

WAR, FRAGMENTATION, AND OPPORTUNITY

Repositioning the MENA Economy in a New Global Order

IN THIS ISSUE

This inaugural issue examines how war, geopolitical fragmentation, and global economic uncertainty are changing the terms of development for MENA. It looks beyond the immediate crisis to ask how disruption is transmitted through trade routes, logistics systems, prices, finance, confidence, firms, workers, and households. The paper argues that the region's policy challenge is not only to stabilise in the face of shocks, but to build the institutional capacity, evidence base, and reform pathways needed to turn vulnerability into resilience and resilience into opportunity. It sets out a research and policy agenda for ERF's network, focusing on transmission channels, policy effectiveness, state capacity, inclusion, and long-term economic transformation.

A STRUCTURAL TURNING POINT

MENA is entering an era in which shocks are no longer discrete, time-bound disruptions to development. They are becoming part of the operating environment itself.

The ongoing conflict and wider geopolitical disruption in the region mark a structural turning point for both the Middle East and the global economy. This should not be understood as a conventional geopolitical episode, nor as a temporary energy shock. It is a systemic disruption operating simultaneously through trade corridors, maritime logistics, energy markets, financial conditions, expectations, and institutional responses.

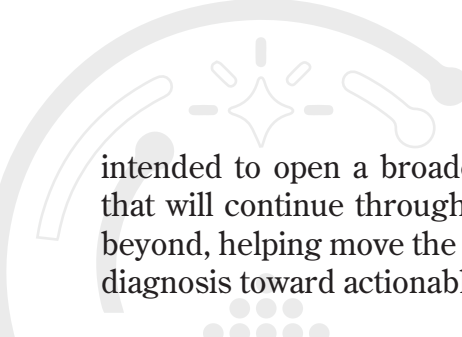
What distinguishes this moment is not only the scale of disruption, but its persistence and cumulative effects. Disruptions to key maritime routes, rising insurance and risk premia, tighter financing conditions, weaker confidence, and shifting global alignments point to a deeper

transformation in the way the global economy is organised.

This is not a cyclical disturbance to be absorbed and then reversed. It will shape development trajectories, policy choices, investment decisions, firm behaviour, labour-market outcomes, and institutional performance across MENA for years to come.

In this new context, resilience is not simply the capacity to withstand disruption. It is becoming a source of competitiveness, credibility, and strategic agency. The region's challenge is therefore not only to manage the current conflict, but to reposition itself within a more fragmented, uncertain, and risk-aware global economy.

This is the core proposition around which ERF invites its research community and policy partners to engage at the 32nd Annual Conference, *"After the Shock: Reform, Resilience, and Economic Transformation in MENA."* The questions raised in this inaugural Thought Leadership paper are



intended to open a broader conversation, one that will continue through the conference and beyond, helping move the region's debate from diagnosis toward actionable reform pathways.

The central question is whether MENA remains primarily a transmission channel for disruption, or becomes a platform for resilience, adaptation, inclusion, and opportunity.

FROM SHOCK MANAGEMENT TO STRATEGIC REPOSITIONING

For decades, policy responses in the region have focused on absorbing shocks, restoring stability, and returning economies to a pre-shock equilibrium. That approach is increasingly insufficient.

Three structural forces are reshaping the external environment.

First, trade, finance, and technology flows are increasingly influenced by geopolitical alignment, strategic security, and national resilience, not efficiency alone.

Second, risk is being repriced. Geopolitical uncertainty is now embedded in investment decisions, insurance pricing, sovereign spreads, capital allocation, corporate planning, and household expectations.

Third, supply chains are being reorganised around redundancy, diversification, proximity, and reliability, rather than cost optimisation alone.

The implication is fundamental: resilience is no longer only a defensive buffer. It is becoming an active determinant of comparative advantage. Countries that can maintain continuity, credibility, and adaptability under disruption will be better placed to attract investment, protect firms and workers, and capture new opportunities.

This requires a shift from shock absorption to strategic repositioning. Absorption is about limiting damage. Repositioning is about changing the region's role in the global economy.

