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Model Arab League

BACKGROUND GUIDE

Council of Economic Affairs Ministers

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Dear Delegates,

I am honored to welcome you to the 2012-2013 Model Arab League. My name is Kelsey Price, and I am excited to be working with you as the Chair for the Council of Economic Affairs Ministers at the National University Model Arab League conference. I truly believe that programs such as the Model Arab League can help teach more than any classroom ever can, and that this conference can be a tremendous opportunity for you that will challenge your views and change the way you think about the Arab League and its member states.

A little bit about myself before we meet this spring: I currently a senior at the University of Utah, where I am majoring in Political Science and Middle Eastern Studies, with an emphasis in Arabic. In addition to MAL, I enjoy activities at the U such as being a member of the Kappa Kappa Gamma sorority, working for the men's rugby program as their sports information director, and yelling loudly from my third row season football tickets.

I became involved with MAL during my freshmen year of college, but I have been apart of similar programs such as Model United Nations for over a decade. However, I cannot emphasis enough the opportunities that MAL can provide to you if you take advantage of this program. Because of participation MAL, I was selected by the National Council on US-Arab Relations to be a part of an all-female winter fellowship delegation that went to Saudi Arabia in winter 2010-2011. This program has defined my college experience, and I hope you will let it play a similar part in your own.

The Council of Economic Affairs Ministers will explore pressing topics in the Arab world, that due to the ever-changing political conditions of the region, are evolving on a daily basis. While the primary responsibility of the Council of Economic Affairs is to further develop strategic economic partnerships and cooperation within the Middle East, the Council also serves a greater purpose of providing recommendations and foresight for long-term developmental and economic goals for Arab countries. As representatives on the Council of Economic Affairs, delegates should seek to adopt policies that protect individual states' capital and economic sectors while fostering increased interregional trade between member states.

As delegates begin to prepare for conferences, I encourage you all to take the time to carefully deliberate on these topics and develop a comprehensive understanding the economic challenges that are unique to the Middle East. Delegates who extensively research international trade agreements or similar regional programs may find themselves at an advantage in proposing solutions that can foster cooperation within the Arab world. I further encourage delegates to take the time to research resolutions that are truly representative of the work done within the League itself, fully developed policies rather than vague agenda ideas. Remember, the League exists to foster collaboration between Arab states, and in committee, delegates should seek to work together on common ground rather than compete on differences.

The depth of debate and resolutions proposed are contingent on your preparedness, so please devote time to researching your country's policies on these topics.

I look forward to meeting you all.

Kelsey Price
Council of Economic Affairs Ministers

Topic I: Addressing regional economic challenges that have resulted from ongoing conflicts and recent changes in government by examining ways to spur confidence and growth

I. Introduction to the Topic

A. General Background

Ongoing conflicts and political stability undeniably limit the economic growth of the affected states and the greater region. Conflict has negative impacts on business confidence at least, and at the extreme leads to financial instability that limits or precludes daily business operations. Furthermore, conflict disturbs the equilibrium between capital goods, money, and consumable goods (*Baddeley, 2008*).

In contraposition, economic development and peace are mutually reinforcing by facilitating trade, business confidence, and investment – ultimately a global incentive to limit conflict. In evaluating the events of the Arab Awakening, the instability led to an overall decrease in economic growth in the region. Such ongoing conflict and regime change make it necessary for the Arab League to address such regional economic challenges and evaluate means in which to increase economic confidence and growth.

B. History of the Topic in the Arab World

When the Arab Awakening began in December 2010, uprisings quickly spread throughout the region, affecting countries from Bahrain to Morocco. Governments in Tunisia, Egypt and Libya were replaced; internecine fighting erupted in Yemen, Bahrain, and elsewhere; and Syria was left in a state of chaos that prompted the Arab League to suspend Syria's membership, implement sanctions, and send and then recall an observer mission there earlier this year (*Bakri and Fahim, 2012*).

