

Committee: Arab League

Issue: Diversifying Arab League Economies by Reducing Dependence on Oil Revenues

Student Officer: Athinais Lachana

Position: Deputy President

PERSONAL INTRODUCTION

Dear Delegates,

My name is Athinais Lachana, I am an 11th grade student at Pierce and I am honored to be serving as the Deputy President of the Arab League for the 6th DSTMUN. I happily welcome all of you to the 6th DSTMUN conference and congratulate you for your being an active member of the MUN community. During this 3-day conference I hope you get the chance to learn, debate and collaborate and also have a great time.

In this study guide you will find the necessary information to be able to draft a strong resolution on the following issue: “Diversifying Arab League Economies by Reducing Dependence on Oil Revenues”, but further researching the topic is heavily encouraged.

Lastly, I am glad you chose to be a delegate in this demanding committee since it is an alternative to what you are used to and explores issues that concern some of the strongest economies in the world, that influence and have an impact on the global economy.

If you have any questions do not hesitate to contact me via the following email: A.Lachana@acg.edu

Best Regards,

Athinais Lachana

TOPIC INTRODUCTION

A national economy that is reliant on a single source of revenue is fragile, especially if that income is derived from nonrenewable resources. Thus, an economy's long-term prosperity is dependent on the proper implementation of economic diversification. Diversification is essential for developing a country's environment and boosting the quality of its institutions and residents' lives. The Gulf Cooperation Council (GCC) countries are stepping up their efforts to promote economic diversification, with their national goals reflecting a common goal of ensuring permanent high living standards for future generations. Following the first oil price in 1970, Saudi Arabia's government implemented key development initiatives to diversify its economy. It announced its 2030 strategy in 2016, with the goal of achieving sustainable growth through economic diversification.

The total daily production of middle eastern oil companies is 27 percent of total world oil production. Despite differences in size, demographics, and wealth, most Arab oil-producing countries face comparable issues in creating jobs and fostering more inclusive growth. The non-oil private sector is very small and, as a result, has been a limited source of growth and employment. Because oil is an exhaustible resource, it is important that new industries be established to take over as the oil and gas industry declines. Oil dependence exacerbates macroeconomic volatility. Economic diversification would lead to job creation, strengthen resistance to oil price volatility, and improve prospects for future generations. Economic diversification requires macroeconomic stability as well as appropriate legislative and institutional frameworks. To create a solid foundation for economic growth, the economy must be protected against the impact of oil price volatility. Policies and tactics that encourage the formation of dynamic new tradable sectors have the potential to drive economic diversification.

DEFINITION OF KEY TERMS

Gulf Cooperation Council (GCC)

"Gulf Cooperation Council: a group of six countries in the Persian Gulf: Bahrain, Kuwait, Qatar, Oman, Saudi Arabia, and the United Arab Emirates. GCC countries make decisions together on trade, military spending, etc."¹

Macroeconomic Stability

¹ Cambridge Dictionary. "Gulf." @CambridgeWords, 28 June 2023, www.dictionary.cambridge.org/dictionary/english/gulf. Accessed 2 July 2023.

“When major economic linkages, such as domestic demand and production, the balance of payments, fiscal revenues and spending, savings and investment, and the amount of money individuals save and spend, are in balance, it is called macroeconomic stability.”²

Economic Diversity

Refers to variations in the economic status or the use of many alternative economic activities in a region or country. Diversification is used as a strategy to promote economic growth and development.

Economic Growth

“Economic growth is an increase in the production of economic goods and services in one period of time compared with a previous period.”³

Gross domestic product (GDP)

“Gross domestic product (GDP) is the standard measure of the value added created through the production of goods and services in a country during a certain period. As such, it also measures the income earned from that production, or the total amount spent on final goods and services.”⁴

Oil Economy

The portion of the overall economy is connected to or depending on the production, refinement, sale, or use of petroleum.

BACKGROUND INFORMATION

Arab Economy and The Oil Industry

After the discovery of oils, Saudis established strong infrastructure dotted with wells, pipelines, refineries, and ports and exploited the available oil fields. Moreover, the government revenue increased since government incomes were higher. As a result, infrastructure projects, social programs and public services were developed, and it overall helped modernize the economy and improve living conditions. Furthermore, people were able to get a job, build a home and get educated. The oil industry

² “A Brief Overview of Macro-Economic Stability.” Unacademy, www.unacademy.com/content/railway-exam/study-material/general-awareness/a-brief-overview-of-macro-economic-stability/.

³ Chappelow, Jim. “Economic Growth.” Investopedia, 1 Jan. 2021, www.investopedia.com/terms/e/economicgrowth.asp.