TRANSMISSION CHANNELS: WHERE THE PRESSURE IS BEING FELT

The effects of the current disruption are already visible across several interconnected channels, with direct implications for macroeconomic stability, fiscal space, firm survival, employment, household welfare, and social cohesion.

Trade and logistics systems are under sustained pressure. Shipping rerouting, higher insurance premia, delivery delays, and greater uncertainty are raising transaction costs and working capital needs. For SMEs, these pressures can quickly translate into liquidity stress, operational fragility, and, in more severe cases, solvency risk.

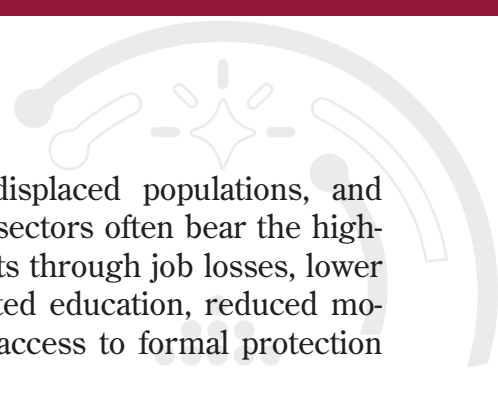
Price pressures are intensifying. Energy and food price volatility is feeding into inflation, placing additional pressure on households and increasing fiscal exposure through subsidies, transfers, and compensation mechanisms.

Financial conditions are tightening in practice, even where system-wide liquidity remains available. Heightened uncertainty is weakening risk appetite, particularly in trade finance and SME lending. The issue is therefore not only whether liquidity exists, but whether it is transmitted into productive credit.

Confidence is softening. Firms are postponing or reprioritising investment decisions, while sentiment-sensitive sectors such as tourism, construction, real estate, and consumer services are becoming more volatile.

Labour markets are also absorbing the shock. Disruption reaches workers through job losses, reduced hours, delayed hiring, lower earnings,





and weaker mobility. The effects are often most severe for young people, women, informal workers, low-income households, refugees, displaced populations, and workers in fragile sectors.

These channels reinforce one another. Trade disruption raises costs; higher costs increase financing needs; tighter credit weakens firms' ability to absorb shocks; lower confidence delays investment and employment decisions; and weaker earnings transmit the shock to households and communities.

The policy concern is therefore not only immediate disruption, but the risk of lasting economic scarring through delayed investment, firm closures, weakened job creation, fiscal stress, human-capital losses, and deeper social vulnerability.

A DIFFERENTIATED REGIONAL IMPACT

The impact of this shock is uneven across the region. It reflects differences in economic structure, fiscal space, external dependence, institutional capacity, social protection systems, and exposure to conflict.

Oil-exporting economies may benefit from short-term revenue gains, but they also face growing exposure to global demand uncertainty, financial tightening, and the longer-term imperative of economic diversification.

Oil-importing economies face more immediate pressures through higher import bills, currency depreciation risks, balance-of-payments stress, and narrower fiscal space.

Fragile and conflict-affected economies are particularly vulnerable. Existing structural weaknesses amplify the transmission of external shocks, while limited policy buffers constrain the ability to respond.

The social impact is also uneven. Young people, women, informal workers, low-income house-

holds, refugees, displaced populations, and workers in fragile sectors often bear the highest adjustment costs through job losses, lower earnings, interrupted education, reduced mobility, and limited access to formal protection systems.

Institutional capacity is emerging as a critical differentiator. The effectiveness of policy response will depend not only on resources, but also on execution capacity, coordination across institutions, credibility of policy signals, and the ability to reach firms and households quickly.

This is where the distinction between exposure and agency becomes important. Exposure describes how shocks reach the region. Agency describes how institutions, firms, workers, and policies respond, adapt, and reposition. The same external shock can produce very different outcomes depending on whether countries can convert pressure into reform, uncertainty into coordination, and disruption into strategic adjustment.