The economic losses experienced by the countries of the Arab League are astonishing, with the CAEU releasing data that losses sustained by countries such as Egypt, Tunisia, Libya, Yemen, and Syria have surpassed \$100 billion US dollars at the end of 2011. Most of the losses, according to Secretary-General Mohamed al-Rabei, were attributable to reduction in exports and less production (*Farid, 2011*). The economic impact of this region-wide turmoil, notes First Vice-Governor Raed H. Charafeddine of Banque du Liban, is reflected in a disparity between the 2010 and 2011 IMF World Economic Outlook reports. In 2010, the forecast for real GDP growth in the Arab region for year 2011 was set at 5.1%, but in 2011, the 2011 forecast was set at only 4.0%, and the 2012 forecast at an even lower 3.7% (*Charafeddine, 2011*).

Despite the economic challenges League member states have faced as a consequence of the Arab Awakening, the region has numerous strengths that are being underutilized or inefficiently managed that could be used to spur economic growth. The region's hydrocarbon resources and its large, dynamic young workforce may yet set the stage for a significant economic recovery. The council may focus on these and other strengths, mitigating the factors that undermine the economy, especially the conditions of conflict.

C. Finding a Solution to the Problem: Past, Present and Future

Limited multilateral and international action has been taken to address the direct effects of the Arab Awakening and other recent conflicts on economic development in the Middle East. However, in 2009 the United Nations Secretary-General released a report on general post-conflict 'peacebuilding' with an emphasis on economic development and conflict resolution. In the report, the Secretary-General encouraged the UN Peacebuilding Commission to implement general best practices to spur economic growth during and after conflict (*Report of the Secretary-General, 2009*). Such best practices have yet to be fully implemented by member states of the League of Arab States, and may be a good place for delegates to begin to formulate solutions to this topic.

Delegates might also focus on FDI. According to Mr. Abdel Aziz al-Ghurair, chief executive of Mashreq Bank, inter-Arab foreign direct investment (FDI) will spur non-Arab FDI in Arab states, a potentially critical component in regional economic recovery and growth. Inter-Arab FDI took a sharp dive between 2009 and 2011, falling from \$22.9 billion to \$5.4 billion (*Hamdan, 2012*). Seeing a lack of investment in Arab countries from Arab companies themselves, foreign companies assume that investment in the Arab world involves too much risk.

II. Questions to Consider in Your Research

- To what extent has your country been affected economically by the recent conflicts in the Arab world?
- Has the Arab Awakening changed your country's average rate of economic growth?
- What plans and policies does your country have in place to promote economic growth and diversification?
- Is my country the origin of FDI to other Arab states? From where does FDI flowing into my country come?
- Has your country ever encountered economic challenges attributable to conflict in the past? If so, how recently and how were these challenges overcome?

III. Questions a Resolution Might Answer

- What can the League do to achieve macroeconomic stability?
- How can direct foreign investment be increased throughout the region? How can the region attract investment, despite factors that may deter investors?
- How can the League preserve individual economic markets, while promoting regional growth?

IV. Resources to Review

Inside Story - The Economic Impact of the Arab Spring. Al Jazeera English. N.d. 13 Aug. 2011. Web. < <http://www.youtube.com/watch?v=M7NIXx8TBlg>>

Khalaf, Roula, Heba Saleh, and Abeer Allam. "The Economics of the Arab Spring." *The Financial Times* (2011): n. pag. Print.

Cordesman, Anthony. "The Causes of Stability and Unrest in the Middle East and North Africa: An Analytic Survey." *Center for Strategic and International Studies* (2012)

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"Arab League Conference on Economic Impact of the Arab Spring." *The Middle East Monitor*. N.p., 2 May 2012. Web. <http://www.middleeastmonitor.com/news/middle-east/3691-Arab-league-conference-on-economic-impact-of-the-Arab-spring>

Baddeley, Michelle. "Armed Conflict, Economic Development and Financial Stability." *Cambridge Centre for Economic and Public Policy* (2008): n. pag. Web. www.econ.cam.ac.uk/faculty/baddeley/conflict.pdf

Charafeddine, Raed H. "The Economic and Financial Impacts of the Arab Awakening." Harvard University, Belfer Center for Science and International Affairs. Oct. 2011. Speech. <http://bit.ly/RmpO3a>

