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League of Arab States Update No. 2: Technology and Economic Stability in the Middle East

The Middle East is one of the most economically unequal regions of the world. Certain estimates indicate that as much as 25 percent of the area's wealth is concentrated in the hands of the top one percent.¹ Key stakeholders that manage significant oil reserves such as Saudi Arabia have managed to amass vast amounts of wealth while others, who do not have access to oil reserves, have not amassed any comparable levels.

The results of such severe inequality are obvious. In the Palestinian Territories, one of the poorest areas in the Middle East, per-capita Gross Domestic Product (GDP) is only 2,000 USD.² In Yemen, the crushing poverty caused by years of political corruption, high unemployment, and poor economic management helped fuel the protests and insurgencies that culminated in the Member States civil war. This conflict has resulted in the largest cholera outbreak in human history with more than 1.1 million suspected cases, 70 percent of its population facing food shortages, and millions facing famine conditions.³ The rise of ISIL in 2014-2015 is, according to some sources, at least partially attributable to this economic inequality.⁴

Inequality represents only part of the equation that poses a threat to the region's stability. Member States with large proven oil reserves face an additional challenge in the form of the Resource Curse: their dependence on a single, nonrenewable resource for nearly all their economic output. With over 266 billion barrels of oil, Saudi Arabia has the second-largest capacity of proven crude oil reserves in the world.⁵ The oil industry, however, is an extremely volatile one, sensitive to even the slightest changes in geopolitical winds and technological advances, and this puts Saudi Arabia in a volatile position. In 2014, the price of oil plunged, creating a major cut in Saudi government revenues (of which oil accounts for up to 88 percent).⁶ This price fluctuation ran up the nation's deficit and forced the issuance of government bonds for the first time since 2007.⁷ With shale reserves in the United States estimated at over 900 billion recoverable barrels, and the country projected to become the world's largest oil producer sometime next year, the potential for significant impact on the oil-producing economies of League of Arab States (LAS) Member States exists, which will exacerbate regional instability and conflicts.⁸ The Middle East's history of revolution is undeniable, and even more worrisome in the oil-producing states, which have experienced several

https://www.brookings.edu/opinions/saudi-arabias-economic-time-bomb/ (Accessed September 06, 2018). ⁸ "2010 Survey of World Energy Resources." pp. 110-122. World Energy Council.

¹ Tankersley, Jim. "This Might Be the Most Controversial Theory for What's behind the Rise of ISIS." The Washington Post, November 30, 2015, <u>https://www.washingtonpost.com/news/wonk/wp/2015/11/30/why-inequality-is-to-blame-for-the-rise-of-the-islamic-state/?utm_term=.d9c956bf1cde</u> (Accessed September 06, 2018).

² Kaufmann, Yadin. "Start-Up Palestine." Foreign Affairs, July 15, 2017, <u>https://www.foreignaffairs.com/articles/israel/2017-06-13/start-palestine</u> (Accessed September 06, 2018).

³ "Yemen Cholera Response." Weekly Epidemiological Bulliten, July 07, 2018, <u>http://www.emro.who.int/images/stories/yemen/week_26.pdf</u> (Accessed September 06, 2018).;"Opinion: 8 Million Teeter on the Brink of Famine. America Is Complicit." The Washington Post, June 13, 2018, <u>https://www.washingtonpost.com/opinions/global-opinions/8-million-teeter-on-the-brink-of-famine-america-iscomplicit/2018/06/13/632fd6f8-6f2b-11e8-bd50-b80389a4e569_story.html?utm_term=.116cbbd89ecc</u> (Accessed September 06, 2018).

⁴ Tankersley, "This Might Be the Most Controversial Theory for What's behind the Rise of ISIS."

⁶ Rogoff, Kenneth, Thomas D. Cabot, "What's behind the Drop in Oil Prices?." World Economic Forum, March 02, 2016, <u>https://www.weforum.org/agenda/2016/03/what-s-behind-the-drop-in-oil-prices/</u> (Accessed September 07, 2018).

⁷ Al-Khatteeb, Luay. "Saudi Arabia's Economic Time Bomb." Brookings, July 28, 2016,

https://web.archive.org/web/20141108215623/ http://www.worldenergy.org/wp-content/uploads/2012/09/ser_2010_report_1.pdf : "Factors Affecting Gasoline Prices- Energy Explained, Your Guide To Understanding Energy." Energy Information Administration, September 11, 2018, <u>https://www.eia.gov/outlooks/steo/?src=home-b1</u> (Accessed September 14, 2018).

violent internal upheavals owing at least in part to similar drastic changes in oil markets.⁹ Measures to diversify the economies of both oil-producing and non-oil-producing Member States are urgently needed to produce the stability requisite in quieting current regional and internal conflicts, and staving off future ones.