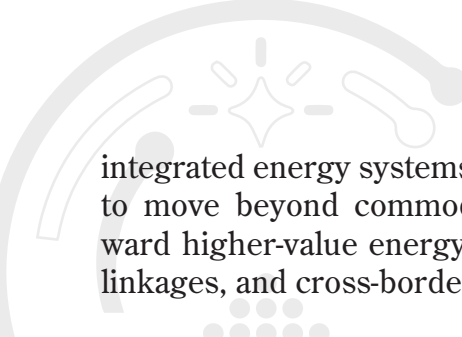
THE OPPORTUNITY: RESILIENCE AS COMPARATIVE ADVANTAGE

While the challenges are immediate, the opportunities are structural. A more fragmented global economy creates risks, but it also opens space for countries and regions able to provide reliability, continuity, and strategic connectivity.

First, MENA can evolve from a transit geography into a resilience platform. This requires investment in diversified trade corridors, logistics infrastructure, port capacity, customs efficiency, and regulatory frameworks that ensure continuity under disruption. Competitive advantage will increasingly lie not only in cost efficiency, but in predictability and reliability.

Second, the energy sector is entering a new strategic phase. Short-term gains from hydrocarbons coexist with longer-term shifts toward gas, renewables, low-carbon technologies, and





integrated energy systems. The opportunity is to move beyond commodity dependence toward higher-value energy services, industrial linkages, and cross-border energy platforms.

Third, financial systems can deepen by addressing persistent gaps in trade finance, risk-sharing instruments, and SME credit. In a high-uncertainty environment, liquidity alone is not enough. Financial resilience depends on whether institutions can maintain the flow of credit to viable firms when risk perceptions rise.

Fourth, labour markets will be reshaped by the interaction of fragmentation, technology, demographic pressures, and shifting investment patterns. Aligning skills systems, labour mobility, digital adoption, labour-market intermediation, and social protection with emerging demand will be central to capturing new opportunities while reducing adjustment costs.

Fifth, industrial policy is re-emerging as a strategic tool. Its success will depend on identifying sectors where the region can build sustainable capabilities, supported by infrastructure, skills, finance, technology adoption, competition, and market access. The objective should not be blanket self-sufficiency, but strategic capability where resilience, competitiveness, and national development priorities intersect.

These opportunities are not automatic. They will depend on policy coherence, institutional readiness, implementation capacity, and the speed with which governments and firms adapt. The challenge is to convert exposure into agency, vulnerability into resilience, and crisis response into economic transformation.

REFORM UNDER CONSTRAINT

Many MENA governments must stabilise, protect, reform, and invest at the same time. They must preserve macroeconomic stability, support firms, protect vulnerable groups, maintain social cohesion, and advance structural

reforms, often under tight fiscal space, elevated financing costs, and constrained institutional capacity.

This makes prioritisation essential. The question is not only what governments should do, but what they can credibly implement, what must be protected, what can be reprioritised, and what can no longer be postponed.

Reform under constraint requires a new growth bargain between the state, firms, and citizens. The state cannot substitute for markets, but it must act as a credible reformer, risk manager, regulator, coordinator, and enabler of private investment. Firms need a policy environment that rewards investment, productivity, innovation, and job creation. Citizens need protection from shocks, but also access to opportunity, mobility, and decent work.

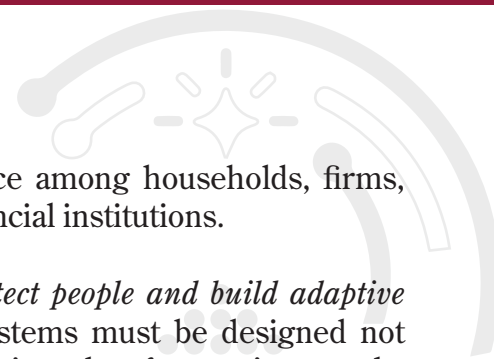
This bargain will require better alignment between fiscal policy, financial systems, competition, industrial policy, labour-market reform, social protection, and human-capital development. It will also require sharper prioritisation and credible sequencing, so that reform ambition is matched by implementation capacity.