Fahim, Kareem, and Nada Bakri. "Sharp Rise in Violence Halts Monitoring by League in Syria." *New York Times*. N.p., 28 Jan. 2012. Web. Sept. 2012. http://www.nytimes.com/2012/01/29/world/middleeast/Arab-league-suspends-its-monitoring-in-syria.html?pagewanted=all&_r=0

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Hamdan, Sara. "Arab Investors Are Urged to Lead the Way." *New York Times*. 12 Oct. 2012. Web. http://www.nytimes.com/2011/10/27/world/middleeast/arab-investors-are-urged-to-lead-the-way.html?_r=0

Report of the Secretary-General on Peacebuilding in the Immediate Aftermath of Conflict. Rep. no. A/63/881-S/2009/304. New York, NY: United Nations General Assembly, 2009. Print.

Topic II: Implementing key components of the Strategy for Sustainable Arab Agricultural Development (2007) with a special focus on food security and self-sufficiency in the region

I. Introduction to the Topic

A. General Background

Food security and self-sufficiency in food production are global issues that are not unique to the Arab world, but remain crucial elements of Arab League policy development, particularly on an economic level. The World Health Organization (WHO) defines food security as a state “when all people at all times have access to sufficient, safe, nutritious food to maintain a healthy and active life” (WHO, 2012). This ideal is lacking worldwide, particularly in the Arab world. To work towards food security and self-sufficiency in food production, the Strategy for Sustainable Agricultural Development was announced in 2007 by the Arab Organization for Agricultural Development, but many of the key components have yet to be implemented on a multilateral level amongst Arab League member states. The Arab Organization for Agricultural Development (AOAD) was itself established in 1970. According to the AOAD, “realizing the vital role of agriculture within the region's economy, the Arab countries recognized the need for coordination between their different policies in agriculture, natural and human resources as well as economic development, in order to achieve the ultimate goal of a fully integrated Arab economies” (http://www.aoad.org/about_en.htm).

Food security is best broken down into three key aspects: availability of food on a regular basis, access and having the resources to obtain enough for a nutritious diet, and appropriate use based on nutrition and adequate water sanitation (WHO, 2012). While food security is affected by a variety of factors such as healthcare access, poverty levels, urbanization, and water access, it is itself a factor which can severely limit the economic development and efficiency of a country or a region. The WHO notes there are divergent views as to how food insecurity arises; different theories on food security include:

- There is enough food in the world to feed everyone adequately; the problem is distribution.
- Future food needs can - or cannot - be met by current levels of production.
- National food security is paramount - or no longer necessary because of global trade.
- Globalization may - or may not - lead to the persistence of food insecurity and poverty in rural communities (WHO, 2012).

B. History of the Topic in the Arab World

Beginning in 2007, there was a steep jump in worldwide prices in food and agricultural commodities which gave way to increased concern about food security and agricultural development in the Arab world. As the largest net importer of grain, the region is more vulnerable to food insecurities when there are swings in agricultural prices. This is further exasperated by a rapidly growing population accompanied by low agricultural productivity and an overall dependence on the international agricultural commodity market. Indeed, over the next twenty years it is expected that member states of the Arab League will become 64% more

dependent on food imports (*The World Bank, 2009*). Such sensitivity to the global market has increased calls for the Arab League to begin implementing measures that will lead to greater food security and self-sufficiency in the region, especially in the likelihood of more agricultural price increases in upcoming years.

The lack of diversification in Arab states' agricultural industries is another issue facing the region. This makes the region more vulnerable to global economic price shifts, as drops in prices are not dissipated across multiple products, but affect only a handful of products. Additionally, this lack of variation in food products leads Arab countries to be more dependent on importing agricultural products.

