ARAB LEAGUE

BACKGROUND GUIDE

<u>Agenda</u> :Tackling The Decreasing Dependence on Middle Eastern States for Oil

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Welcome Letter from the Dais

Dear Delegates,

It is a pleasure for me to welcome you to Arab League 2018. Over the three days that we will spend together, we hope to see you raise excellent points, give eloquent speeches, raise productive motions and write efficacious clauses. While the issues we will be discussing may not be the most straightforward issues to debate, they will most certainly allow you have deep and intellectually-stimulating discussions - something you are sure to enjoy. Be prepared to engage in the subtle art of diplomacy and make justifiable compromises as you make decisions that will have profound impacts on the future Middle East. We hope that delegates come to council with an open mindset, an attitude to learn, and above all, a willingness to meet and work together with new people.

Most economies in the Middle East have long been dependent on the exports of their natural resources, more specifically, carbon fuels, as a source of revenue. While this worked well in the past, it unlikely to be this way in the future due to the falling oil prices among other reasons. It is exactly this predicament that has necessitated a discussion about diversifying Middle Eastern economies, to prevent a situation in which Middle Eastern states' economies deteriorate as carbon fuels become increasingly less profitable to export. The questions that then arise are how, when, with whose help and using what resources can a country in the Middle East sufficiently diversify their economy.

Wishing you the best,

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The Committee

Introduction to the Committee

The Arab League (AL), also known as the League of the Arab States (LAS), is a regional organization that comprises 22 members in the Arabian Peninsula and North Africa. Its member states include Algeria, Bahrain, Comoros, Djibouti, Egypt, Iraq, Jordan, Kuwait Lebanon, Libya, Mauritania, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, United Arab Emirates, and Yemen. It was founded in 1945 in Cairo. With the purpose of strengthening regional relations and coordinating transnational co-operation, the Arab League has various subordinate institutions that make decisions on economic, financial, cultural, social and security matters.

Historically, the Arab League has been trying to find a balance between building consensus and cooperation and addressing the most pertinent issues, many of which are highly polarizing, within the Arab world. Due to its special protocol (which will be discussed in detail in the "Specialized Protocol" section) as well as the vastly different economic, social and political atmosphere of its 22 member states, the Arab League largely failed to streamline such differences between its members for the sake of coherent guidelines and schemes to protect Arab interest in the world stage as a whole.

Mandate of the Committee

According to the Charter of Arab League, the League has the purpose of strengthening relations between members states, coordinating member states' policies to achieve co-operation between them, and safeguarding member states' sovereignty.

To achieve the aforementioned aims, the Arab League established an Arab League Council as its principal institution, while several subordinate institutions including but are not limited to the Council of Arab Economic Unity (CAEU) are also in place to oversee matter in different areas.

Decisions made in the Arab League are only binding to states that support them, making it essentially voluntary for member states to decide whether they will or will not heed a decision made by the Arab League. While these rules allow the League to remain neutral and non-confrontational, they have also been a significant contributing factor to the failure of the League to address pertinent issues and to maintain relevance. Be that as it may, with such protocols in place, it is ensured that negotiations within the League are largely peaceful and constructive, which is notable given the complex and intricate relationships between the members of the League.

Specialized Protocols

1. ~~On Procedural Motions~~
    a. **Motion to Limit Debate**: Motion to Limit Debate can be raised when delegates wish to focus on a specific topic in the agenda. Once this motion is passed, a separate speakers' list will be created until a Motion to Expand Debate or Motion to Adjourned Debate is passed. Debate can be limited 3 times in succession, allowing delegates to focus on specific sub-items on a specific topic. However, a resolution cannot be introduced in this seperate speakers' list, instead introduction of resolution is only possible on the General Speakers' List (GSL). After a resolution is introduced, Motion to Limit Debate can still be raised so that delegates can focus on specific clauses/articles or areas of the resolution, given that the motion is passed. **Motion to Limit Debate requires a simple majority to pass. Functionally, it serves the same purpose as a Moderated Caucus.**
    b. **Motion to Expand Debate**: Motion to Expand Debate can be introduced if prior Motion to Limit Debate have been passed. If the Motion to Expand Debate is

passed, the committee will move back to the previous speakers' list, or to the GSL if all speaker's lists have been cleared. Motion to Expand Debates requires a simple majority to pass.

2. On Substantive Matters/Resolutions
    a. **Binding Votes**: Unanimous decisions on substantive affairs of the Council will be considered binding for all member-states of the League; majority decisions on substantive matters shall be binding only upon those states which have accepted them. Essentially, this means that if substantive decisions are passed, they are only binding to countries that voted for the decisions/resolutions are passed.
    b. **Number of votes required to pass a resolution**: In the Arab League, a simple majority (NOT a ⅔ majority) is required to pass any resolution.
    c. "Be it hereby resolved that the League of Arab States:" should appear in bold following the Preamble, signifying that the following clauses are actions that will be taken by the League.

Tackling the decreasing dependence on middle eastern states for oil

Introduction to Issue

Since the post-WWII era, oil has transformed the Gulf region by serving as an essential energy source and raw material, paving the way for wealthy Middle-Eastern states to prosper in a surprisingly short period of time. Today, exports of oil still account for a large proportion of the GDP in many countries in the region. However, given the dependence of the price of oil on many external factors such as global demand, the overall condition of global economies, as well as the relative political instability in the Arab region, the risk of fluctuating oil prices is real. For countries with economies that rely heavily on oil export, fluctuating oil prices can result in unsustainable economic growth, which would undermine the development of these countries in the long run. As such, over-reliance on crude oil is a pressing issue for many economies in the Middle East, and action needs to be taken to ensure region-wide economic and political stability.

In their discussion of this topic, delegates are expected to devise measures that can be implemented on the level of the Arab League to facilitate the process of economic diversification for countries with differing economic, social and political statuses.

Historical Background of the Problem

Formation of the Organization of Petroleum Exporting Countries (OPEC)

In 1960, the OPEC was founded by Iran, Iraq, Kuwait, Saudi Arabia and Venezuela in response to the price cuts by oil companies. At the time, most oil reserves were controlled by oil companies funded by foreign investors and these companies were granted concessions by nations in which these oil reserves were located. As a result, these companies were able to exploit the oil

Lioudis, N. (2018, March 02). What causes oil prices to fluctuate? Retrieved April 15, 2018, from https://www.investopedia.com/ask/answers/012715/what-causes-oil-prices-fluctuate.asp

reserves for their profit, while only paying a fraction to the countries where these reserves were located in. Furthermore, the oil-producing countries were also extremely vulnerable to decrease in oil prices.

This loss of profit from oil as well as fluctuation of oil prices served as the motivations for the establishment of OPEC. With the establishment of the OPEC, there was to be greater assurance that oil-exporting countries will make stable profits from crude oil exports.

The formation of the OPEC was a turning point in the history of the oil industry in the Middle East. This was because it allowed countries that owned oil reserves to control oil prices in accordance to their own needs, whereas previously, oil prices had been dictated by oil companies' actions, rendering these countries disempowered to exercise their sovereignty on how to utilize their own natural resources.

