Benefits of Peace in Libya: Neighbouring Countries and Beyond

Shared Prosperity Dignified Life

E/ESCWA/CL6.GCP/2020/2/POLICY BRIEF

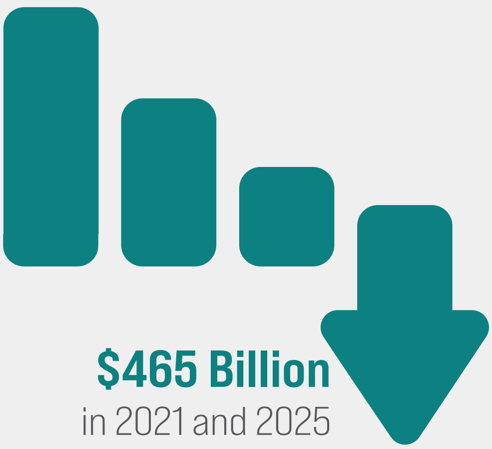
Introduction

Since **2011**, the war has caused a significant **loss** of **Libyan economic potential**, which was estimated at **783 billion Libyan dinars ($580 billion)**[1] from **2011** to the present day. These losses will be even greater if the conflict continues beyond 2021, and could reach **628.2 billion Libyan dinars ($465 billion)**[2] between **2021 and 2025**. The conflict has affected all aspects of economic life. It has negatively impacted the macroeconomy with a significant drop in growth, marked by high volatility. Moreover, government revenues, expenditure and investment dropped sharply. The conflict has also affected productive sectors that have experienced a significant drop in their activities, including the hydrocarbons, construction and agriculture sectors.

1. When the report was published in December 2020, the exchange rate was 1.35 Libyan Dinar to $1 (02 December 2020).
2. According to the Central Bank of Libya, the exchange rate is 4.46 Libyan Dinar to $1, as of 03 June 2021.

Libyan economic potential

$580 Billion
in 2011



$465 Billion
in 2021 and 2025

Peace in Libya and the regional cooperation agenda

Peace in Libya will have positive economic effects on the country's main trading partners, notably France, Italy and Turkey, and will positively affect various aspects of regional cooperation, including growth, investment, employment and trade.

Effect on growth

With promises of peace, there is hope that the country will overcome its economic losses and contribute to economic activity in neighbouring countries. Given the importance of the Libyan economy in the region, the end of the conflict and the reconstruction programme will enhance economic performance in Algeria, Egypt, the Sudan and Tunisia. Over the period 2021-2025, Egypt would gain $99.7 billion, Algeria $29.8 billion, the Sudan $22.7 billion, and Tunisia $9.7 billion. The total gain of peace in Libya for the region would be $161.9 billion over the same period, or an annual average of $32.38 billion in regional GDP gains.

Effect on employment

Growth acceleration and job opportunities in Libya will have a significant impact on employment creation. Unemployment in the Sudan could drop by 13.93 per cent over the period 2021 to 2025, by 8.84 per cent in Egypt, by 6.07 per cent in Tunisia, and by 2.18 per cent in Algeria.

Effect on investment

Investments would increase as a result of gain in growth and the resumption of exports to the Libyan market. Peace in Libya could generate per year an increase in investment averaging 5.98 per cent for Egypt, 5.49 per cent for Tunisia, and 2.01 per cent for Algeria.

Table 1. **Gains in terms of GDP ($ billion)**

Egypt	99.7
Algeria	29.8
Sudan	22.7
Tunisia	9.7
France	13.1
Germany	7.5
Turkey	5.5
Italy	6.0
Rest of Europe	14.8
Sub-Saharan Africa	-6.1

Source: ESCWA estimates.

Table 2. **Unemployment rate (absolute difference vis-à-vis the reference scenario – percentage)**

Sudan	-13.93
Egypt	-8.84
Tunisia	-6.07
Algeria	-2.18
Turkey	-0.41
France	-0.23
Germany	-0.09
Rest of Europe	-0.17
Sub-Saharan Africa	0.15

Source: ESCWA estimates.