C. Finding a Solution to the Problem: Past, Present, and Future

In response to the spike in food prices, the Strategy for Sustainable Arab Agricultural Development (SSAAD) was announced by the Arab Organization for Agricultural Development (AOAD) in order to better combat the instability in food security in the Arab world in relation to global market prices. The strategy, according to the Director-General of AOAD, consists of seven focal points:

- the improvement of agricultural technologies;
- the encouragement of agro-investments and industry in favorable agricultural environments;
- the enhancement of the competitiveness of agricultural products;
- the coordination and improvement of agricultural legislation and policies;
- capacity building;
- rural development, and;
- the development of environmental and agricultural resource management systems (*Zadjali, 2010*).

In particular, the SSAAD stresses the need to increase competitiveness and self-sufficiency at a regional level, rather than as individual states as has been done in the past. To increase the competitiveness of the Arab region as a whole, AOAD emphasizes innovative technology and marketing strategies:

[The development of modern agricultural technologies] needs more coordination and cooperation [between Arab states] for promoting research centers and supplying them with necessary facilities and creating capable research cadres, and at the same time avoiding repetition, exchanging expertise, and eventually increasing the efficiency of research efforts and maximizing their returns (*AOAD, 2009*).

From a marketing standpoint, AOAD places responsibility on both the private and public sectors, stating that “although the responsibility of developing the activities of agro-industry and marketing services lie on the shoulders of the private sector, planning the policies of pushing these activities forward is the responsibility of the relevant government bodies” (*AOAD, 2009*).

To increase self-sufficiency, AOAD encourages individual Arab states to shift their conception of food self-sufficiency from a national perspective to a regional perspective. That is, rather than each country striving to produce or acquire all varieties of foodstuffs, countries should

collaborate to produce and trade the goods for which they have a competitive advantage: “coordination of [agricultural production] policies and development planning is a key condition to complete the coming stages of Arab economic coordination and cooperation” (AOAD, 2009)

II. Questions to Consider in Your Research

- Which parts, if any, of the SSAAD has your country adopted to ensure food security?
- What efforts has your country made to be self-sufficient or decrease food import dependencies?
- What environmental, economic, strategic, etc. factors limit your country’s ability to ensure food security and increase food self-sufficiency?
- Does your country participate in any programs in conjunction with international organizations that relate to food security? How successful have they been in your country?
- What measures has your country taken to help other countries in the Middle East work towards food security?

III. Questions a Resolution Might Answer

- What specific steps should be taken on local, state and international levels to increase food security and self-sufficiency within the region?
- How would programs designed to increase Arab agricultural coordination be funded?
- Will these programs work in partnership with other organizations?
- Are the programs being pursued by the AOAD successful? Are they sufficient to meet the needs of the region? Can they be improved or otherwise amended?
- What infrastructure challenges can be addressed by the council?

IV. Resources to Review

Arab Regional Strategy for Sustainable Consumption and Production.

<http://www.unep.fr/scp/marrakech/publications/pdf/Final%20Draft%20Arab%20Strategy%20on%20SCP%20-%2006-10-09.pdf>

Strategy for Sustainable Arab Agricultural Development.

<http://www.aoad.org/strategy/straenglish.pdf>

Rome Declaration on World Food Security. World Food Summit. United Nations, 1996. Web. <

<http://www.fao.org/docrep/003/w3613e/w3613e00.htm> >.

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"Food Security." *WHO*. United Nations, n.d. Web. 2012.

<<http://www.who.int/trade/glossary/story028/en/>>.

The World Bank. *Improving Food Security in Arab Countries..* 2009. Web.
<siteresources.worldbank.org/INTMENA/.../FoodSecfinal.pdf>.

Arab Organization for Agricultural Development (AOAD). *Strategy for Sustainable Arab Agricultural Development.* http://www.aoad.org/index_en.htm. 2009.

Topic III: Addressing water tariff reform in the Arab world in an attempt to stabilize water prices and ensure cost efficiency for producers, suppliers, distributors and consumers

I. Introduction to the Topic

A. General Background

A water tariff, or sometimes water rate or water rent, is the cost of water charged to consumers including both consumption and waste removal and treatment. A variety of factors impact the ultimate cost of water for consumers, such as “local labor (sic) rates, the age and condition of infrastructure, the rate of infrastructure maintenance and replacement, local policies on water pricing, and water scarcity.” (*Global Water Intelligence, 2011*) Water is often a government monopoly, though sometimes private companies operate in the water market, another distinction of note. In both government-run and privately-owned water systems, government regulations and subsidies are often used to impact prices and consumer behavior for desired outcomes.