The significance of OPEC is not just limited to economic issues like the price of oil. OPEC's significance also extends into the political sphere. For instance, in 1973, OPEC raised the price of oil from $3 per barrel to $12 per barrel in retaliation to USA's support of Israel during the Yom Kippur War. Hence, rather than being merely an trade organization, OPEC also allows its member states to further their political interests, using oil prices as a leverage. This, however, also means that the extent of the economic and political influence of OPEC depends on its share of the oil market. With emerging oil producers such as the US entering the oil market, OPEC's market share is increasingly being eroded, resulting in the erosion of OPEC's political and economic influence as well.

Nationalization of Crude Oil Production and Rapid Economic Growth

In the 1970s, two key incidents occurred: oil prices saw a sharp increase, and Britain announced its withdrawal from the Gulf region. These two incidents resulted in a huge increase in revenue of oil exports for the Gulf countries.

OPEC's Declining Influence. (n.d.). Retrieved April 15, 2018, from https://worldview.stratfor.com/article/opecs-declining-influence

Following the British withdrawal, many Arab oil regimes nationalized their oil reserves and were free to determine the pricing and production of oil. As such, oil-producing countries such as

Saudi Arabia experienced an economic boom. The benefit of oil export far extends the economic sphere, and has helped uplift the quality of life in the region - infant mortality was halved, life expectancy rose by more than 10 years and adult literacy rose by 20% percent in 20 years.

These socio-economic benefits brought by oil exports lulls Arab countries into a sense of complacency and disincentivizes them to pursue economic diversification. In many Arab states, the government budget is mostly funded by oil revenue, as oil constitutes a significant percentage of exports. Diversification of their economies entails opportunity cost, which these governments may not be prepared to shoulder, in exchange for the lucrative oil industry.

Importance of Economic Diversification

Currently, many Arab economies, after having been severely affected by oil price fluctuations that began in 2014, are moving towards economic diversification. These countries include but are not limited to the UAE, Saudi Arabia, Bahrain, Qatar. Some of their strategies will be further analyzed in the case study section.

Practically speaking, heavy dependence on raw material exports will result in a national income subject to fluctuations; as these industries are more susceptible to volatility brought about by external shocks and changes in international patterns of demand (a report explaining this phenomenon can be found under the section, Suggestions for Further Research). Such susceptibility is harmful for the economy, especially when it needs to rely on foreign investments to stimulate growth. For instance, UAE's economy was extremely unstable before diversification. The volatile crude oil prices - UAE's main export commodity - resulted in

Middle East oil maps: A history of oil exploration - The British Library. (2016, November 08). Retrieved April 14, 2018, from https://www.bl.uk/maps/articles/oil-maps-of-the-middle-east

UAE's GDP growth rate varying from -15% to more than 20% over the last few decades[11] and [5] also affected the growth of non-oil industries. This was because, as is the case with many Arab countries, oil revenue is used to fund infrastructure development - a crucial role in raising the production capacity of the economy. Additionally, since many Arab countries are still deemed "developing economies" at this stage, oil revenue also provides much needed revenue for economic growth, and a lack of such revenue compromises economic growth.

In the long term, economic growth in a concentrated economy is simply unsustainable as the impact of volatile commodity price is not mitigated by a wide range of exports, and such commodities (such as oil in the context of Arab economies) will be exhausted. It is estimated that at the current rate of extraction, crude oil reserves will be exhausted in the next 40 to 60 years. If the economies relying heavily on oil exports are not sufficiently diversified by then, they will experience very limited economic growth. The urgency of economic diversification is highlighted by the fact that diversification is a complicated long-term process, meaning that it takes time for the economy to be diversified, and if these countries' resources are exhausted before a diversified economy is established, these countries economic growth could be compromised.

The aforementioned economic issues can further result in social problems. Studies have suggested a positive relationship between abundance in natural resources and unemployment.

This, coupled with a volatile national income, results in non-inclusive growth in these economically concentrated nations - leaving large segments of the population deprived of the

Cherian, D. (2017, August 15). 45 free zones in the UAE: Find the right one for your new business. Retrieved April 15, 2018, from http://gulfnews.com/guides/life/community/45-free-zones-in-the-uae-find-the-right-one-for-your-new-business-1.1716197

Vidal, J. (2005, April 21). The end of oil is closer than you think. Retrieved April 15, 2018, from https://www.theguardian.com/science/2005/apr/21/oilandpetrol.news

Ahmad, Fawad. (2013). The Effect of Oil Prices on Unemployment: Evidence from Pakistan. Business and Economics Research Journal. 4. 43-47.

Engy Raouf Abdel Fattah, 2017.
"Natural Resource Rents and Unemployment in Oil Exporting Countries," Asian Economic and Financial Review, Asian Economic and Social Society, vol. 7(10), pages 952-958, October.
<https://ideas.repec.org/a/asi/aeafrj/2017p952-958.html>

fruits of lucrative oil exports. Subsequently, this can lead to a highly inequitable distribution of income and a host of social issues like crime and social unrest. In the worst-case scenario, this dissatisfaction from the public could affect the social and political stability of a country or even the region. For instance, the Arab Spring upheaval that started in 2011 was partly attributed to governments' failure to bring about greater economic development and equality due to fluctuating income from oil export. The Arab regimes that took power during the 1950s and 1960s implemented a social contract between the government and citizenry - promising large subsidies and employment in exchange for minimal political participation from their citizens. Due to the fluctuating oil price, however, government revenue was greatly affected and the incumbent government failed to deliver on these promises. As a result, falling economic growth due to fluctuating oil price, together with long-standing problems such as corruption and inequality, further exposed the economic fragility of these nations and these factors eventually contributed to the eventual outbreak of the Arab Spring.

However, it is also necessary to note that while diversification is widely regarded as beneficial in the long run, there are still some limitations of diversification if implemented in countries in the Middle East. Since the 1970s, the region's significant comparative advantage lies in oil, as there is an abundance of oil reserves, as well as relatively high productivity in oil extraction and production. Hence, if countries choose to diversify their economy, they will have to forgo the comparative advantage they have in the oil production, resulting in a fall in export revenue in the short term. This is especially important for member states of the Arab League, as a majority of them are still considered developing countries, as mentioned above. While diversification is indeed an essential long-term aspiration, delegates should also consider whether diversification is necessary in the immediate future, and what can be done to strike a balance between short-term economic growth and long-term diversification and health of the economies.

Current Situation

Currently, the economies of the majority of the Arab League states are largely considered concentrated, where just one or a select few industries contribute to the country's national income. However, there still exists some unevenness in economic development in the region.

In countries with relatively higher levels of national income, such as Saudi Arabia, the United Arab Emirates (UAE) and Qatar, governments are taking the initiative to diversify their economies, but with differing levels of success. The UAE has recently experienced relative improvements in its non-oil sectors, thanks to a variety of government policies aiming to diversify UAE's composition of national income. These policies include the establishment of Free Zones and enhancement of its ports (the specific policies and their effects will be further elaborated in the Case Study section). On the other hand, countries like Saudi Arabia still have an economy heavily dependent on oil despite government efforts, primarily due to the reluctance of ruling elites in compromising short-term growth for long-term stability, resistance from the people in changing their traditional lifestyles and cultural practices, as well as the issue of corruption and bureaucracy within the administration.

