



**2017 – 2018**

**Model Arab League**

**BACKGROUND GUIDE**

**Council of Economic Affairs Ministers**

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National  
Council  
on US-  
Arab  
Relations



Original draft by John Griffith, Chair of the Council of Economic Affairs Ministers at the 2018 National University Model Arab League, with contributions from the dedicated staff and volunteers at the National Council on U.S.-Arab Relations.

Honorable Delegates,

Thank you for choosing to participate in this year's Model Arab League. I know that you will get as much out of it as I have over the past few years. My name is John Griffith, and I am a senior at the University of Houston. I'm a Mathematics major with minors in Computer Science and Risk Management & Insurance. I am looking forward to chairing the Economic Affairs Committee this year and am looking forward to meeting everyone. This is my fourth year participating in MAL and my third year involved with the Economic Affairs Committee at the National conference. Through participating in MAL, I was able to become more confident in my ability to communicate to a large group and negotiate when working on a solution. I would like to take a moment to encourage anyone that may not have experience in political debate or much knowledge of the MENA region to use this opportunity to better your skills and advance your understanding of an area in the world that is often misunderstood. My personal experience in MAL started off a whim, but it has provided me with an opportunity to delve into a culture that I would otherwise have remained ignorant about.

I've done my best to provide you all with a comprehensive background guide to get you started on your studies for this year's conference. The goal of the background guide is not to decide the exact avenues that will be taken when discussing each topic. The goal is to provide a basis to begin research and to give some general thoughts on possible solutions. In fact, I would encourage each of you to use the questions provided below to look for new and unique solutions, and to use the background guide if you get stuck along the way.

Another important note when preparing to participate at this year's conference is the importance of staying in character. My job as chair is to help facilitate debate and make sure that everything is running as smoothly as possible. Your job as delegates is to come as prepared as possible to accurately represent your country. Although we are looking at solutions to real problems that the region faces, we are also attempting to gain a perspective that we do not always have by representing our country how we believe that they would represent themselves.

Once again, I am looking forward to seeing the unique and innovative ideas that everyone comes up with. I believe that this year's topics provides the opportunity to look at some problems that have been around for quite some time, while also providing the chance to look at some issues that are only recently gaining traction. Good luck with your research and have fun with the 2017-2018 conference!

Best,

John Griffith

**Topic I: Considering the potential impacts of high levels of youth unemployment in the region, and devising strategies to encourage and facilitate increased youth involvement and employment in Arab economies.**

**I. Introduction to the Topic**

**A. General Background**

Youth unemployment continues to affect all nations across the Middle East and North Africa region. Though it has been of importance over the past few decades, its recognition by MENA governments began in 2011 after the rise of the Arab Spring. Since then, leaders across the MENA region have been trying to find a solution to the rising youth unemployment.

Throughout the Gulf, the ruling families have proposed Vision 2030 plans in order to diversify their economies and decrease unemployment. In North Africa, governments have made strides in increasing economic growth but are still struggling to achieve decreasing unemployment rates. The Levant continues to face conflict and war causing an inability to focus solely on the economy. With rising youth populations coming into the workforce, further frustration and unrest are tangible threats to stability in the region.

An unemployed person is defined as someone who is not currently employed but is actively pursuing employment. According to the standards of the United Nations, a youth is someone between the ages of 15 and 24. There are currently 1.8 billion youth in the world, and in the 48 least developed countries, youth and children make up over 50% of the population.<sup>1</sup> In 2016, the world youth unemployment population was 12.9% and was expected to increase to 13.1% in 2017.<sup>2</sup> One of the leading causes for youth unemployment worldwide is financial crisis, which tends to make the upward trend difficult to interrupt.

**B. History in the Arab World**

Currently sitting at 30.5% the MENA region has the highest youth unemployment rate out of any region in the world.<sup>3</sup> One key impact that is caused by high levels of unemployment is an increased feeling of injustice and unrest. It is believed that the high levels of unemployment across the region mixed with high levels of job dissatisfaction were some of the key reasons for the start of the Arab Spring in 2010. While the Arab Spring did bring to light these feelings, it seems, to many, the problem has not improved.

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<sup>1</sup> Edwards, Steven. "10 Things You Didn't Know about the World's Population." United Nations, United Nations, 17 Apr. 2015, [www.un.org/youthenvoy/2015/04/10-things-didnt-know-worlds-population/](http://www.un.org/youthenvoy/2015/04/10-things-didnt-know-worlds-population/)

<sup>2</sup> Kilian, Stefan, et al. "Trends for Youth 2016." WORLD EMPLOYMENT SOCIAL OUTLOOK, 2016.

<sup>3</sup> Kilian, Stefan, et al. "Trends for Youth 2016." WORLD EMPLOYMENT SOCIAL OUTLOOK, 2016.

<sup>3</sup> "Unemployment, Youth Total (% of Total Labor Force Ages 15-24) (Modeled ILO Estimate)." International Labour Organization. ILOSTAT,

In fact, youth unemployment rates have actually increased since the start of the Arab Spring.

