
League of Arab States
St. John's Preparatory School - Danvers, Massachusetts - December 2019



Letter From The Chairs

Dear Delegates,

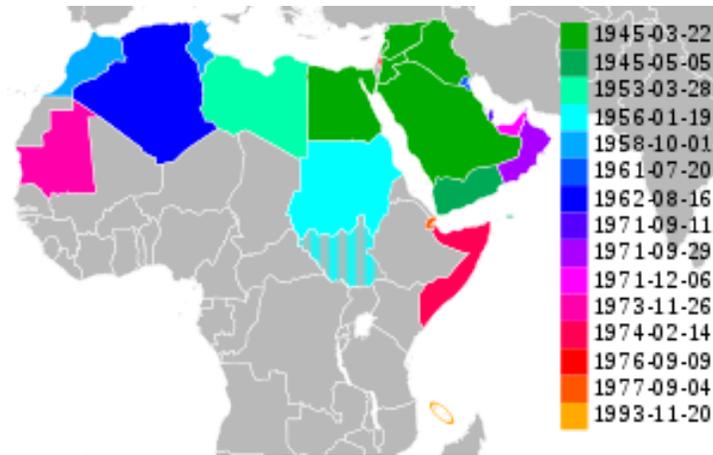
Hello! Our names are Neil Isaac and Andrew Vittiglio, and we are juniors from the Model United Nations at Saint John's Prep. We were introduced to Model UN as freshman and have continued since. We hope to have a thoughtful and relaxed conference, one where we can learn from each other. The two of us highly advise that you come to the conference prepared in order to properly represent your country and that you give your best effort. Make sure to avoid bias and work diligently! Thank you, and see you in December!

Regards,

Neil and Andrew

Committee Description

The League of Arab States (Arab League) was founded in Cairo on 22 March 1945. It contains 22 members, but was initially formed between Egypt, Iraq, Transjordan (today's Jordan), Lebanon, Saudi Arabia, and Syria. The Arab League's purpose is to "draw closer the relations between member states and coordinate collaboration between them, to safeguard their independence and sovereignty, and to consider in a general way the affairs and interests of the Arab countries," as written in their mission statement.



Each member state is given only one vote in the League Council, and decisions are bound only for those states that have voted for them. There are five major committees: political, economic, social and cultural, legal and Palestinian affairs. The reason

that the league was created in 1945 was to strengthen and organize the political, cultural, economic and social ties of its members, all of whom had just gotten independence from European powers, and to coordinate arguments between the countries of the League and third parties. Furthermore, the agreement on Joint Defence and Economic Cooperation on 13 April 1950 committed the signatories to coordination of military defence measures. In March 2015, the Arab League General Secretary announced the establishment of a Joint Arab Force with the aim of counteracting extremism and other threats to the Arab States.

Statement of the Problem

With the growing environmental concerns, the under-diversified economies within the Arab league are in conflict with the fellow Arab League members over how to stimulate industries in addition to fossil fuel production. As a large segment of the economy of many of the League's nations comes from oil, nations debate over whether they should implement a more sustainable source of energy as discussed in the Arab League's Arab Petroleum Conference in 1982 (<https://www.jstor.org/stable/40393149?seq=1>). Oil, a market that exhibits high levels of macroeconomic volatility, has started to raise concerns from some Arab League nations trying to reduce the high levels of environmental destruction associated with drilling and applications of petroleum, such as marine life disruption and clearing areas of vegetation (<https://www.eia.gov/energyexplained/oil-and-petroleum-products/oil-and-the-environment.php>). Against this pushback are the under-diversified and heavily oil-dependent nations of the Arab League, opposing policies that are for renewable sources of energy. These nations, even with the volatility of oil prices, have economies built on the export of large quantities of oil. With more countries in the market favoring renewable sources of energy such as solar, the elasticity of oil demand curves has been causing concerns for the oil-dependent nations. Their oil revenues are not as sure as they once were. Even as oil reserves are depleted, the oil-dependent nations continue to fight against the implementation of more renewable sources of energy, as they lack the ability to create new industries and adapt to the lower demand for oil. In working with OAPEC, the Organization of Arab Petroleum Exporting Countries, another league with similar members, the Arab League has attempted to find fair and reasonable terms of selling and distribution of oil. These countries have struggled to maintain terms upon which all members

could agree, as only 7 of the 22 nations attended the Arab League during the 2016 Summit held in Nouakchott, Mauritania. Wracked by political controversy within the Arab League, conversation about economic diversification is displaced by concerns over political alliances and their own individual political agendas.