In countries with low levels of development, however, economies tend to remain concentrated. A multitude of reasons has caused this. In terms of policy-making, these countries do not possess sufficient capital to initiate the development of different industries - a move that is crucial to economic diversification. Increasing national income is, therefore, the first step for these countries to accomplish, even before embarking on economic diversification. Secondly, due to the fact that these countries have rather undeveloped industries, they can only rely on exporting raw materials (which generates little profit) to bring in capital, and fluctuation of oil prices implies that the level of national income is already inherently unstable. As a result, developing countries are restrained by their own dismal economic growth. Socially, these less developed countries tend to have a large group of low-skilled labours due to poor access to education, resulting in low labor productivity due to the lack of knowledge and skills of labours to engage

in productive work. Politically, some members, such as Libya, Yemen and Syria, have dysfunctional or ineffective governments due to the long-standing violence and conflict that has plagued them. As a result, the governments are simply unable to implement policies that would diversify their economies.

Past Regional Action

Currently, there hasn't been any AL-wide legislative precedent owing to the limitations of the unique protocol in the Arab League. In the Charter of Arab League, it is stipulated that "Unanimous decisions of the Council shall be binding upon all member-states of the League; majority decisions shall be binding only upon those states which have accepted them." This [1] essentially means that countries not in favour of any policies passed by the League are not obliged to follow them. As a result, it is very difficult to implement binding, effective policies on all countries, and the fate of Arab economies hinges ultimately on their respective governments.

In addition to protocol, the vastly different social, economic and cultural contexts of the countries also significantly compound the difficulty for countries of the League to come to a consensus. As of now, many of the countries in the Gulf Cooperation Council, consisting of the most developed countries in the Arab League, have kickstarted their diversification process and have attained varying levels of success. At the same time, other countries in the region are plagued with violence and conflict, and while economic diversification is definitely not the priority of these countries, they will face dire consequences of having concentrated economies in the long run. Another reason is the cultural difference - while some countries are relatively open, there are still a number of countries that practice the more traditional form of Islam and are thus more conservative. In these countries, economic development might clash with traditional cultural practices. For example, in Saudi Arabia, the government was met with some opposition and resistance from its citizens when they first announced the Saudi Arabia Vision 2030, together with the decision that they will gradually incorporate women into the workforce, as it is

League of Arab States. (1945). *Charter of Arab League*.

socially unacceptable for women to work in these societies. As a result, it is almost impossible to formulate a unified solution that is compatible with the situation of all states. Hence, by considering how the League has thus far failed to come out with effective resolutions regarding the issue of diversification, delegates should also attempt to address the nuances in the stances of countries in their proposed solutions.

However, a more relevant organization within the Arab League is the Arab Monetary Fund (AMF), a financial organization under the Arab League that provides loans to its member states (including Jordan, United Arab Emirates, Bahrain, Tunisia, Algeria, Djibouti, Saudi Arabia, Sudan, Syria, Somalia, Iraq, Oman, Palestine, Qatar, Kuwait, Lebanon, Libya, Egypt, Morocco, Mauritania, Yemen, Comoros). According to the Articles of Agreement, the AMF aims to formulate policies of economic cooperation, promote the development of Arab financial markets, and promote trade between its member states. Hence, the AMF is a potential platform to address the hurdles faced by countries during the process of economic diversification, such as lack of capital and low volume of trade.

The crux of the issue - ensuring a smooth process of economic diversification - lies in a few areas. Firstly, from the economic standpoint, developing countries should be able to achieve rapid growth while minimizing their reliance on exports of raw material. Measures may also be taken to ensure that these countries are able to acquire loans under more favourable conditions, so as to allow them to invest in other industries. It is also possible for the Arab League to provide countries with other forms of support, such as economic advisory. Furthermore, as the League servers as a platform to promote regional cooperation, delegates may look into measures that further integrate the Arab economies to enhance its comparative advantage collectively. For example, member states of the League may choose to focus the development on a few industries collectively so as to turn such sectors into the major industries that drive the Arab economies as a whole.

Arab Monetary Fund - Objectives and Means. (n.d.). Retrieved April 15, 2018, from http://www.amf.org.ae/en/page/objectives-and-means

Delegates also need to be aware that economic reform and policies may also be complemented with social reforms. As discussed previously, conservative cultural practices can act as a hurdle to governments' effort to introduce economic reforms. Hence, introducing social policies to increase people's acceptance to the new lifestyle brought by economic diversification. Hence, the Arab League as a whole could work out a possible framework or scheme to ensure that supplementary policies, such as improving the skills of the workforces or infrastructure establishment, are supported and backed by the Arab League.

These are some areas that delegates can further explore when engaging in council debate.

Case Studies

Successful Diversification: The United Arab Emirates

The United Arab Emirates (UAE) is a member of the Arab League and the Gulf Cooperation Council (GCC). The UAE has the 7th largest oil reserves and the 17th largest natural gas reserves in the world, with the petroleum industry accounting for 38% of UAE's Gross Domestic Product (GDP), as of 2017. Despite its heavy reliance on oil, the UAE is still the most diversified economy within the Gulf Cooperation Council. The UAE's economic diversify has improved significantly in the recent decade thanks to a series of government policies that aim to develop non-oil sectors.

As of now, the UAE has 22 Free Zones, which are areas that adopt a series of liberal trade policies and are governed by offshore regulations (regulations that are different from those implemented within the UAE). In these Free Zones, import and export tax are exempted, and firms are further exempted from corporate tax for 50 years. Furthermore, the UAE government also provides assistance with labour recruitment and other forms of support. Currently, the UAE's Free Zones are hosting 19,000 foreign-owned companies that have created 200,000 jobs.

United Arab Emirates . (n.d.). Retrieved April 15, 2018, from
https://data.worldbank.org/country/united-arab-emirates?view=chart

In 2012, Dubai's Free Zones contributed $24bn to its GDP, which is more than a quarter of the city's total output.

Apart from free zones, the UAE has also launched various initiatives to grow the travel and tourism sector as one of UAE's main industry. In 2016, tourism accounted for 12.1% of UAE's total GDP.

UAE also increased its investment in transportation infrastructure, including ports such as the Jebel Ali port, the latest Khalifa Port opened in the Emirate of Abu Dhabi, and airports.

Among its Emirates, Dubai relies the least on oil exports, This is because, due to its relatively smaller oil reserve, Dubai has had to take bolder steps in order to diversify its economy to make up for the smaller oil export revenue, resulting in it being the most economically diversified emirate within the UAE.

Limited Diversification: Saudi Arabia

Saudi Arabia is a founding member of the Arab League and the Gulf Cooperation Council. With the 2nd largest oil reserves in the world, Saudi Arabia is the world's second-largest oil exporter. However, this abundance of oil has made the Saudi Arabian economy extremely dependent on the petroleum industry, with the petroleum sector accounting for over 90% of Saudi government budget revenue and 55% of its GDP in 2017. [1][2][3]

In light of the weakening demand for oil and fluctuating oil prices, the Saudi government has also made attempts to diversify its economy, but the effects of such attempts have been rather limited.