A possible measure to combat oil dependency and inequality, and the concomitant internal and external instability that can occur as a result, is a powerful and robust economy propelled by high-technology. Modeled on the United States' Silicon Valley, enclaves such as the city of Rawabi in Palestine dedicated to the development of high-tech startups have attracted billions of dollars in revenue and provided well-paying jobs to thousands, while also encouraging economic growth in other sectors and associated industries.¹⁰ Additionally, with the technology sector offering a diverse array of industrial, social, and economic applications, development of high-technology in LAS Member States (and the oil-producing states in particular) can bring a relative measure of stability in foreign investment. In 1974, the Organization of Petroleum Exporting Countries saw its balance of payments reduced from a \$67 billion surplus to a \$2 billion deficit.¹¹ The multitude of applications in which high-technology can service may offer some stability in this area.

Case Study: Rawabi

The city of Rawabi is a tangible manifestation of the type of enclave that could be used to model success in other Member States. Since 2007, Rawabi has been built from the ground up specifically to utilize the talents of Palestinian technology-sector workers who previously had to travel abroad to find work.¹² With the coordination of Bashar Masri, the Palestinian Authority, and technology companies both in Palestine and Israel, Rawabi is beginning to take shape and offer employment opportunities to young Palestinians in jobs that, as the industry grows, will command high wages and attract significant amounts of foreign investment. Currently, high-technology jobs "account for just 2 percent of employees" in Palestine, yet the salaries are more than double the average monthly earnings of most Palestinians.¹³ Rawabi aims to provide 5,000 permanent jobs, many of them in the high-technology sectors.¹⁴ Additionally, Rawabi will help to generate more workers in the high-technology sectors for Palestine with its Rawabi Institute for Training and Advancement (RITA), aimed at providing certifications and training in fields needed by private sector employers.¹⁵ Rawabi will also not be the only city of its kind. The project aims to expand to other small enclaves throughout Palestine, thus improving not only education, training, and quality of employment, but quality of life throughout the region.¹⁶

Improving Existing Industries

The development of indigenous technology sectors may also produce new sources of wealth in old industries. The history of oil is one in which each round of technological advancement has unlocked new areas previously thought to be dry or inaccessible.¹⁷ For those Member States without proven oil reserves, investment in an indigenous technology industry may allow for the discovery of previously unseen reserves of oil, and the explosion of economic development that such discoveries have historically produced in other member states. Any new discoveries in Member States that did not previously possess proven oil reserves would require careful management so as to avoid spreading the Resource Curse that is currently challenging other Member States. If properly managed, though, new

⁹ Daniel Yergin. The Prize: The Epic Quest for Oil, Money, and Power. Free Press Books

¹⁰ Lieber, Dov. "Can Startup Nation Be an Incubator for Palestinian High-tech Entrepreneurs?" The Times of Israel. March 03, 2017. <u>https://.https://www.timesofisrael.com/can-startup-nation-be-an-incubator-for-palestinian-high-techentrepreneurswww.timesofisrael.com/can-startup-nation-be-an-incubator-for-palestinian-high-techentrepreneurswww.timesofisrael.com/can-startup-nation-be-an-incubator-for-palestinian-high-techentrepreneurswww.timesofisrael.com/can-startup-nation-be-an-incubator-for-palestinian-high-techentrepreneurswww.timesofisrael.com/can-startup-nation-be-an-incubator-for-palestinian-high-techentrepreneurswww.timesofisrael.com/can-startup-nation-be-an-incubator-for-palestinian-high-techentrepreneurswww.timesofisrael.com/can-startup-nation-be-an-incubator-for-palestinian-high-techentrepreneurswww.timesofisrael.com/can-startup-nation-be-an-incubator-for-palestinian-high-techentrepreneurswww.timesofisrael.com/can-startup-nation-be-an-incubator-for-palestinian-high-techentrepreneurswww.timesofisrael.com/can-startup-nation-be-an-incubator-for-palestinian-high-techentrepreneurswww.timesofisrael.com/can-startup-nation-be-an-incubator-for-palestinian-high-techentrepreneurswww.timesofisrael.com/can-startup-nation-be-an-incubator-for-palestinian-high-techentrepreneurswww.timesofisrael.com/can-startup-nation-be-an-incubator-for-palestinian-high-techentrepreneurswww.timesofisrael.com/can-startup-nation-be-an-incubator-for-palestinian-high-techentrepreneurswww.timesofisrael.com/can-startup-nation-be-an-incubator-for-palestinian-high-techentrepreneurswww.timesofisrael.com/can-startup-nation-be-an-incubator-for-palestinian-high-techentrepreneurswww.timesofisrael.com/can-startup-nation-be-an-incubator-for-palestinian-high-techentrepreneurswww.timesofisrael.com/can-startup-nation-be-an-incubator-for-palestinian-high-techentrepreneurswww.timesofisrael.com/can-startup-nation-be-an-incubator-for-palestinian-high-techentrepreneurswww.timesofisrael.com/can-startup-nation-be-an-in</u>

¹¹ Yergin, The Prize, p. 617

¹² Rubin, Eliran. "Make High-tech, Not War: Israel and Palestinians Forge Cutting-edge Coexistence." Haaretz.com. September 18, 2018. <u>https://www.haaretz.com/israel-news/business/.premium.MAGAZINE-make-high-tech-not-war-israel-palestinians-forge-coexistence-1.6164479</u> (Accessed October 06, 2018).