The cost of water is further complicated by issues of transnational trade, both in actual water and ‘virtual water.’ Water can be pumped over national boundaries to placate supply and demand. However, the concept of ‘virtual water’ defined as “the volume of water that has been used to produce a commodity and that is thus virtually embedded in it” implies that the economic impact of water cannot be understated. With 10 of the 15 most water-poor countries located in the MENA region (*Alterman and Dzuiban, 2010*), creating effective water tariff policy is crucial for the economic survival of the Arab League.

B. History of the Topic in the Arab World

The geopolitics of water in the Arab world make water tariff reform a complex issue compared to many other regions of the world, such as water-rich Central America. Water scarcity in the Arab world has played a considerable role in the politics of the region, with the scarcity and ecological stress best understood as a function of imbalance in the relationship between the supply of water in comparison to the population levels in the region (*Selby, 2005*). Since the population of the region continues to grow, tariffs have become a common attempt to redistribute water so that individual nations are less affected by scarcity. Furthermore, redistribution aims to promote economic growth or limit access to a consumer.

Although many scholars have warned that water scarcity could lead to wars among Middle Eastern countries, history has proven otherwise. Arab countries have cooperated over water with each other as well as with non-Arab countries in the region. For instance, the 1994 agreements between Turkey, Iraq and Syria have managed to quell tensions over the waters of the Tigris and Euphrates rivers (*Middle East Economic Survey, 2010*).

The topic of water tariffs is also important because the level of agricultural production in the Arab world has increased greatly since the 1970s. For example agricultural production in Jordan increased by 50% between 1994 and 2008; irrigated land tripled in Yemen between 1970 and

2000. Agriculture now accounts for 65-90% of national water consumption in the region. Much of the water used comes from underground aquifers that cannot be replenished, meaning importing water, or virtual water via water-intensive products, will become more important for Arab countries (*Alterman and Dziuban, 2010*)

Furthermore, despite the overall increase in water projects and water reforms worldwide, the reality is that the Arab world remains considerably hindered by inadequate water policy. Water supplies have been used as a political tool in the region, but debates on the subject have been mostly one dimensional, focusing primarily on the supply side and overlooking the regulatory aspect. Water ministries in the majority of Arab League countries only control a portion of water use and lack the resources to adequately manage wastewater. Additionally, there is a lack of communication internationally – between countries – as well as intra-nationally – between water-regulating government offices and industries such as mining (*Alterman and Dziuban, 2010*).

C. Finding a Solution to the Problem: Past, Present and Future

Across the globe, water tariff reforms are becoming an increasingly more common approach to stabilizing prices of water while also accounting for increasing resource scarcity. Organizations such as the Organization for Economic Co-operation and Development (OCED), the World Bank, and the Food and Agricultural Organization have significantly increased the number of water tariff-related projects in the past several decades (*Dinar, 2000*).

Water tariffs, according to the Division for Sustainable Development of the United Nations, are best divided into two parts: a variable charge that reflects the marginal costs of providing the utility and a fixed charge which is intended to cover other costs to ensure the utility recovers costs (*le Blanc, 2007*). In the Arab world, however, prices are not necessarily equal to recovery costs for the utility. The effectiveness of tariffs is even further limited because economic philosophies concerning water supply vary among Arab League countries. For instance, the lesser-developed countries of the League generally view water as a social good whereas the wealthier countries generally consider it an economic good. Thus, in some countries utility costs are recovered through appropriate tariffs, where in others this is not the case.

Water tariffs are also currently limited in their effectiveness in that the affordability of water services is not universal to all citizens, as pipelines are not universal. Furthermore, the United Nations notes that water tariffs are not necessarily effective, in that,

Most countries' water tariffs are not a good redistribution tool. This poor performance relative to other subsidy mechanisms is due to many factors, including its indirect nature; the small proportion of poor households that are connected; and the relatively small share of water expenditures in household budgets (*le Blanc, 2007*).