Cherian, D. (2017, August 15). 45 free zones in the UAE: Find the right one for your new business. Retrieved April 15, 2018, from

World Bank Group. (n.d.). Saudi Arabia . Retrieved from https://data.worldbank.org/country/saudi-arabia

In 2016, the Crown Prince Mohammad bin Salman announced details on Saudi Vision 2030, a plan to reduce Saudi Arabia's dependence on oil, and diversify its economy by developing other sectors such as health, education, infrastructure, reaction and tourism. The goals of this Vision include establishing Saudi Arabia as an "investment powerhouse", increasing non-oil international trade, as well as increasing defence expenditure. However, critics have expressed various concerns over this Vision.

Firstly, some have regarded these goals as being too ambitious, and have noted that non-oil growth has been insufficient, resulting in a lack of capital that threatens the successful implementation of the Vision (that requires tremendous government expenditure). Reports have also noted the risk of "Key Person Dependency" - a situation where the success of the plan is hinged on one/a few key people - in influencing the outcome of Saudi Vision 2030, since the Vision is largely formulated by the Crown Prince alone. More importantly, public reactions regarding this Vision are mixed: while some applaud the move towards economic diversification, others are concerned with the upcoming changes in current conservative social norms. For example, it was announced in the Vision that Saudi Arabia would lift the driving ban on women, and measures will be taken for women to contribute the labour force. While these measures are necessary in building a larger and more productive labour force, some regard them as deviations from enduring conservative values and social norms of Saudi Arabia, and thus find it unacceptable.

Hence, in the context of Saudi Arabia, the obstacles that hinder diversification arise due to various reasons - government corruption, bureaucracy, resistance from the public, and lack of

Kinninmont, J. (n.d.). Vision 2030 and Saudi Arabia's Social Contract: Austerity and Transformation. Retrieved from https://www.chathamhouse.org/publication/vision-2030-and-saudi-arabias-social-contract-austerity-and-transformation

Nereim, V. (2017, October 01). Saudi Non-Oil Growth Is Stagnating Even With 2030 Vision: Chart. Retrieved April 15, 2018, from https://www.bloomberg.com/news/articles/2017-10-01/saudi-non-oil-growth-is-stagnating-even-with-2030-vision-chart

Looking to the Future: Saudi Arabia and Vision 2030. (2017, August 10). Retrieved April 15, 2018, from http://blogs.bath.ac.uk/iprblog/2017/08/10/the-uncertain-vision-saudi-arabia-and-vision-2030/

capital. The issue of lack of capital is particularly concerning in the context of the Arab League, as Saudi Arabia is one of the most developed countries in the organization, yet capital is still a limiting factor when it comes to economic diversification. Hence, delegates should take the issue of funds into consideration when evaluating fiscal policies that governments can take to diversify their economies.

Successful Diversification: Bahrain

Bahrain is a member of the GCC and its economy is one of the most developed in the world. According to data from the International Monetary Fund, Bahrain's GDP per capita (PPP) was ranked at 15th worldwide, at 51,846 US$. Since 2000, Bahrain experienced a relatively steady rate of economic growth as compared to other GCC member states, with annual GDP growth rates ranged between 2.9% to 8.3%.[127] In terms of diversification, Bahrain has a few major industries, namely oil refinement, iron, aluminium and processing of metals. One of the most important sectors in Bahrain is finance; Bahrain was named the world's fastest growing financial centre by the Global Financial Centres Index in 2008. [128]

Bahrain's key strategy in economic diversification lies in the competitive advantages that the country offers. The Economic Development Board of Bahrain has identified 5 major sectors where Bahrain offers particular competitive advantages, namely financial services, information and communication technology, tourism, transportation and logistics (due to Bahrain's strategic location), and manufacturing. In these areas, Bahrain's competitive advantages attract investment. For example, Bahrain has the lowest corporate and personal taxes in the Gulf,

International Monetary Fund. (n.d.). *Report for Selected Countries and Subjects*. Retrieved from https://www.imf.org/external/pubs/ft/weo/2017/02/weodata/weorept.aspx?pr.x=43&pr.y=19&sy=2017&ey=2017&scsm=1&ssd=1&sort=country&ds=.&br=1&c=512,672,914,946,612,137,614,546,311,962,213,674,911,676,193,548,122,556,912,678,313,181,419,867,513,682,316,684,913,273,124,868,339,921,638,948,514,943,218,686,963,688,616,518,223,728,516,558,918,138,748,196,618,278,624,692,522,694,622,142,156,449,626,564,628,565,228,283,924,853,233,288,632,293,636,566,634,964,238,182,662,359,960,453,423,968,935,922,128,714,611,862,321,135,243,716,248,456,469,722,253,942,642,718,643,724,939,576,644,936,819,961,172,813,132,199,646,733,648,184,915,524,134,361,652,362,174,364,328,732,258,366,656,734,654,144,336,146,263,463,268,528,532,923,944,738,176,578,534,537,536,742,429,866,433,369,178,744,436,186,136,925,343,869,158,746,439,926,916,466,664,112,826,111,542,298,967,927,443,846,917,299,544,582,941,474,446,754,666,698,668&s=PPPGDP&grp=0&a=.

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making it the most attractive country within the GCC for investors. It also grants complete foreign business ownership in these key sectors, eliminating the need to resort to a local partner.

As a result of these policies, Bahrain is able to secure huge amounts of Foreign Direct Investment, which help to boost its economy by providing multiple sources of growth. These policies favouring investment are also complimented by an highly-educated workforce and significantly lower-cost environment for business.

As one of the pioneers of economic diversification in the Gulf area, Bahrain's model might be one that can be borrowed by developing countries. At the start of its diversification process, Bahrain did not possess a huge reserve of capital, as its oil reserve was only a fraction of that of its neighbouring countries. However, by strategically focusing on a few sectors which Bahrain has natural advantages in (such as oil refinement due to the geographical proximity to oil-exporting nations, as well as transportation and logistics due to its geographic location as the "Gate to the Gulf"), Bahrain managed to attract huge FDIs and thus use these sectors as engines for growth. While its economy is not as diversified as that of many developed nations, Bahrain's model significantly reduces the economic shocks brought on by fluctuating oil prices, as damage done by falling oil prices can be offset by other sectors' good performance. Hence, for developing nations that require capital to kick-start the diversification process, Bahrain's model can serve as a good example.

Identification of Blocs

~~Willing and Able to Undertake Economic Diversification~~

The first group of countries would be those that are willing and able to diversify their economies through changes in fiscal and socioeconomic policies. There are a number of reasons for these countries' stance.

Firstly, these countries tend to be more developed than the other countries in the Arab League. This is due to them having been able to utilise their reserves of carbon fuels efficiently to generate revenue. Additionally, many of these countries such as Saudi Arabia, Qatar and Bahrain

do not have a democratic government, and this would mean that these countries are able to implement unpopular but necessary policies and reforms to direct the countries to long-term economic stability. The high level of political stability and absence of conflict also mean that policies can be effectively implemented without disruption.