¹³ Rubin, Eliran. "Make High-tech, Not War: Israel and Palestinians Forge Cutting-edge Coexistence." Haaretz.com. September 18, 2018. <u>https://www.haaretz.com/israel-news/business/.premium.MAGAZINE-make-high-tech-not-war-israel-palestinians-forge-coexistence-1.6164479</u> (Accessed October 06, 2018).

¹⁴ "Rawabi Tech Hub." Rawabi, <u>www.rawabi.ps</u> (Accessed October 06, 2018).

¹⁵ "Rawabi Tech Hub." Rawabi.

¹⁶ Rubin, Eliran. "Make High-tech, Not War: Israel and Palestinians Forge Cutting-edge Coexistence." Haaretz.com. September 18, 2018. <u>https://www.haaretz.com/israel-news/business/.premium.MAGAZINE-make-high-tech-not-war-israel-palestinians-forge-coexistence-1.6164479</u> (Accessed October 06, 2018).

¹⁷ Rubin, Eliran. "Make High-tech, Not War: Israel and Palestinians Forge Cutting-edge Coexistence." Haaretz.com. September 18, 2018. <u>https://www.haaretz.com/israel-news/business/.premium.MAGAZINE-make-high-tech-not-war-israel-palestinians-forge-coexistence-1.6164479</u> (Accessed October 06, 2018).

oil discoveries could provide large short-term economic growth that could provide the basis for deeper and longerterm development and security.

Economic inequality, especially in Member States without high per-capita incomes and GDPs, can produce significant social and civil instability which contributes to the breakdown of law and order both preceded and succeeded by widespread violence.¹⁸ This pattern can become cyclical, as violence and disorder breed more economic inequality by destroying the employment prospects and upward mobility of the population at-large, which breeds more violence and more disorder. Though this process of degradation can, as noted, be cyclical, the reverse is also possible. Economic prosperity, driven by booming indigenous technology industries, can create a measure of social and political stability that attracts both foreign and domestic investment that will, in turn, lead to more economic prosperity for an even wider section of the public. As the technology industry grows, so do the industries that supply, assist, and benefit from it.

The development of indigenous technology industries in the Middle East are also likely to produce significant growth in domestic institutions of higher education. Israel's Silicon Wadi—a high-technology enclave likened to the United States' Silicon Valley—has fed off of and helped build the credentials of institutions such as the Technion Israel Institute of Technology.¹⁹ The university is responsible for the education of 70 percent of Israel's engineers, and "80 percent of the executives of Israeli companies listed on the Nasdaq."²⁰ The opportunity to develop world-renowned educational institutions is a valuable one, in terms of both the economic benefit, and as a source of national pride for Member States.

Plans for promoting economic stability along these lines are already being proposed. In 2016, Crown Prince Mohammad bin Salman, of Saudi Arabia, proposed his "Vision 2030." The plan hinges on diversifying Saudi Arabia's economy and promoting the development of local sectors to increase employment.²¹ Several of the sectors that have been highlighted in the plan are ones in which an indigenous high-technology industry could be particularly useful and possibly even central to development, including healthcare, finance, and mining.²²

The observations in this report make it clear that economic diversification and a reduction in both regional and domestic economic inequality are critical to the imposition and maintenance of stability in the Middle East. Additionally, indigenous technology industries can enable significant growth in countries that have been struggling to build stable economies and compete on the world stage while ensuring the health and advancement of their domestic populations. As such, some topics to consider may include: How can member states incentivize technology startups? How can member states create high-technology enclaves and ensure sufficient security to attract the requisite talent? How should member states develop educational institutions to grow an indigenous high-technology sector? What is the moral imperative of governments to reduce economic inequality – or is there a moral imperative at all? It is the committee's directive to review and establish recommendations that will advance this goal, in hopes of bringing economic stability and prosperity to its member states.

¹⁸ Tankersley, "This Might Be the Most Controversial Theory for What's behind the Rise of ISIS."

¹⁹ "Israel Leads in High-tech." Reporting on the Middle East, Science, and Education, June 29, 2011,

http://cnpublications.net/2011/06/30/israel-leads-in-high-tech-2/ (Accessed September 13, 2018). ²⁰ "Israel Leads in High-tech." Reporting on the Middle East, Science, and Education.

²¹ Evan, Shmuel, Guzansky, Yoel. "Saudi Arabia's Vision 2030: Reducing the Dependency on Oil." Institute for National Security Studies., May 6, 2016, <u>http://www.inss.org.il/wp- content/uploads/systemfiles/No.%20819%20-%20Shmulik%20and%20Yoel%20for%20web.pdf</u> (Accessed September 13, 2018).

²² Evan, Shmuel, Guzansky, Yoel. "Saudi Arabia's Vision 2030: Reducing the Dependency on Oil."