Additionally, while some countries have had success reforming tariffs on a local level, many have not implemented tariffs nationwide and across various agricultural areas. Water tariffs should balance the need to recover the cost of producing water and the social impacts of water prices. Tariffs are not the only tool to be considered – governments may penalize companies who exceed a certain level of water use (*Alterman and Dziuban, 2010*). Further, tariffs are not always

determined by empirical data on financial ability to pay, but rather on assumed willingness to pay for public water access (*le Blanc, 2007*).

The World Bank recommended in a 2008 report that any long-term solutions to stabilizing water prices through tariff reform must be multi-faceted in nature. That is to say, solutions must work with partners and clients to ensure water projects are sustainable, more closely monitor supply and demand, and engage in more long-term research to better understand the role of water supply and cost in relation to economic development in a particular region (*World Bank, 2008*).

II. Questions to Consider in Your Research

- What tariffs and other regulations does your country have in place in regards to water as a public utility?
- What factors impact the cost of your country's water tariffs?
- Does your country have water subsidies, and if so, how do they impact water service?
- How have water-sharing agreements with other member states affected your country?
- How does your country regulate water scarcity and to what extent does it consider water merely as a supply issue?
- How do water concerns affect your country's political and social decisions and dynamics?

III. Questions a Resolution Might Answer

- Since water is a highly sought resource in the Middle East, how will the resolution guarantee sovereignty of states in this issue?
- How would water tariffs impede a political or implicit right of individuals to water? If so, how is this right protected in the resolution?
- How will tariff rates and reforms be addressed regionally and on a state level?
- How will political calculations affect negotiations concerning water tariffs reforms?

IV. Resources to Review

Boland, John, and Whittington, Dale. *Water Tariff Design in Developing Countries*. Environment for Development, <www.efdinitiative.org/research/publications/publications-repository/water-tariff-design-in-developing-countries-disadvantages-of-increasing-block-tariffs-ibts-and-advantages-of-uniform-price-with-rebate-upr-designs/files/071F_Water%20tariff%20design.pdf&usg=yVU7XUTca2xBDjxJnZEPu86AyI>

Diakantoni, Antonia. , & Escaith, Hubert, World Trade Organization, Economic Research and Statistics Division. (2009). *Mapping the Tariff Waters*, www.wto.org/english/res_e/reser_e/ersd200913_e.pdf

Global Water Intelligence, Vol. 12, Issue 9. *Global Water Tariffs Continue Upward Trend*. September 2011. <http://www.globalwaterintel.com/archive/12/9/market-profile/global-water-tariffs-continue-upward-trend.html>

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Dinar, Ariel, . *The Political Economy of Water Pricing Reforms*. New York City: Oxford University Press, 2000.

le Blanc, David. The United Nations, Division for Sustainable Development. (2007). *A framework for analyzing tariffs and subsidies in water provision to urban households in developing countries*

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Topic IV: Reviewing the stability of the Arab banking sector and financial markets in order to mitigate the potential effects of bank failures and foreign currency crises

I. Introduction to the Topic

A. General Background

The Arab world fared relatively well in the massive global economic meltdown that began in 2007 when compared to many other countries and regions. Nevertheless, growth rates have slowed as the impacts of the global recession have seeped into Arab economies. (*Middle East Youth Initiative, 2009*) Additionally, the European debt crisis, the specter of international bank failures, and the ongoing conflicts and transitions in the region have added further stress and uncertainty to Arab economies. Economic and financial reforms have been slow, as well.