These countries tend to be members of the Gulf Cooperation Council, and include countries such as but not limited to Saudi Arabia, the UAE, Qatar and Bahrain.

~~Willing but Unable to Undertake Economic Diversification~~

The second group of countries would be those that still rely on the export of a few commodities. These countries would be less willing or able to start the process of economic diversification in the immediate future, and the reasons are many.

Some countries, especially the welfare states (i.e states in which the government spend a large portion of the budget to ensure social and economic wellbeing of its citizens), may encounter resistance from its people, as diversifying economies would mean more government investment in other industries, meaning that subsidies and other forms of financial support provided to the citizens have to be reduced; in other countries, they simply may not have the necessary financial assets required to develop new industries or boost the growth of existing industries in which they have a comparative advantage in.

~~Unwilling and Unable to Undertake Economic Diversification~~

The third group would be countries that are unable to take any measures to diversify their economy due to political instability or even long-lasting conflicts. While economic diversification might not be the top priority of these countries, the importance of it, in the long run, must not be overlooked. Hence, when considering the situation of these countries, delegates should attempt to strike a balance between ensuring the long-term health of their economies and setting aside economic diversification for the immediate future, until stability has been reinstalled.

FURTHERMORE,

The early 20th century was a crucial point for the development of the Middle East. Prior to 1950, the region

exhibited low levels of socioeconomic development; however, the discovery of vast oil reserves catalyzed the rapid creation of wealth. In particular, the economies of oil-rich countries were transformed from largely agricultural to rentier economies. Rentier economies derive a substantial part of their revenue from the outside world, and the accruing of external revenues (also called rents) are allocated and redistributed.

Since then, modern Arab oil-exporting economies have become heavily dependent on oil. Hydrocarbon and government activities account for the majority of total GDP in nearly every Middle Eastern country. In Libya, for instance, non-oil and non-governmental activities account for just over 0.16% of the GDP. Likewise, oil accounts for 80% of total exports in half of the oil-exporting economies.

Given this dependence, it's not surprising that the economies of these oil exporting countries are significantly tied to the price of oil itself. Between 2014 and 2015, caused by a combination of declining global demand and a rapid increase in the production of American shale oil, the price of oil collapsed. from $115/barrel to $50/barrel.

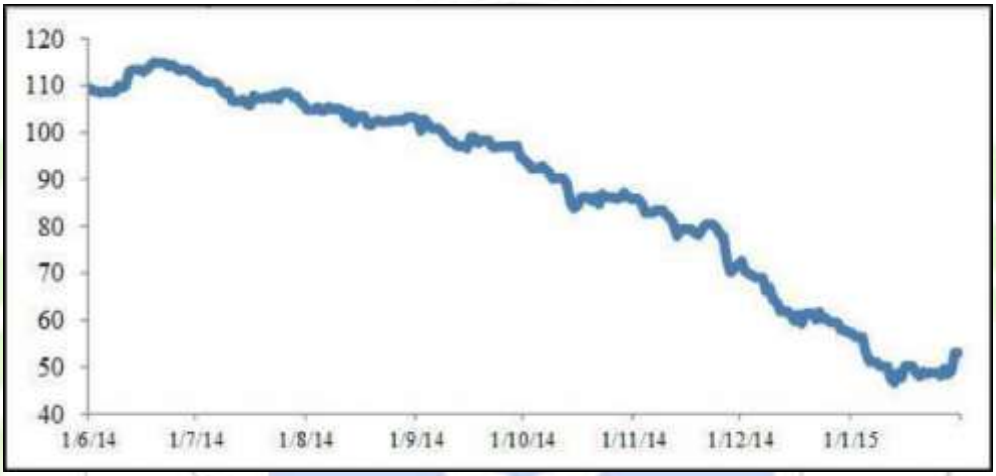

Image: ICE Brent Price, $/barrel | Source: Reuters

This piece explores how the dramatic reduction in oil prices affected the economic and political structures within the Middle East. To do so, this piece will analyze the effects of the 2014-2015 reduction in three countries: Saudi Arabia, Iran, and Iraq. In particular, the analysis will explore the pre-2014 economic conditions.

In recent years, major countries like the United States and Canada have begun moving away from purchasing Middle Eastern oil and toward bolstering their own domestic production, creating more competition within the global oil production industry. As a result, countries within OPEC and neighboring nations have been adopting different ways to finance their operations, given that oil prices have been declining for some time now. The decreasing revenue flow into these nations has also raised the pressing question regarding how to redistribute income among Arab nations within OPEC and how to shift focus to renewable energy sources with the help of Arab nations outside the organization.

Additionally, ethnic and religious conflicts between nations in the League of Arab States could further complicate these economic problems. These inherent differences will certainly make committee discussions difficult, but the urgency of the matter demands that members in the committee work toward some form of compromise for the sake of each nation's financial situation.

Current Situation

As mentioned in the historical analysis section, the current pricing benchmark for Arabic oil exported to western nations is based on North Atlantic Brent crude prices. Despite the fact that the Middle East is responsible for the production of nearly half of the world's exportable crude, the price benchmark of Middle Eastern oil exported to Europe and North America is still based on North Sea Brent Crude, which is the oil price produced in the Atlantic. The practice of using a benchmark is not an irrational one, as a unified price referent is certainly beneficial for both the buyer and the seller of crude oil. The fact that the price benchmark for Middle Eastern Oil exported to the rest of the world, except for Asia, is determined

by a blend from the North Atlantic means that the oil exporting countries are in fact price takers. This pricing benchmark also means that Arab oil-exporting nations can be affected by price speculation and deliberate price cuts imposed by western nations.

Furthermore, any attempt by European oil-producing nations to devalue or inflate the price of oil directly impact Arab economies. Because of a variety of factors that come together to create the Brent Crude blend, a slight change in any factor may cause a larger change in oil prices which negatively impacts the Arab oil producers. The current situation is caused by the large number of factors that cause price change within the oil market. There is no way for analysts to consistently pinpoint the cause of each market fluctuation, and as such, stabilizing the market remains a nearly impossible task. The only consistent factor causing grief for Arab states is the use of a North Atlantic benchmark to price Arabic oil exported to Western Nations.

RISING DEFICITS

In the Middle East however, oil-rich states now have to cope, some for the first time, with rising budget deficits that have necessitated a shift from the classic rentier state economy involving a reduction in their dependence on oil revenues. This major historic shift, which will impact future generations, is increasingly being felt by the current generation of youth as several regional countries suffer mass unemployment, with graduates unable to find employment in the private or public sectors.

The issue of debt management is now a top priority in some Middle East economies, as exemplified by the serious situation faced in Dubai in 2008, when a high profile state-owned entity which led the construction and property sectors, was forced to restructure its debts with a knock-on effect on the rest of that emirate's economy.

Does this emerging trend signify that the global economy is once again teetering out of balance?

For the past three decades, Middle East sovereign wealth funds to a large extent provided liquidity that helped to bolster the strength of the American dollar, as the pre-eminent global currency, and maintain the dominance of the American banking system. The spectacular growth in credit and the scale of derivatives trading, coupled with rising fiscal budget deficits in the West distorted various asset markets, which were no longer sustainable: sovereign wealth funds were perceived as white knights to the rescue.