The task of diversifying their economic base is complex. The countries could benefit from a new legal framework to support both the development of new opportunities in the oil industry and the development of non-oil industries. This might include intellectual property rights and protection of private property, both requirements for the risk-taking inherent in trying something new. Development areas in the oil industry include methods of exploration and prospecting (and the potentially detrimental environmental impacts), transport between nations, refining standards, marketing strategies, economics surrounding the trade (such as tariffs and quotas), and the mining and extraction policies utilized in the Middle East. In the non-oil sector, perhaps it would include research and development or financial services.

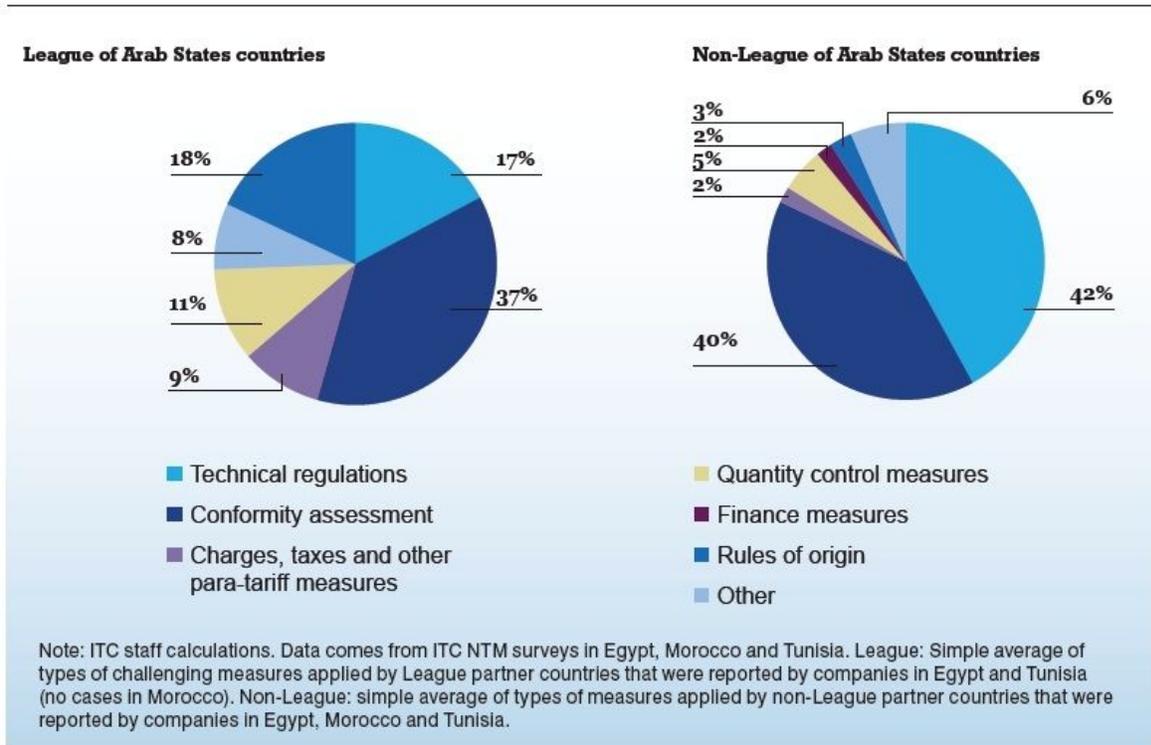
Economic development is tricky in an authoritarian regime where most subjects are excluded from owning significant private property, and therefore unable to make market decisions. It opens the threatening possibility of shared power between king and a growing domestic private sector. The financial structure of the country poses another political consideration. United Arab Emirates, Oman, Bahrain, Qatar, Saudi Arabia and Kuwait levy no income tax (Willaims). Oil revenues have been sufficient to keep the state running. In addition to challenging the authority of the monarchs, diversifying the economy will likely challenge the relationship between the regimes and their subjects in other ways. So delegates should carefully consider the impact of diversification on their domestic affairs. Delegates must confer and

strategize potential solutions, negotiations, and make reasonable compromises that value the perspectives of all involved parties.