INCLUSIVE TRANSFORMATION: PROTECTING PEOPLE BEFORE SHOCKS BECOME SOCIAL CRISES

Resilience must be judged not only by macroeconomic stability, but by its social reach. An economy that stabilises fiscal balances while leaving large groups exposed to income loss, informality, exclusion, and human-capital erosion cannot be considered resilient in a meaningful development sense.

In MENA, vulnerability is shaped by long-standing structural features: high youth unemployment, low female labour-force participation in many countries, widespread informality, fragmented social insurance systems, weak labour-market intermediation,





spatial inequalities, displacement, and limited pathways from education to decent work.

The current shock risks deepening these vulnerabilities. Workers outside formal protection systems are often the first to lose income and the last to receive support. Young people may experience delayed labour-market entry. Women may face increased care burdens and reduced employment opportunities. Displaced populations may encounter deeper exclusion. Low-income households may be forced to cut essential spending on food, health, and education.

Protecting people in the shock economy therefore requires more than emergency relief. It requires systems that protect before shocks become social crises, while enabling participation, mobility, and productivity. This includes better labour-market data, more inclusive social protection, active labour-market policies, skills systems linked to demand, mechanisms to reach informal workers, and targeted support for groups at risk of exclusion.

This people-centred dimension will be explored directly at the Annual Conference, including through discussions on jobs, informality, youth, women, displaced populations, social protection, and labour-market data.

EXECUTION WILL DEFINE OUTCOMES

The region's capacity to respond is not in question. The decisive constraint is execution.

Three immediate priorities stand out.

The first is to protect the productive core. Firms must remain operational, trade flows must be sustained, and credit channels must continue to function, especially for SMEs and sectors central to employment.

The second is to stabilise expectations. Clear communication, credible policy backstops, and consistent institutional signals are essential to

maintain confidence among households, firms, investors, and financial institutions.

The third is to protect people and build adaptive capacity. Policy systems must be designed not only for discrete crises, but for persistent volatility and repeated shocks. They must support firms, workers, and households; preserve stability; and enable participation and mobility.

This is why execution must itself become a central object of research and policy debate.

A RESEARCH IMPERATIVE: WHAT WE STILL DO NOT UNDERSTAND

If the current moment represents a structural break, then existing analytical frameworks are no longer sufficient.

The shock is non-linear, multi-channel, and evolving in real time. Yet much of the existing evidence base remains aggregate, retrospective, or insufficiently connected to firm-level behaviour, labour-market dynamics, household vulnerability, sectoral adjustment, and institutional capacity.

The region needs a new generation of research that is faster, more comparative, more granular, and more directly connected to policy transmission. Aggregate macroeconomic analysis remains essential, but it is no longer enough. We need to understand how macro shocks move through firms, workers, households, sectors, financial institutions, logistics systems, and state capacity.

A focused research agenda is therefore required around three priorities.

1. TRANSMISSION AND AMPLIFICATION MECHANISMS

The first priority is to understand how shocks propagate across trade, logistics, finance, production systems, labour markets, households, and public finances.





Key questions include:

- How do disruptions in shipping routes and insurance markets affect firm costs, delivery times, inventories, and working capital?
- At what point do liquidity constraints become solvency risks, particularly for SMEs?
- How does financial sector behaviour change under persistent uncertainty, especially in trade finance and SME credit?
- Which sectors, firms, workers, and households are most exposed to cascading effects across trade, finance, prices, confidence, and employment?
- How do external shocks translate into fiscal stress, social vulnerability, and risks of longer-term scarring?

This research is urgent because shocks that begin in logistics or insurance markets can quickly become credit, employment, fiscal, and social pressures.

2. POLICY EFFECTIVENESS AND STATE CAPACITY

The second priority is to understand why some policy responses are faster, more credible, and more effective than others.

Key questions include:

- How do fiscal and monetary systems perform under overlapping shocks?
- What determines the speed and credibility of policy transmission?
- How do institutional coordination, administrative capacity, and communication shape outcomes?
- Why do similar policy tools produce different results across countries?
- • How can governments protect firms and vulnerable households while preserving reform momentum and fiscal sustainability?