The worldwide recession in 2008 led to a rapid collapse in commodity prices and it was only in 2010 before anybody was talking of recovery. The US economy recovered in part thanks to its domestic shale oil and gas boom, but unlike previous recessions, the US revival to 3%-plus growth rates failed to lead pull other countries out of the doldrums. Europe remained sick and virtually stagnant, China and Asia's growth considerably slowed and some like Indonesia have ended up in recession.

Saudi Arabia

Saudi Arabia, the world's largest petroleum exporter and home of 18 percent of the world's oil reserves, depends greatly on the price of oil. Its economic, domestic, and foreign policies are all intimately connected with petroleum, and the drastic decrease in the price of oil in 2014-2015 has had significant effects on the country's domestic policies, as well as the future implications for regional politics and markets.

For decades, Saudi Arabia has been at the center of the global oil market, both as part of the Organization of Petroleum Exporting Countries (OPEC), which sets production targets for each member nation in an attempt to control oil prices, and as a recent paper argued, as an enforcer of the production targets. Others have argued that Saudi Arabia has played the role of a swing producer, changing its quantity of oil production in order to stabilize the price in response to market changes Regardless, Saudi Arabia has been a major presence on the world oil market for over 40 years, as shown below:

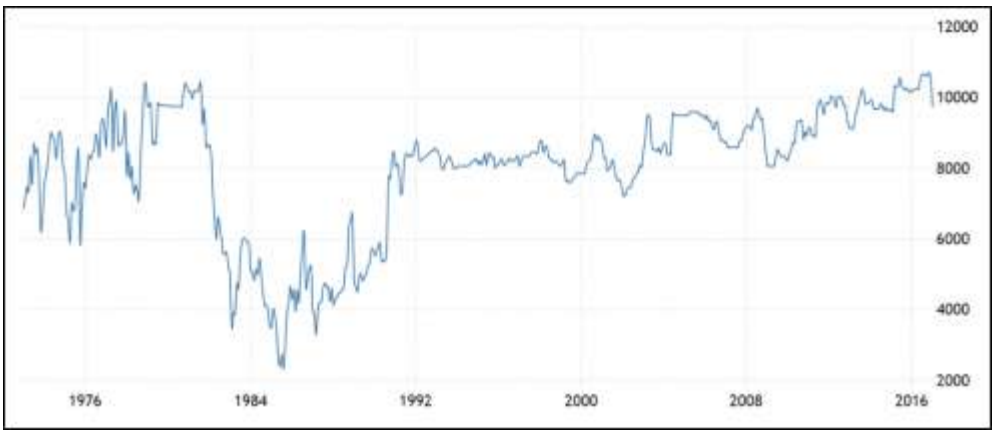

Image: Saudi Arabia Oil Production | Source: Tradingeconomics.com | OPEC

Naturally, oil has played a major role in Saudi Arabia's economy and governmental budget. Oil accounts for 85 percent of Saudi Arabia's export earnings, as well as about 31 percent of the GDP. Saudi Arabia is clearly economically dependent on oil, and in years past, the government has failed to diversify its economy, as a recent study on Saudi infrastructure spending has shown.The dependence is compounded by the implicit social contract between the Saudi royal family and the Saudi Arabian citizens. In this system, the government controls nearly the entire economy and employs two-thirds of the workers, providing lavish subsidies and jobs in exchange for an authoritarian political system. The vast oil wealth of Saudi Arabia allows this social contract to continue as long as oil prices remain high. Furthermore, this wealth allows Saudi Arabia to finance its foreign policy goals; most notably its bid to contain Iranian influence in the Middle East.

The steep fall in the price of oil in 2014-2015, therefore, had a massive impact on Saudi Arabia's economy and social structure. In contrast to its action in previous periods of oil price drops, Saudi Arabia, along with the rest of OPEC, chose not to cut production in order to increase the oil price. In contrast, it aimed to maximize market share by continuing its production levels in an attempt to force other producers, especially American shale producers, out of the market. Facing a lengthy period of low oil prices, the Saudi economy struggled. As of 2016, Saudi Arabia's budget deficit was 13.5 percent of GDP, and oil still accounted for almost 90 percent of government revenues. The fall in the price of oil has also led to a sharp reduction in Saudi currency reserves and increased government borrowing to make up for the budget shortfalls.

Saudi Arabia's foreign policy, meanwhile, has generally involved two main objectives: an alliance with the United States, and a rivalry with Iran. The US-Saudi alliance is largely based on oil, as the US was until recently the world's largest oil importer. The rise of US shale oil producers seemed to threaten that alliance, and may do so in the future. Yet several analyses push back against this idea, arguing that Saudi oil dominance will not recede in the near future, and Saudi Arabia will continue to play an important role in the oil markets. It is also likely that Saudi Arabia never reaches its former dominance, as new rivals such as US shale producers and a newly sanction-free Iran join the oil markets. It is therefore possible that the US will not be quite so dependent on Saudi oil in the future, and it remains to be seen how that will affect US-Saudi relations.

Iran

Iranian foreign policy and economic activity is inextricably tied to oil. Following Saudi Arabia, Iran ranks second globally in natural gas reserves and fourth in proven crude oil reserves . With oil rents making up nearly 20% of GDP in 2014 , Iran is a veritable energy superpower. Government expenditures, therefore, rely heavily on oil prices, which remain volatile to this day .

The United States has played a large role in exploiting Iran's dependence on oil. Since the 1950s, US foreign policy in Iran has sought to take advantage of Iran's oil-rich markets. Consider the US backed coup in 1953 that restored the Shah to power, and more importantly, restored oil security for the US . Though

US sanctions against Iran have been in place since 1979, new sanctions were introduced with the discovery of Iran's nuclear program.

This program has been extremely costly for the Islamic Republic. In fact, Iranian leaders' intransigence on the nuclear issue may have cost Iran over $500 billion in lost oil revenues due to sanctions, cost of construction, research, and operation

In 2014, Iran's economy made a turnaround from the recession that was in part triggered by US sanctions. GDP growth was 4.3% that year. With plummeting oil prices, however, Iran's economy has taken a major hit. GDP growth in 2015 dropped to 0.4% . The landmark Iranian nuclear deal in 2015 produced less of an economic boost than was predicted, since jobs were scarce and foreign investors were still wary. The oil market, however, was full of promises. Production in 2015 soared to 3.8 million barrels a day 6 months after sanctions were lifted. The figure below shows Iranian oil production during the period of US sanctions [45].

