



2009 - 2010 Model Arab League

BACKGROUND GUIDE

Council of Arab Economic Affairs Ministers

ALL Regional Model Arab Leagues

(i.e., not the National University or National High School MAL, Spring '10, in Washington, DC)

www.ncusar.org/modelarableague

National
Council
on US-
Arab
Relations



1. Encouraging Foreign Direct Investment (FDI) while maintaining national sovereignty

What's the Issue?

Economic sovereignty is a concept that describes a states' ability to control its internal and, to a lesser extent external, economic policies. As the trend of globalization broadens, states are increasingly interdependent and have a greater propensity to integrate economically. This has the potential to compromise states economic sovereignty as states will have to yield some policy decisions to supranational bodies, agreements with other states, and international non-governmental agencies. Policies include, but are not to, monetary and fiscal controls, currency valuation, and trade policies.

Fiscal policy or control, refer to how a government manages its revenue or profit from taxation. This includes spending policies, which are often tailored to countering economic cycles to lower unemployment, low to no inflation, and sustained, manageable economic growth. Monetary controls, are operated independently of fiscal controls and focus on controlling the money supply, or amount of currency in a state's economy through a central bank. Monetary policy mainly includes combinations of three actions to manage the money supply: buying or selling national debt, changing credit restrictions, and changing the interest rates through reserve requirements. Controlling currency is mechanism to combat inflation.¹

The importance of these controls in the context of economic sovereignty is seen in how economic coalitions and trade agreements force some governments to change policies.

Relevance to the Arab World

As the much of the world western as seen great technological and economic development because of foreign direct investment so it is logical that the Arab States interested in increasing capital inflows would also look to FDI. That said one statistic to consider is: Saudi Arabia received only \$4.69 billion in FDI between 1997 and 2001. In comparison to that of smaller western countries the distributions is starkly uneven.²

Foreign direct investment (FDI) is essential in international business and trade because it provides businesses with greater access to markets and marketing channels, possibly cheaper production, new technology, and, perhaps most importantly, financing. Host countries or the foreign firms receiving FDI, may gain similar benefits as well as access to more products and management skills, and organizational technologies. All of these factors can be a catalyst to economic development".³

The economies of sovereign states should concentrate on national development by favoring Foreign Direct investment as an impetus to growth. Acknowledging the uneven distribution by western states, member states should focus on fellow Arab regions when considering potential investment venues.

¹ <http://www.pbs.org/nbr/site/onair/transcripts/080610a/>

²

http://query.nytimes.com/gst/fullpage.html?res=9F0CE2D81139F93BA1575BC0A9659C8B63&sec=&spon=&page_wanted=2

³ http://www.going-global.com/articles/understanding_foreign_direct_investment.htm

Questions to Consider -- *from your nation's unique perspective*

- What are the leading impediments to FDI in the country that I represent?
- What steps can be taken to maintain the economic sovereignty of states?
- What programs have already been put into place to draw in FDI – what has worked and what has not?
- How does your country maintain control over multinational corporations' investment in your domestic economy?
- What are the potential positive and negative effects of foreign direct investment?
- Is economic sovereignty an issue that should be addressed with respect to FDI?
- How can states mitigate the influence of globalization on economic sovereignty while maintaining a thriving economy?

2. Assessing the role of Islamic Finance and informal financial mechanisms in regional economic structures and development

What's the Issue?

Increasingly Islamic Finance is forming a larger part of the global financial system.⁴ As such, it is important to understand the nuances that distinguish Islamic Finance and the informal financial mechanisms common in the Arab world from the economic practices in other parts of the world. Islamic Finance refers to the system of banking which upholds the principals of Sharia law. Under Islamic law several practices common in the financial structures of the western world are prohibited, including but not limited to issuance of interest fees for loans and the investment in businesses, goods, or services that are not consistent with other Islamic laws. Many business transactions also fall under the category of Hawala, which refers to the informal financial transactions based on trust or the transfer of debt to a third party who owes a debt.⁵

Relevance to the Arab World

The incongruence in business practices between the Arab world and other states can only be resolved by integrating Sharia Finance into western financial systems and applying those western practices which are not in violation of these principals. The Islamic Finance Qualification, which certifies bankers as having received training in the structure of Islamic finance, is one tool that may facilitate greater cooperation between the Arab World and the rest of the world.⁶ Greater access to capital would increase the capacity for development.