⁴ OECD. “GDP and Spending - Gross Domestic Product (GDP) - OECD Data.” OECD, 2023, www.data.oecd.org/gdp/gross-domestic-product-gdp.htm.

created various job opportunities., which also led to population growth because of the arrival of many labor migrants. Lastly, the discovery of oils led to the urbanization of the country and especially close to the oil fields, where ports and other modern infrastructure such as new buildings and advanced transportation were established. Overall, today, oil accounts for roughly 92% of the Saudi budget.

Oil Dependence

The UAE produces an average of 3.2 million barrels of petroleum and liquids per day. Hydrocarbons continue to play a critical role in the UAE economy, with 30% of the UAE's gross domestic product (GDP) directly based on the oil and gas industry and 13% of its exports. Saudi Arabia earns 80% of its export income from oil and it makes up around 40% of the Saudi GDP. In May, Saudi Arabia announced that non-oil exports had grown 29% over the first three months of this year; these were worth around \$21 billion. The total crude oil and condensate production of Middle East in 2022 increased by 7.1% compared to 2021. The largest oil producing countries in Middle East are Saudi Arabia, Iraq, and the UAE. Through to 2030, annual crude oil and condensate production is forecasted to increase by a CAGR of 0.64%. In 2022, Saudi Arabia had the highest crude oil production, followed by Iraq and the UAE.

Economic Challenges

Oil-dependent economies face many challenges and are considered vulnerable. First of all, since oil reserves are finite, it is not guaranteed that the production of oil will continue to be the main source of income. Furthermore, the development of green economies will decrease the demand for oil. Threats where a supplier threatens to cut off supplies are also a danger and lastly, dependence on oil does not help the nation diversify its economy.

Recent Progress in Diversifying AL Economies

Economic diversification is very important and beneficial for a nation. By reducing dependence on a single industry, the economy becomes less vulnerable and risks regarding dependence on one sector are reduced. Furthermore, economic diversification offers the opportunity for new industries to develop and as a result, create job positions and higher income. Diversification includes calculated government spending, increased non-energy exports, and increased Foreign Direct Investments (FDIs). Saudi Arabia announced plans for 192 billion riyals (\$51 billion) in investments by local companies like Saudi Aramco and mining behemoth Maaden as part of a government incentive program to speed its ambition to diversify its economy away from oil. The anticipated decline in hydrocarbon reserves and

earnings has long prompted GCC countries to diversify their economies by creating productive sectors other than oil and gas.

Most Problematic Factors for Doing Business in Arab Oil Exporters

Many problematic factors that Arab oil exporters present can force buyers to purchase oil from other exporters. Because these issues are projected, Arab oil exporters will be forced to diversify their economies if income decreases. More specifically, some of the issues are the inadequately educated workforce as well as poor work ethic in the national labor force. Internal corruption and tax rates and regulations are also problematic and lastly, there is insufficient capacity to innovate.

MAJOR COUNTRIES AND ORGANIZATIONS INVOLVED

Egypt

Egypt is an oil exporter with a significant oil and gas industry. It possesses modest oil reserves compared to other oil exporters but is not completely reliant on the oil industry. Recognizing the need to diversify its economy, the country has taken action in developing mainly the manufacturing sector. Specifically, industries like textiles, chemicals, and automotive production. Lastly, tourism rates in the country are also high and contribute to diversifying the economy.

Iraq

Iraq is one of the biggest oil exporters, fifth in the world, with huge oil reserves. Oil has been for a very long time Iraq's dominant sector in its economy, and it strongly affects its GDP, government revenues, and exports. Despite previous conflicts, the country's oil production has been gradually increasing over the years. There has recently been progress in diversifying Iraq's economy. The country has tried developing other sectors such as agriculture, tourism, and different industries as part of their long-term development plans.

Saudi Arabia

Saudi Arabia is one of the largest oil exporters in the world. It possesses vast oil reserves, which have been a significant driver of its economy for decades. The country is known for its membership in the Organization of the Petroleum Exporting Countries (OPEC) and plays a crucial role in global oil markets. Oil exports have historically accounted for a significant portion of Saudi Arabia's revenue and GDP. The Saudi government heavily relies on oil exports to fund its public services, infrastructure development, and social programs. As a result, the country has often focused on maintaining stability in global oil markets by controlling production levels

and influencing prices. However, recognizing the need for economic diversification, Saudi Arabia has embarked on a transformational journey called Vision 2030. The aim of this ambitious plan is to reduce the country's dependence on oil by diversifying its economy across various sectors.