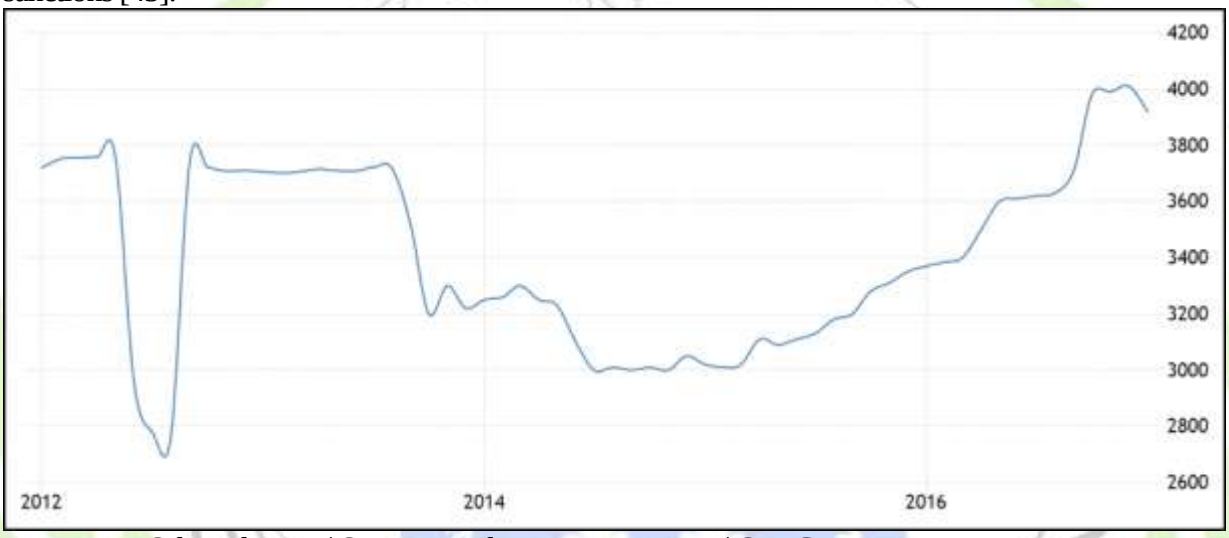

Image: Iran Oil Production | Source: Tradingeconomics.com | OPEC

Iraq

In early September 1960, the Iraqi government hosted officials from Venezuela and three Gulf Countries –Iran, Kuwait, and Saudi Arabia– for a five-day conference in Baghdad. Responding to a decrease in the posted prices by international oil companies, the five countries founded OPEC. In the decades since, Iraq has helped to lead OPEC as membership and output have expanded. Given this intimate link between the price of oil and Iraq's domestic institutions, the decrease in oil prices in 2014-2015 had a severe political and economic impact.

Iraq's oil production was nationalized in 1972. Shortly thereafter, in 1979, oil production reached its peak at 3.5 million barrels per day (mbd). The outbreak of war with Iran in 1980 depleted Iraq's foreign exchange reserves and left the country saddled with more than $40 billion in debt. Subsequently, Iraqi oil took an additional hit when, under the regime of Saddam Hussein, the leader had decided to invade another founding member–Kuwait. Despite having the third largest reserves of oil, Iraq dropped to 13th place in the international oil production table. Since then, Iraq has tried to revamp oil production to pre-Gulf War levels. In 2014, Iraqi oil production averaged at 3.4 mbd. This production growth accounted for nearly 60% of the production growth among OPEC countries. Oil revenues accounted for 47% of Iraq's total GDP and 95% of Iraqi government revenue. Similarly, oil exports accounted for more than 90% of total exports. More importantly, 2014 also marked the beginning of the Islamic State of Iraq and the Levant (ISIL) offensive within Iraq.

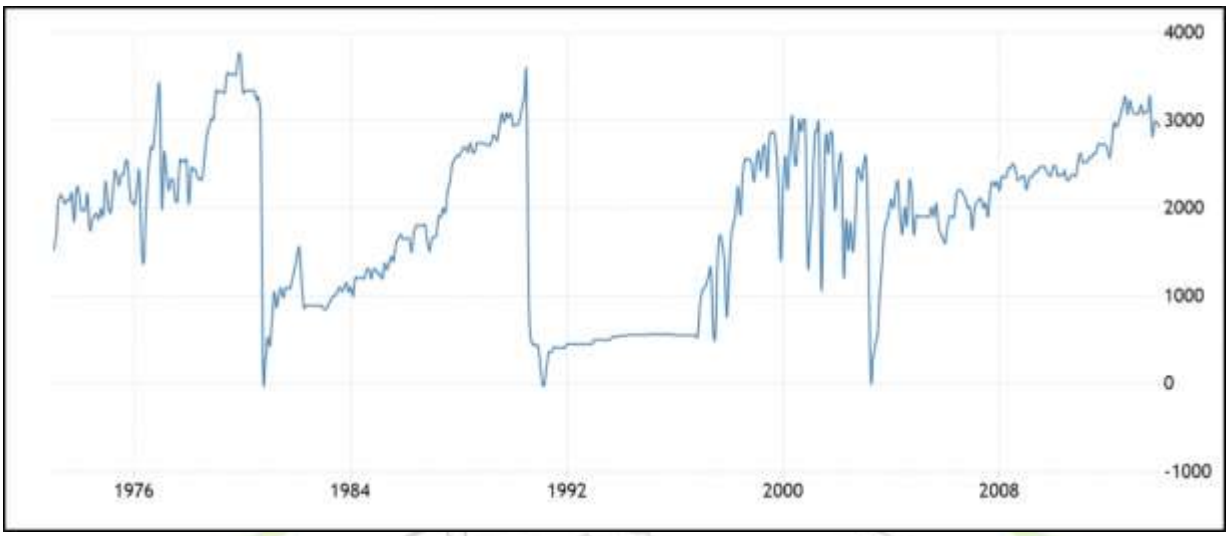

Image: Iraq Crude Oil Production | Source: Tradingeconomics.com, U.S. Energy Information Administration

Given the enormous dependence on oil, the drastic drop in its price had severe effects on Iraq's economy. Particularly, unlike other countries, Iraq faced a double-shock. The first shock was a decline in the price of oil. Basic economics tells us that a drop in price without a comparable increase in sales (or exports, in this case) will reduce revenue. Indeed, though Iraq experienced relatively stable export levels, as a result of falling prices, 2015 oil revenues decreased by nearly $35 billion compared to 2014.

The second shock was the ISIL insurgency within northern Iraq. The costs of fighting the Islamic State put enormous fiscal pressure on the Iraqi government. High security spending rapidly widened the budget deficit, which reached 13.5% of GDP in 2015. Similarly, whereas in 2014, the current accounts balance was a surplus of 2.7% of GDP, in 2015, the balance was a deficit of 6.1% of GDP. Greater military spending further forced the Iraqi government to divert resources away from investment within oil infrastructure, further exacerbating an already difficult economic situation.

Driven in part by a projected ramp-up in oil production as well as the implementation of the IMF program, the Iraqi economy is projected to grow at 7.2% in 2016 and hover around 5% for the next few years .

Despite these projections, the relatively low oil price and the continued ISIL insurgency place the macroeconomic output at significant risk.

CLOSING WINDOW OF OPPORTUNITY

It seems clear to many outside commentators that the oil-rich Arab world's window of opportunity is closing; the rise of the energy mix and increased competition on cost and supply of oil and gas is eating into profit margins. Technological development in the near future will bring about further reductions in the cost of energy production, and increased diversity of supply could significantly reduce the currently rich Arab states' market share in oil and gas. Meanwhile, their populations will continue to grow in the face of ever increasing regional instability and rising unemployment. The World Bank has already forecasted the need for a 100 million job opportunities to be created in the MENA region by 2020, in order to absorb the next baby boomer generation. Job creation seems to be well beyond the ability of most politicians who have often squandered oil riches in creating bloated government bureaucracies awash with corruption and cronyism, or built up reserves rather than build infrastructures that could provide the platform for economic diversification and employment prosperity for their populations.