History of The Problem

The countries of the Arab League paint a diverse picture of economic and social performance and export-earnings performance. While Arab countries have formed numerous alliances for one reason or another, the League of Arab States, more popularly known as the Arab League, is the dominant one. One can, however, see a social, political, economic development divide among them. The single index model, a simple asset pricing model to measure both the risk and the return of a stock, from the modern portfolio theory (a theory on how risk-averse investors can construct portfolios to optimize or maximize expected return based on a given level of market risk) is used for empirical examination. The results indicate that these countries exhibit a corresponding performance divide for export-earnings (the money they are receiving based on their reliance of exporting oil). The oil and natural gas exporters show a much higher economic sensitivity than non-oil exporters. Exporters with a higher proportion of

AGRICULTURAL EXPORTS: TYPES OF BURDENSOME NTMs APPLIED BY PARTNER COUNTRIES



Source: ITC

manufactured products show a much lower sensitivity. Comparing risk reward ratio leads to different conclusions: Qatar, UAE and Bahrain show the highest Sharpe ratio (a measure of performance (AKA reward) based on total fluctuations (AKA risk) whereas Lebanon, Jordan and Tunisia display the highest Treynor ratio, a measure of performance (reward) based on market-fluctuations(risk). The study found that different socioeconomic development policies are required for the development of third world countries in the Arab League. Several structural challenges facing these countries are pointed out to improve economic and export performances.

The Organization of the Petroleum Exporting Countries (OPEC) has had a troubled history as the world's dominant oil cartel with multiple failed attempts to inflate global petroleum prices through production cuts. OPEC, having 14 member countries, accounted for an estimated 44 percent of global oil production and 81.5 percent of the world's "proven" oil reserves, giving OPEC a major influence on global oil prices that were previously determined by the so called "Seven Sisters" grouping of multinational oil companies. The recent failures of OPEC testify to the declining power of the bloc in a changing global economy. The main problem lies in OPEC's inability to control the continuous price swings oil so commonly makes. With oil exports reaching an all time high in the past decade but also reaching foreign lows, OPEC has strenuously tried to reverse the drop in oil prices but to no avail. OPEC's failure to control the market (which was the most drastic in the late 1970s and 1980's but still presents a problem today) seemingly embodies each unstable economy of the membered nations in OPEC. Nations solely reliant on oil, most notably Saudi Arabia, develop domestic problems in addition to their economic issues, with growing unrest from the public as well as continuous international pressure and scrutiny.

Critical to economic development is political stability both domestically and in the region, and this was challenged by the wide-spread protests of the Arab Spring. Sudden protests in the Middle East, known as the Arab Spring, broke out in several countries. Tarek el-Tayeb Mohamed Bouazizi set himself on fire on 17 December 2010, which became a catalyst for the Tunisian Revolution and the wider Arab Spring against autocratic regimes. One of the most publicized and influential embattlements was between the Arab League and Syria in 2011. On November 12, 2011, the Arab League suspended Syria's membership, effective November 16, 2011, in response to Syria's continued violence against its own citizens. 18 members voted in favor of the suspension, with Lebanon and Yemen voting in Syria's favor. Iraq abstained from voting. With continued negotiations, on December 9, 2011, Syria signed an Arab League proposal aimed at ending violence between government forces and protesters. Through the coming months, the Arab League sent a mission to Syria, and through much struggle (as a war was continuing on the nation), eventually Syria the Arab League approved the resolution to recognize the new National Coalition Forces of the Syrian Revolution, which unites Syrian opposition factions. Similarly, Islamic nations faced anti-government protests in the early 2010's, with mass riots and uprisings against authoritarian regimes. Security forces violently cracked down on the demonstrators. While some countries successfully overthrew the regimes (such as those in Egypt and Tunisia), many rebellions faced continual struggles. On top of the shootings against protestors, governments utilized economic concessions to try and negotiate with rebel leaders. The lack of stability among these nations, along with the bargaining, prevented the economies of these governments to grow and diversify. As a result, many of the

Arab League nations stayed dependent on oil, regardless of its growing scarcity and environmental effects. Stability is necessary in order to allow governments to diversify.

