Coyne, Christopher J., and Peter J. Boettke. 2009. “The Problem of Credible Commitment in Reconstruction*.” *Journal of Institutional Economics* 5(01): 1.
- Coyne, Christopher J., and Adam Pellillo. 2011. “Economic Reconstruction amidst Conflict: Insights from Afghanistan and Iraq.” *Defence and Peace Economics* 22(6): 627–43.
- Cramer, Christopher. 2006. *Civil War Is Not a Stupid Thing. Accounting for Violence in Developing Countries*. London: Hurst & Company.
- Diwan, Ishac; Adeel Malik, and Izak Atiyas (2019) *Crony Capitalism in the Middle East Business and Politics from Liberalization to the Arab Spring*, OUP.
- Dobbins, James F. 2003. “America’s Role in Nation-Building: From Germany to Iraq.” *Survival* 45(4): 87–110.
- Elbadawi, Ibrahim A.; Kaltani, Linda; Schmidt-Hebbel, Klaus. 2007. Post-Conflict Aid, Real Exchange Rate Adjustment, and Catch-up Growth. Policy Research Working Paper; No. 4187. World Bank, Washington, DC
- Elbadawi Ibrahim and Soto, R. 2013. Exchange Rate Regimes for Post-conflict Recovery. ERF Working Paper Series No. 748.
- Escribà-Folch, A. (2010). Economic sanctions and the duration of civil conflicts. *Journal of Peace Research*, 47(2), 129-141.
- Farzanegan, M. R., & Hayo, B. (2019). Sanctions and the shadow economy: Empirical evidence from Iranian provinces. *Applied Economics Letters*, 26(6), 501-505.
- Fearon, James D. 1998. “Bargaining, Enforcement, and International Cooperation.” *International Organization* 52(02): 269–305.
- Fearon, James D., and David D. Laitin. 2003. “Ethnicity, Insurgency, and Civil War.” *American Political Science Review* 97(1): 75–90.
- Flores, Thomas E., and Irfan Nooruddin. 2011. “23 Credible Commitment in Post-Conflict Recovery.” In *The Handbook on the Political Economy of War*, eds. Christopher J. Coyne

- and Rachel L. Mathers. Cheltenham and Northampton: Edward Elgar, 474–97.
- Frère, M.)S & Wilen, N. (2015). “INFOCORE Definition: Post-conflict”, Bruxelles:ULB. Available online at <http://www.infocore.eu/results/definitions/>
- Foote, Christopher, William Block, Keith Crane, and Simon Gray. 2004. “Economic Policy and Prospects in Iraq.” *Journal of Economic Perspectives* 18(3): 47–70.
- Greif, Avner. 2006. *Institutions and the Path to the Modern Economy: Lessons from Medieval Trade*. Cambridge: Cambridge University Press.
- Gurvich, E., & Prilepskiy, I. (2015). The impact of financial sanctions on the Russian economy. *Russian Journal of Economics*, 1(4), 359-385.
- Hailu, D., & Weeks, J. (2011). *Macroeconomic Policy for Growth and Poverty Reduction: An Application for Post-Conflict and Resource-Rich Countries*.
- Hartzell, C., & Hoddie, M. (2003). Institutionalizing peace: Power sharing and post-civil war conflict management. *American Journal of Political Science*, 47(2), 318–332.
- Hill, H., & Menon, J. (2014). Cambodia: Rapid growth in an open, post-conflict economy. *The World Economy*, 37(12), 1649–1668.
- Ibrahim, A., & Sulaiman, M. (2020). Constructing the Reconstruction Process: a Smooth Transition Towards Knowledge Society and Economy in Post-Conflict Syria. *Journal of the Knowledge Economy*, 11(3), 931-948.
- Kalyvas, Stathis N. 2015. “Is ISIS a Revolutionary Group and If Yes, What Are the Implications ?” *Perspectives on Terrorism* 9(4): 42–47.
- Kneller, R., Bleaney, M. F., & Gemmill, N. (1999). Fiscal policy and growth: evidence from OECD countries. *Journal of public economics*, 74(2), 171-190.
- Koford, Kenneth. 2003. “Iraq and Public Choice.” *Eastern Economic Journal* 29: 619–21.
- Kurrild-Klitgaard, Peter. 2004. “Blood, Baath and Beyond: The Constitutional Dilemma of Iraq.” *Public Choice* 119(1/2): 13–30.
- Labus, M. (2020). Transition and Post-Conflict Macroeconomic Policies in Serbia. *Ekonomski Anali / Economic Annals*, 65(226), 73–102.
- Makdisi and Soto, *Aftershock of the Arab Uprisings: Reconstruction, National Peace And Democratic Change*, Routledge, forthcoming.
- Mansfield, Edward D., and Jack L. Snyder. 2007. “The Sequencing "Fallacy"” *Journal of Democracy* 18(3): 5–10.
- Nkurunziza, J. D. (2018). Growth in fragile states in Africa: Conflict and post-conflict capital accumulation. *Review of Development Economics*, 23(3), 1202–1219.
- North, Douglass Cecil. 1990. Cambridge University Press *Institutions, Institutional Change and Economic Performance*. Cambridge: Cambridge University Press.
- Olson, Mancur. 1993. “Dictatorship, Democracy, and Development.” *American Political Science*

- Review* 87(03): 567–76.
- Østby, Gudrun. 2008. “Polarization, Horizontal Inequalities and Violent Civil Conflict.” *Journal of Peace Research* 45(2): 143–62.
- Pierson, Paul. 2004. *Politics in Time : History, Institutions, and Social Analysis*. Princeton and Oxford: Princeton University Press.
- Pierson, Paul. 2000. “Increasing Returns, Path Dependence, and the Study of Politics.” *American Political Science Review* 94(02): 251–67.
- Pugh, Michael. 2013. “Statebuilding and Corruption: A Political Economy Perspective.” In *Political Economy of Peacebuilding: Power After Peace*, eds. Mats Berdal and Dominik Zaum. Abingdon: Routledge, 79–93.
- Scheidel, Walter. 2017. *The Great Leveler: Violence and the History of Inequality from the Stone Age to the Twenty-First Century*. Woodstock: Princeton University Press.
- Snyder, Richard, and Ravi Bhavnani (2005). “Diamonds, Blood, and Taxes: A Revenue-Centered Framework for Explaining Political Order”. *Journal of Conflict Resolution*, 49 (4), pp. 563-597.
- Stewart, F., Brown, G., & Cobham, A. (2007). Promoting Group Justice: Fiscal Policies in Post-Conflict Countries. PERI Working Papers, 133.
- Torjesen, Stina. 2013. “Transition from War to Peace. Stratification, Inequality and Post-War Economic Reconstruction.” In *The Political Economy of Statebuilding*, eds. Mats Berdal and Dominik Zaum. Abingdon: Routledge, 48–62.
- Walter, Barbara F. 1997. “The Critical Barrier to Civil War Settlement.” *International Organization* 51(3): 335–64.
- . 1999. “Designing Transitions from Civil War: Demobilization, Democratization, and Commitments to Peace.” *International Security* 24(1): 127–55.
- . 2017. “The New New Civil Wars.” *Annual Review of Political Science* 20(1): 469–86.
- Williams, N. (2020). Moving beyond financial remittances: The evolution of diaspora policy in post-conflict economies. *International Small Business Journal*, 38(1), 41–62.
- Worrel, D., Marshall, D., & Smith, N. (2000). The political economy of exchange rate policy in the Caribbean. Inter-American Development Bank.