Are we witnessing the curse of oil dependency, creating the slow death of the region as sovereign wealth funds are being gradually depleted to fund fiscal deficits? Many nations have failed their unemployed younger generation and now will have little to offer the next generation. Regional infighting, corruption, religious intolerance, a growing sectarian divide all usually fuelled by foreign interference and triggered by transnational terrorist groups, will only condemn the region to generations of poverty, unless the situation

today becomes a wake-up call for the ruling dynasties to take responsibility and accountability for their own economic development, security and welfare, before all is lost to terrorism and criminality.
The UAE has proven that economic security is possible, but few others states in the region have had forward looking politicians as capable as some of the past and present visionary rulers of Abu Dhabi and Dubai.

Possible Solutions and Controversies

This section deals with possible solutions that may be implemented by the Arab League in regard to stabilizing oil prices. These solutions are merely non-specific examples that do not necessarily address all that the topic has to offer. The real solution and resolution paper is to be presented after debate in committee. Instituting a new oil embargo at a time of high demand to increase price and decrease market quantity, thereby increasing the profit to all oil nations. This is a solution of moderate feasibility. The only problem would come from market demand. Should the embargo be delivered by countries acting as individuals and not collectively, one of the countries may refuse to act upon the embargo, and the embargo would come to nothing. Vastly increasing oil supply in an attempt to decrease oil prices and to bring losses to competing nations would force other nations to stop exporting oil, leaving the Arab states a monopoly. This solution is impractical and dangerous for both the Arab States and for the global community, as there is no guarantee Arab states could economically survive any better than Western nations, which would nullify the premise. Instituting a new Arab oil export benchmark which eliminates the Brent crude benchmark and utilizes one proposed by OAPEC. This would be the most viable option for the Arab League, but also the most difficult solution. Negotiating a new benchmark would require all nations which purchase or produce Middle Eastern oil to actively agree on using the product of Arab oil fields as price marker instead of the current North Atlantic oil.

Conclusion

The recent decline in oil prices has had a variety of extremely impactful effects on major oil-producing countries, most notably Saudi Arabia, Iraq, and Iran. All three countries are heavily dependent on oil exports and production, and the fall in prices has caused very difficult economic situations for the governments and citizens of these three nations. Yet each also faces unique challenges which further complicate the domestic and regional situation. In Saudi Arabia, the fall in the prices of oil has complicated both the social contract of lavish perks, jobs, and subsidies in exchange for an authoritarian political system as well as an active, anti-Iranian foreign policy, causing far more damage than simply lower economic growth. In Iran, US sanctions and the nuclear deal have led to fluctuating production and further challenges as Iran attempts to rejoin world markets while suffering from a variety of internal and external economic pressures. Finally, in Iraq, the fight against ISIL has brought severe damages, including economic calamity. The fall in oil prices has both intensified these pressures on all three countries as well as causing economic hardship of its own, and ultimately local, regional, and international affairs will be greatly impacted by the way these three countries respond to these pressures.

Discussion Questions

1. What are the dangers of an unstable oil market?
2. What solutions or ideas would minimize economic backlash?
3. What solutions would be the easiest to implement?
4. Is the current situation serious enough to merit potentially market destabilizing solutions?
5. Is the Arab world willing to carry through for its own interests when weighed against the possibility of retribution?
6. Is the Arab League justified in conducting action with global consequences without input from the international community?
7. How prepared is the Arab League to deal with potential economic destabilization?
8. How much damage or benefit would the resolution bring to non-oil exporting members of the Arab League?
9. Is it feasible, or even possible to establish another benchmark, or to change the location of a preexisting benchmark?

Key Guiding Questions

1. Under the context of fluctuating oil prices, is it necessary for all members of the Arab League to diversify their economies, or should the less developed countries allowed to rely on oil export to bring in capitals.
2. In what forms should LDCs be provided assistance in diversifying their economies.
3. How to ensure a smooth diversification process, especially for countries with weak economic performances?
4. How should the responsibility of providing assistance to LEDCs in the Arab League be

shared among the members of the Arab League?

5. How can culturally conservative countries be persuaded to commit to enacting changes to their state's society to facilitate diversification of the economy?

Suggestions for further research

- To familiarize themselves with relevant economic concepts, delegates are strongly encouraged to read the following two articles, both of which can be accessed by the links provided:
    1. United Nations, United Nations Development Program. (n.d.). *Towards Sustaining Millennium Development Goals Progress*. http://www.undp.org/content/dam/undp/library/Poverty Reduction/Inclusive development/Towards Human Resilience/Towards_SustainingMDGProgress_Chapter1.pdf
    2. Bahar, D. (2016, November 08). Diversification or specialization: What is the path to growth and development? Retrieved from https://www.brookings.edu/research/diversification-or-specialization-what-is-the-path-to-growth-and-development/
- As the information given in case studies are used primarily as supporting evidence, it is non-exhaustive. Therefore, delegates are strongly encouraged to look into the specific policies adopted by the countries mentioned in the case studies, as well as those of the countries they represent.
- Delegates are also strongly encouraged to do detailed research on the mandate of the Arab League. As a regional organization, AL's mandates differ from those of the United Nations councils, and the mandates mentioned in the study guide is non-exhaustive. Hence, delegates may wish to research on that so as to better understand the working mechanism of the League. A good starting point would be the Charter of the Arab League.

References

[1] http://www.imf.org/external/np/pp/eng/2016/042916.pdf
[2] https://www.oxfordenergy.org/wpcms/wp-content/uploads/2015/06/MEP-13.pdf
[3] http://www.opec.org/opec_web/en/about_us/169.htm
[4] https://www.oxfordenergy.org/wpcms/wp-content/uploads/2015/06/MEP-13.pdf
[5] http://www.ecfr.eu/page/-/Connectivity_Wars.pdf
[6] http://www.tradingeconomics.com/saudi-arabia/crude-oil-production
[7] http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.652.9939&rep=rep1&type=pdf
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[11] http://www.economist.com/news/middle-east-and-africa/21697673-bold-promises-bold-young-prince-they-will-be-hard-keep-saudi-arabias
[12] https://www.oxfordenergy.org/wpcms/wp-content/uploads/2016/07/Saudi-Arabias-Vision-2030-Oil-Policy-and-the-Evolution-of-the-Energy-Sector.pdf
[13] http://www.economist.com/news/middle-east-and-africa/21697673-bold-promises-bold-young-prince-they-will-be-hard-keep-saudi-arabias
[14] https://www.bloomberg.com/news/features/2016-04-21/the-2-trillion-project-to-get-saudi-arabia-s-economy-off-oil
[15] http://www.economist.com/news/middle-east-and-africa/21697673-bold-promises-bold-young-prince-they-will-be-hard-keep-saudi-arabias