The Arab banking sector, which includes both traditional banks and Islamic banks, is not immune from the financial instability of international markets – the global economy is more deeply tied now than it has ever been and banks in one part of the world are often exposed to failures elsewhere. With the European Union financial market, which accounts for 19 percent of the world's GDP, facing an uncertain future, economic losses are predicted to spill over to Arab banks and economies. According to Wharton School of Business Professor Mauro Guillen, “The only way to be protected is to look for alternative markets... [Arab countries] would need to reorient their exports to other types of markets that wouldn't be subject to the same kind of a downturn as Europe.” (*AlKhaleej, 2012*)

B. History of the Topic in the Arab World

Following the global economic downturn that began in 2007, bank failures occurred worldwide as the crisis spread. The Arab world was not entirely immune as global trade and growth elsewhere slowed, but in general, Arab banks fared well during the crisis and are now in a better position than many of their Western counterparts. (*Alifarabia.com, 2012*) The Islamic banking sector also remained strong through the crisis as many of its fundamental practices, such as the prohibition of interest and limited uses of derivatives, made Islamic finance a stable alternative for traditional international financing. (*Faruqi, 2012*) While the global economic market is slowly recovering, reviewing the stability of the Arab banking sector and taking preventative measures to safeguard the industry against outside forces and could effectively alleviate the effects of foreign currency problems or the collapse of major financial institutions.

Both traditional commercial banks and Islamic banks should be considered by the council. Islamic banking is an important and growing sector in Arab economies. Generally, Islamic banking refers to financial institutions which comply with sharia' law. In practice, this means that Islamic banks cannot charge interest (i.e. usury) and instead rely on profit/loss sharing between partners, among other regulations.

While the practice of Islamic banking dates back centuries, the past fifty years in particular have demonstrated the role of globalization in the growth of ethics-based Islamic finance. Islamic finance institutions currently are in 76 countries, with seven major centers of Islamic finance (Ariff, 2011), and over 300 institutions worldwide. Indeed, in 2010 Islamic banking saw a 25% growth rate, making it the fastest growing sector of the international banking industry. (*Union of Arab Banks, 2012*) In 2010, Islamic banks in the Middle East and North Africa held assets worth \$416BN and it is projected that this amount will increase to \$990BN by 2015. (*Ernst and Young, 2011*) In Arab League states such as Sudan and Saudi Arabia, the entire national banking system uses shari'a banking principles. While Islamic banks are primarily concentrated within the boundaries of the Arab League, they represent a growing niche in Europe and the United States as well.

Despite such rapid growth, a lack of regulation of Islamic financial institutions and their small market share as a percentage of total international banking, such banks could face instability and even failure in response to a future foreign currency or economic crisis. Evaluating problems limiting the effectiveness of Islamic banking in the Arab world is thus crucial for long-term stability. Both the Union of Arab Banks, MENASA (Middle East North Africa South Asia) and the World Islamic Conference have addressed this issue at their organizational meetings and each group has called for common banking regulations that will encompass all Islamic banking practices. (*Union of Arab Banks, 2012*)

On the other hand, while the Arab commercial banking sector may have been somewhat immune from the global financial crisis, partially because of the Arab banking sectors' limited integration into the global financial markets. It was, however, adversely affected by the effects of Arab spring. The commercial banking sector has started to recover and banking leaders are thinking of ways to improve and strengthen the Arab banking sector so that it may be better protected in the future.

When considering Arab commercial banking, it is important to note that systems, cost efficiency, and levels of stability vary widely across the Arab world. (*Al-Jarrah and Molyneux, 2006*) In general, banks in the Gulf countries are considered the most stable. This discrepancy has been exacerbated by the events of the Arab Spring where the oil producing countries were less affected by the uprisings despite most Arab countries experiencing a steep decline in their capital bases. For instance, Bahrain and Egypt experienced negative growth rates of -10.84 and -2.52 respectively. (*Al Bawaba, 2011*)

Governments have come to realize the need to reform or at the very least strengthen the core of the banking sector. Recently, the Arab Monetary fund has lent Tunisia 276 million USD to reform the banking sector, proving that the banking sector in the Middle East is still vulnerable to local and regional occurrences. (*Reuters Africa, 2012*) Furthermore, the impact of regional instability on the banking sector is of big concern, and this year's Annual Arab Banking Conference will be centered on finding ways to maintain economic stability in times of political and social uncertainty. (*Union of Arab Banks, 2012*) It is clear that the global financial crisis and the Arab uprisings have given the commercial and Islamic banking sectors incentives to reform and to strengthen this important sector.