This line of inquiry is especially important because policy effectiveness depends not only on the size of interventions, but on their targeting,

timing, credibility, and ability to reach the real economy. Execution capacity is no longer an administrative detail. It is a macroeconomic variable.

3. STRUCTURAL RECONFIGURATION, INCLUSION, AND GROWTH

The third priority is to understand how fragmentation is reshaping the medium-term growth prospects of the region, and how transformation can be made inclusive.

Key questions include:

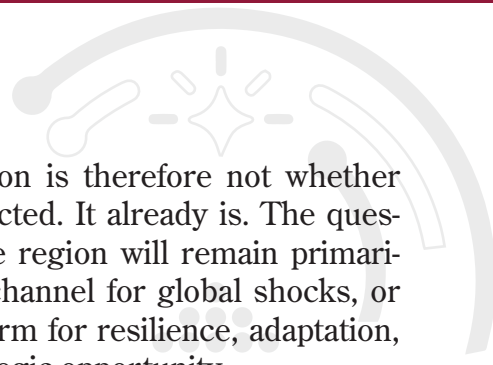
- How are global trade patterns, investment flows, and supply-chain geographies changing?
- Which sectors can anchor future growth under new global conditions?
- How will labour markets adjust to persistent disruption, including implications for informality, migration, job quality, gender, youth employment, and skills?
- How can social protection systems be extended to groups outside formal employment?
- How can countries move from exposure to shocks toward strategic positioning within new regional and global value chains?

This is not a conventional research agenda. It requires timely data, cross-country comparability, firm-level and sectoral evidence, household and labour-market analysis, and close engagement with policy questions as they evolve.

FROM UNCERTAINTY TO INQUIRY: THE ROLE OF ERF

Addressing these challenges requires more than policy response alone. It requires structured, coordinated, and policy-relevant knowledge generation grounded in the realities of the region.





ERF can help convert uncertainty into structured inquiry by identifying the right questions, mobilising comparative evidence, and connecting macro-level disruption to country, sector, firm, household, and labour-market realities across MENA. Its comparative advantage lies in regional embeddedness, a broad research network, and the ability to translate analytical rigour into timely and actionable policy insight. Through this Thought Leadership Series, ERF will move beyond reflection toward the structured coordination of research and policy dialogue. This includes mobilising researchers around priority themes, encouraging comparative cross-country analysis, accelerating dissemination, and linking research outputs more directly to policy discussions.

The Annual Conference will be the first major platform through which these issues are collectively examined. It will allow ERF's network to test, refine, and deepen this agenda focused on the region's transition after the shock.

The objective is not only to interpret the transformation underway, but to inform policy choices as they unfold. In doing so, ERF can help ensure that the region's response to uncertainty is not fragmented, reactive, or purely national, but evidence-based, comparative, inclusive, and strategically informed.

A MOMENT OF STRATEGIC AGENCY

The region is often viewed through the lens of vulnerability to external shocks. The current moment calls for a different perspective.

MENA is exposed, but exposure does not have to mean passivity. The region's geography, energy systems, financial resources, human capital, trade corridors, entrepreneurial capacity, research networks, and institutional diversity give it the potential to shape outcomes, not merely absorb them.

The central question is therefore not whether MENA will be affected. It already is. The question is whether the region will remain primarily a transmission channel for global shocks, or evolve into a platform for resilience, adaptation, inclusion, and strategic opportunity.

The answer will depend on the quality of analysis, the strength of evidence, the credibility of policy choices, and the ability to translate research into policy insight at speed.

By convening researchers, structuring inquiry, and generating policy-relevant knowledge at scale, ERF can help shape not only how the region understands the current disruption, but how it responds to it and positions itself in the emerging global order.

The *ERF Thought Leadership Series* is launched in that spirit: not only to diagnose change, but to activate a collective research effort equal to the scale of the transformation underway. The 32nd Annual Conference will carry this effort forward, providing the forum where these questions can be debated, tested, and translated into a research and policy agenda for MENA's next phase of development.

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