Table 3. **Total investment (variation vis-à-vis the reference scenario – percentage)**

Sudan	8.98
Egypt	5.98
Tunisia	5.49
Algeria	2.01
Turkey	0.26
France	0.14
Germany	0.03
Rest of Europe	0.10
Sub-Saharan Africa	0.08

Source: ESCWA estimates.

Effect on trade

Peace in Libya would promote greater regional cooperation between Arab countries. The reduction of trade costs that would follow the opening of land boarders and the increase of tariffs imposed by the Libyan Government for non-PAFTA countries, would give a serious comparative advantage to Tunisian, Egyptian, Sudanese and Algerian products. Egyptian exports to Libya could increase by 413 per cent, while Algerian, Tunisian, and Sudanese exports could increase by 443 per cent, 308 per cent and 117 per cent, respectively.

Peace in Libya will consolidate the diversification efforts of neighbouring countries. Accordingly, reinforcing integration between Libya and the four neighbouring countries either through existing initiatives, such as PAFTA or the African Continental Free Trade Area, or through new integration schemes, could represent an important channel for initiating a major transformation in Algeria and the Sudan, on the one hand, and reinforcing the presence of Egypt and Tunisia on the Libyan market, on the other. However, regional economic integration between Libya and its four neighbouring Arab countries should not be limited to a simple opening of the markets for trade of existing products, but should rather be accompanied by a battery of macroeconomic and sectoral reforms to develop domestic productive capacity through deep integration between the following four pillars: trade in goods, trade in services, movement of capital, and movement of persons.

Table 4. **Exports to Libya (variation vis-à-vis the reference scenario)**

Algeria	443.80
Egypt	413.42
Tunisia	308.60
Sudan	117.53
Turkey	216.86
France	160.43
Germany	158.56
Italy	124.41
Rest of Europe	156.14
Sub-Saharan Africa	255.95

Source: ESCWA estimates.

Policy options

The losses caused by the conflict for the Libyan economy, for development and for the wellbeing of the population justify calls for negotiations to establish a lasting peace. There is an urgent need to silence arms and reach a peace agreement that will boost growth, development and regional cooperation. Peace will save the significant cost of this conflict on the Libyan economy and society. The resulting gains can once again be invested to meet the needs of the Libyan economy and allow the country to focus on achieving the SDGs. The following is a series of proposals for a reconstruction and recovery plan for the Libyan economy that the new Libyan authorities must put in place after peace.

Effective and transparent economic governance

The reconstruction of Libya in the post-conflict period requires the establishment of an effective, competent and transparent new institutional framework to ensure economic governance and the implementation of strategies for economic rehabilitation and recovery. This institutional arrangement requires the reunification of State institutions divided by the conflict. The institutional framework must ensure a high level of independence from political power and conflicts between parties. In particular, the Central Bank must be completely independent of the political power, and must limit its intervention in the direct financing of the State budget. The institutional framework must ensure the establishment of a new macroeconomic management framework aimed at stabilization; and the establishment of clear and transparent mechanisms in the management of public resources and the coordination of macroeconomic policies, particularly monetary and fiscal policies.

Rehabilitation and reconstruction

One of the country's top priorities in the post-conflict phase should be the rehabilitation and reconstruction of areas affected by the conflict. This is an absolute requirement to position the Libyan economy on the path to growth. Three major reconstruction programmes are suggested: the reconstruction and rehabilitation of the oil industry; the rehabilitation of infrastructure that has been severely affected by the conflict; and the promotion of productive sectors, particularly agriculture and industrial units.

Reforms to boost growth and investment

Alongside emergency short-term reconstruction programmes, Libya also needs major medium- and long-term reforms to boost growth on a solid footing. The following priorities are suggested:

- Diversify the economy to reduce its dependence on the hydrocarbon sector;
- Implement banking and financial reforms to establish a solid new basis for financing the economy;
- Reform the legal investment framework to encourage private and foreign investment;
- Reform the administration to strengthen its effectiveness;
- Reform the social sectors to promote a more effective fight against inequality and marginalization.

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