C. Finding a Solution to the Problem: Past, Present and Future

At least one study found that in the Middle East and North African region Islamic banks are the most cost efficient while investment banks are the least efficient. Intense competition between investment and commercial banks might explain the competitive disadvantages of the investment banks in terms of their market share and expose the motives for increased mergers and consolidation activity between such banks. (*Al-Jarrah and Molyneux, 2006*) Nevertheless, as a whole, the Arab banking sector has maintained more stability than comparable banking sectors. Another study found that non-Islamic banks in the Middle East were able to sustain a level of efficiency better than Islamic banks. In addition, medium and small Islamic banks were able to operate more efficiently than their larger competitors. (*Said, 2012*) Clearly, both types of banks play an important role in the region and both should be considered by the council.

Still, the ramifications of the global economic situation are still being felt as banks in the region are more cautious in their lending decisions and some are experiencing credit dry outs. The global crisis did identify weakness in the economies of different countries and governments have taken action to address these concerns. For instance, GCC countries intervened to support banking systems by easing monetary policy, and securing the banking system's liabilities. Saudi Arabia provided capital to Saudi Credit Bank, and Jordan guaranteed deposits in domestic banks. (*World bank, 2009*) The global crisis has also pushed Arab countries to reinvigorate the banking system to safeguard against future global, regional, and national concerns, especially as experts believe that the Arab Banking sector has the potential to play a bigger role in attracting capital, boosting investment, and creating job opportunities in the region. (*The Daily Star, 2012*) The council might continue these discussions and solidify these measures to ensure that the banking sector is more secure from bank failures and foreign currency crises.

Another issue exposed by the global economic crisis is that the Arab banking sector struggled with "excessive dependence by banks on name lending without adequate due diligence and risk management practices, inadequate supervisory powers to take early remedial action, and deficiencies in consolidated supervision." (*Mottu, 2010*) Adopting universal regulations for the Arab League might be considered to remedy a many of these problems. While organizations such as the Union of Arab Banks were founded independently for purposes of self-regulation, the majority of Arab League states – as well as the League itself – do not have formal regulation standards.

Furthermore, it was stressed at the most recent World Islamic Banking Conference that with various countries now intensifying efforts to develop their respective Islamic financial markets, it is essential to build deeper relationships between the key markets for Islamic finance and also between the various players in each of these jurisdictions, so that leading Islamic financial institutions are better placed to compete at a global level. Greater collaboration among these jurisdictions might also facilitate cross-border initiatives to strengthen the industry architecture and framework which will in turn support the expansion in international product and service offerings. (*McLean, 2012*)

Another area the council might consider is emergency planning and crisis management. According to Joseph Torbey, head of the Lebanese Banking Association, Arab banks need an emergency plan to boost inter-Arab banking cooperation as well as an emergency Arab economic plan. Torbey also believes that Arab banks need to create cooperation frameworks to confront any future crisis and they need to collaborate. (*The Daily Star*, 2012) The Arab League might consider these ideas with the goal of creating an even more robust, enduring regional banking sector that can withstand the effects of regional and international political, social and economic crises.

II. Questions to Consider in Your Research

- What banking regulations, if any, has your country implemented in response to the global economic crisis?
- How does your country differ in the regulation of commercial banks in comparison to Islamic banks?
- In what, if any, multilateral corporate governance programs does your country participate in relation to the banking sector?
- How could your country benefit from regional integration of the banking sector?
- What emergency financial measures does the banking sector in your country have in case of regional or international political and social turmoil?

III. Questions a Resolution Might Answer

- How should banks adapt to foreign currency crises and inflation?
- How can the Arab banking sector remain stable or move with continual growth despite dramatic swings in oil practices and capital inflow?
- How can the League best account for disparities between member states in terms of capacity to build corporate governance programs?
- What types of regional integration should the league in for in terms of the baking sector?
- How can the regional banking sector safeguard itself against regional political and economic problems? Should there be regional safety measures?

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