While Hawala is most popular in the Middle East, this region is not unique in the use of informal structures. All states should consider how to reconcile how the absence of a paper trail might deter potential foreign investors with the traditions that make this a viable option for Arab investors.

Questions to Consider -- *from your nation's unique perspective*

- What are the leading impediments to spreading the practice of Islamic Finance?
- What steps can be taken to promote this financial system?
- What programs have already been put into place to integrate western and Islamic financing methods– what has worked and what has not?
- How does your country remain consistent with Sharia while engaging in international transactions?
- What are the potential positive and negative effects these limitations have access to capital for development?
- Why is Hawala something that this body should address?

⁴ http://www.thomasmore.org/downloads/sb_thomasmore/-AnnouncementonIslamicFinance.pdf

⁵

http://www.google.com/search?hl=en&defl=en&q=define:hawala&ei=IJ3bSszSDc3g8Qa3zcG3BQ&sa=X&oi=glossary_definition&ct=title&ved=0CAcQkAE

⁶ <http://www.sii.org.uk/web5/infopool.nsf/html/qintifq>

3. Strengthening and rebuilding local economies and small business, especially after conflicts and natural disasters

What's the Issue?

Conflict and natural disasters have similar negative effects on economies. Infrastructure that previously contributed to the capacity to support trade and a thriving economy might be destroyed. The work force maybe technologically underequipped or educated due to displacement or might be significantly diminished in population. The concern of this body should be to address the financing mechanisms in conjunction with programs that reverse these trends and other means to rebuild after disasters. Though access is sometimes restricted there are varying finance options available to states. Foreign Direct Investment is a bilateral agreement between states, or a private company making a capital investment abroad, between states or businesses that can be utilized to engage in sustainable development projects. States might also benefit from providing incentives to investors. Microloans and microcredit are small-scale financing options that are granted to individual entrepreneurs. Typically these options consist of no more than a few hundred dollars, but can be helpful in covering some initial project costs.⁷ Grants from regional development banks are also potential source of funding. For example, the African Development Bank, the Arab Monetary Fund, the International Monetary Fund, and the Asian Development Bank all seek to provide funds to states to promote progress.

Relevance to the Arab World

The Arab States acknowledge that war and subsequent plagues such as destruction of commodity exported trade, misallocation of resources for refugee encampments, lack of basic human necessities, and discouragement for private investors are serious obstacles to sustainable development. The League of Arab States is committed to improving the socio-economic status of the region as a whole by addressing the challenges of infra- structure rehabilitation in economies affected by conflict, specifically Palestine, through the promotion of domestic, regional and international cooperation.

For example, Algeria, Egypt, and three other African States formed the New Partnership for Africa's Development (NEPAD), to maintain the progress of rehabilitation. The main focus of this organization and its initiative -- Short Term Action Plan for Infrastructure (STAP)⁸ "seek to bring a new vigor to accelerate the response to familiar problems and to implement tested policies and good practices, founded on the African leadership's collective determination to urgently mobilize and harness all resources available to speed up economic growth and social development, thus eradicating poverty."⁹ This body should evaluate the scope of what NEPAD provides and analyze how a similar initiative might contribute to the progress of the Arab world, in locations where rehabilitation is needed. Are there currently initiatives within the region that strive to create stability and rebuild economies that have suffered? This is an important question, as the creation of unnecessary bureaucracy should be avoided. This committee is urged to use currently existing programs, like NEPAD, and promote them as channels for aid from developing states.

⁷ <http://www.businessdictionary.com/definition/microcredit.html>

⁸ [Nepad.org http://nepad.org/2005/files/inbrief.php](http://nepad.org/2005/files/inbrief.php)

⁹ <http://nepad.org/2005/files/documents/114.pdf>

Questions to Consider -- *from your nation's unique perspective*

- What steps have been taken to rehabilitate economies after conflict and natural disasters in the past? What has worked and what has not?
- Should funding for rehabilitation be repaid to donor states or be restricted to aid?
- Have Arab States supported and cooperated with IGOs and NGOs to the fullest extent possible in regards to this issue?
- Should specific states receive special consideration?