Key Recommendations to Economic Diversification

The table lays out the key policy recommendations to promote economic diversification in oil-exporting Arab countries. Despite commonalities, these countries are diverse in size, demography, wealth and economic structure. Therefore, the appropriate policy package and the sequencing of reforms need to be tailored to country circumstances and capacities, drawing from the recommendations that are the most relevant to each case.

Macroeconomic Pre-Conditions to Economic Diversification

Develop a robust fiscal framework, based on a fiscal rule, to help achieve short and long-term objectives.

Ensure that the use of oil funds is governed by clear and transparent rules.

Improve liquidity management, including liquidity forecasting and the interbank market operations.

Develop strong regulatory, supervisory and macro-prudential frameworks to enhance resilience of the financial sector to the volatility of oil prices.

Promote a fairly valued real effective exchange rate.

Regulatory and Institutional Framework Conducive to Private Sector Growth

Streamline government bureaucracy.

Reduce regulatory barriers to competition, including reviewing competition policy laws and their implementation.

Promote greater trade integration

Review labor regulations to enhance labor market flexibility where needed (e.g., streamline regulations, facilitate labor dispute resolution, and set incentives for higher women participation in the labor force) while fostering better working conditions.

Reduce directed lending and develop domestic securities markets to increase access to finance.

Improve creditor assessment tools and infrastructure and creditor rights to enhance access to credit, especially for small and medium enterprises (SMEs).

A Public Sector that Enables Private Sector Growth

Reduce the size of the public work force and the premium of public over private sector wages for comparably qualified employees. Implement civil service review.

Increase public spending on education if it is low.

Enhance the quality of education, including orienting education and vocational training towards skills needed by the private sector.

Introduce/improve unemployment insurance schemes to ensure the unemployed receive minimum income but have proper incentives to look for work.

Invest in infrastructure while increase the efficiency of public investment.

Enhancing bidding procurement processes.

The Road to a More Diverse Economy

Improve the climate for FDI, including in non-oil industry, by lowering entry requirements, creating investment promotion intermediaries and streamlining tax structures.

Promote deeper integration in global value chains by enhancing efficiency in production, bolstering managerial quality, improving technological capacity and ensuring wage competitiveness.

Support horizontal diversification by enhancing allocation of government oil revenues in a manner that reduces production costs in new sectors and raises their efficiency while encouraging entry of new investors.

Enhance vertical diversification in existing sectors by focusing on moving into higher value-added products in the mineral and chemical industries.

Enhance labor market competitiveness through greater focus on wage growth in line with productivity.

Questions to Consider

1. What steps can oil-dependent countries take to diversify their economies? How can diverse economic ventures coincide with the existing fossil fuel industry.
2. How can the Arab League support the process by which countries prepare themselves politically to diversify? In what ways can it increase domestic or regional stability to this end?
3. How can economic diversity be supported by the international community?
4. Given the imperial history of Europe in the Middle East, what safeguards are necessary to ensure the autonomy of Arab economies.
5. Can these challenges be overcome with sustained resolute action emanating from the highest level of political control? Does there need to be a majority decision in order for there to be a possibility of all the countries maintaining economic stability?
6. Does there need to be a stronger military force in order to maintain stable oil prices as there starts to be a depletion in available oil? Is this kind of solution only temporary?

Bloc Positions

Countries in favor of diversifying exports to other products besides strictly petroleum

- UAE, Oman, Morocco, Jordan, Tunisia, Somalia, Comoros, Djibouti, Lebanon, Mauritania, Yemen.
- These countries support the use of renewable sources of energy and the use of stricter quota regulations.
- These countries are more concerned about the environmental impacts of the oil industry and are open to the ideas of less harmful methods of energy.

Countries that are in favor of keeping a strict majority over the exports, and making sure oil is the number one export of the Arab League.

- Saudi Arabia, Qatar, Palestine, Syria, Iraq, Libya, Kuwait, Algeria, Sudan, Qatar, Bahrain
- These countries are highly dependent on an inelastic petroleum market and want to limit the implementation of renewable sources of energy.
- Most of these countries have the majority of their exports coming from the oil industry.

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