The Gulf Cooperation Council (GCC)

The GCC has made multiple efforts to help diversify Arab League economies. One of the ways in which the GCC aims to diversify AL economies is through the implementation of economic integration initiatives. These initiatives focus on reducing barriers to trade, promoting investment, and fostering economic cooperation among member states. One of the key initiatives within the GCC is the establishment of a common market, which allows for the free movement of goods, services, capital, and labor among member states. This helps enhance economic diversification by allowing countries to specialize in different sectors and take advantage of their comparative advantages. Additionally, the GCC countries have been collaborating on various infrastructure projects, such as transportation networks, energy developments, and industrial zones.

The Organisation of the Petroleum Exporting Countries (OPEC)

While the OPEC mainly deals with stabilizing and regulating oil prices, recognizing the importance of a diversified economy also helps economies reduce dependence on oil. It encourages non-oil sector development and promotes technology and innovation. It also offers financial assistance and investment programs.

BLOCS EXPECTED

Bloc 1

The first alliance could include Arab League countries and nations that are strongly dependent on the Arab economies and their oil production.

Bloc 2

The second one could be comprised of nations that are not affected by the oil production of Arab League nations and procure oil from other countries

TIMELINE OF EVENTS

Date	Description of event
1901-1911	Well drilling in the Zagros mountains of western Iran

1908	Oil was first discovered in Persia, modern-day Iran
1914	The British government took over the Iranian oil business
1927	The Kirkuk oil field was discovered in Iraq
1933	An agreement was made between the British and Iranian governments, regarding the exported oil
March 3 rd 1938	The world's largest supply of petroleum was discovered
April 25th 2016	Vision 2030 was introduced
2021	The African Continental Free Trade Area started trading
2022	The total crude oil and condensate production of Middle East increased by 7.1% compared to 2021
2022	Saudi Arabia had the highest crude oil production

PREVIOUS ATTEMPTS TO SOLVE THE ISSUE

Vision 2030 ⁵

Vision 2030 was first introduced on April 25th, 2016. Its aim is to reduce Saudi Arabia's dependence on oil in order to diversify its economy. More specifically, to transform the economy into a more global one that leaves room for many investments, by focusing on other sectors such as tourism, entertainment, manufacturing equipment and ammunition, and technology. The plan helps the country attract investors both from inside and outside the country and enhances the private sector's role. Another goal is improving quality of life by developing education and healthcare systems for example. Furthermore, it plans to develop public service sectors and expand government military spending.

The African Continental Free Trade Area (AfCFTA)

The African Continental Free Trade Area (AfCFTA) is an agreement designed to create a single market for goods and services in Africa, with the goal of promoting regional integration and economic diversification. While the AfCFTA primarily focuses on intra-African trade, it can also have positive effects on the diversification of Arab

⁵ Homepage: The Progress & Achievements of Saudi Arabia - Vision 2030, www.vision2030.gov.sa/media/rc0b5oy1/saudi_vision203.pdf.

League economies. Firstly, it offers access to new markets. The rich African market can help AL countries diversify their exporting destinations.

POSSIBLE SOLUTIONS

Development of Tourism

AL countries can really benefit from the development of tourism. Tourism can help increase revenue through accommodation, sights, transport, and much more. Furthermore, tourism creates jobs for many people in various sectors. This workforce will be formed by the unemployed and will cover many different sectors will help diversify the economy. To satisfy the tourists the country will also have to invest in developing and upgrading its infrastructure, such as transport, buildings, and public spaces. The residents and other sectors can also benefit from such developments.

Hosting Major Sporting Events

Hosting a major sporting event helps diversify the economy and raise income from many different sectors. Tourism income reaches a high level since fans and many athletes and coaches will visit the country to attend the event. It also raises the profile of the city since its infrastructures are constantly showcased in the media. As a result, more companies and events would want to invest in the specific country.

Expand non-oil private Sector

Expanding the non-oil private sector means the growth of industries and businesses outside the oil sector. The goal is once again to reduce dependence on oil as the main source of income. Nations and their people should be urged to make investments and fund new industries. In that way, more businesses can grow, which will help the economy. For example, countries can showcase and take advantage of other resources.

Investments in Human Capital and Education

Investments in human capital and education play a vital role in diversifying the economy. Investments in education and human capital development lead to a more skilled and educated workforce. This highly skilled workforce can adapt to new technologies, acquire specialized knowledge, and develop transferable skills. As a result, they are better prepared to meet the changing demands of a diversified economy. Moreover, education and human capital investments foster innovation and entrepreneurship. A well-educated workforce has access to knowledge and resources that can drive creative problem-solving, develop new products and services, and start new businesses. This entrepreneurial activity contributes to the diversification of the economy by introducing new industries and sectors.

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