The problem with unemployment is much more complex than just encouraging further education in the region. In 2014, 34% of college graduates were unemployed in Egypt, in contrast with the 2% of those with a high school education or less.<sup>4</sup> Part of this can be accounted for by the fact that much of the economy in the MENA region is saturated by public sector jobs. Most of the education provided by these universities was directed towards jobs in public sector employment. Since the uprising, public sector jobs have greatly decreased. Lack of public sector jobs caused a perpetuation of the crisis in unemployment; as neither the educated nor the uneducated have the skills needed for jobs in the private sector.

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

Currently, there are several countries in the region that are working towards solutions. In 2000, Saudi Arabia began the Human Resource Development Fund (HRDF) with the purpose of helping develop youth entrepreneurship and training. In 2015, the HRDF allocated another 20% of funding for further research into job creation and improved education output. In April of 2016, the country announced its new 2030 Vision plan in order to expand economic growth and employment. Their plans and work to privatize much of the economy, increase investments, and increase women's and youth participation in the workforce are just beginning.

In addition, Qatar is currently looking to increase the number of small and medium-sized enterprises (SMEs) in the country. As of 2016, SMEs made up only 15% of Qatar's GDP, in contrast to 16% for under developed countries and 51% in high-income countries.<sup>5</sup> In 2015, a Qatar based think-tank named Silatech proposed several solutions towards youth unemployment including increasing the strength of corporate reporting, making access to financing easier, and simplifying the process for starting a business.

Presently, the efforts towards combatting youth unemployment are scarcer in lower GDP and conflict-ridden countries. Many countries are pushing for employees to look into jobs from startups, but most do not see the incentive in doing so when there is more stability in corporate and government positions. It is important to determine a strategy that may help diversify the sectors of the economy focused on by employees, while still allowing countries to remain in control of their own economies.

## **II. Questions to Consider in Your Research**

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<sup>4</sup> "Youth Unemployment in the Arab World." The Economist, The Economist Newspaper, 9 Aug. 2016, [www.economist.com/blogs/graphicdetail/2016/08/daily-chart-7](http://www.economist.com/blogs/graphicdetail/2016/08/daily-chart-7)

<sup>5</sup> "Meeting the Needs of a Growing Youth Population in the Middle East." Oxford Business Group, 18 May 2016, [www.oxfordbusinessgroup.com/analysis/dividend-or-liability-meeting-needs-region%E2%80%99s-growing-youth-population-0](http://www.oxfordbusinessgroup.com/analysis/dividend-or-liability-meeting-needs-region%E2%80%99s-growing-youth-population-0)

- What has been the main focus of employment for youth in my country historically? Have the more common sectors in my country become saturated with employees?
- How have current or past resolutions towards unemployment impacted your country and it's neighbors?
- What kinds of regulations are currently in place in my country that may cause difficulty in pursuing certain solutions?
- How has the youth unemployment rate for my country been affected by conflicts and uprisings in the region? How can a solution to unemployment inadvertently act as a solution for these problems?

### III. Questions a Resolution Might Answer

- How could the Arab League and outside organizations assist member states while still respecting the national sovereignty of each state?
- In what ways could current regulations be amended or new regulations be adopted in order to encourage youth economic innovation?
- How can countries diversify economies in a way that accommodates both the educated and uneducated youth?
- How could the League continue to encourage jobs outside of the limited public sector?

### IV. Additional Resources

- [Combating Youth Unemployment in the Middle East and North Africa](#)  
*Although we are the Economics Affairs Committee, talking about the youth of a region inherently makes an issue cross over into social issues. While our resolutions should continue to focus on the economic aspects at hand, this article provides quality background information on some of the social/educational issues that help contribute to youth unemployment. It is also important to remember that there are ways of discussing education in ways that still fall under the scope of the Economics Affairs Committee.*
- [Arabian Youth Turn To Startups For A Lifeline](#)  
*A short and concise article that addresses the affect overpopulation has on the unemployment rate, as well as what is being done in response. This article also opens the doors into some of the barriers in the way of the solutions. Although this article does not give mountains of information, it is a good starting point to inspire research in a certain direction.*
- [Youth Unemployment in the Middle East and North Africa](#)  
*This is an article that has a good graphic attached, and mentions some of the outside solutions, such as nonprofits, that are being applied to the MENA region.*
- [Youth Population & Employment in the Middle East & North Africa](#)

*This article is written by the World Bank and gives general information about the youth unemployment problem. The significant thing about this map is that it has interactive maps for the users. The maps focus on how the unemployment rate is affected by gender, country, education, and sector of employment.*

**Topic II: Countering the negative influence that economic factors have on social stability and security, with a particular focus on a population's receptivity to non-state actors or extremists.**

**I. Introduction to Topic**

**A. General Background**

As this council is looking to counter negative influences, we will consider non-states actors to be violent non-state actors (VNSA's). A VNSA will be defined as any organization or armed groups that adopt illegal violence to attain its goals, thereby challenging the monopoly on violence of the state.<sup>6</sup>

There are roughly 1.5 billion people worldwide that live in countries that are affected by political violence or organized crime.<sup>7</sup> As a result, the citizens of these countries are more likely to be to live in poverty and have lower standards of living. It has been shown that poverty makes civil wars more likely and civil wars increase poverty. Therefore, it is difficult to alleviate the conflict in many of these areas because the conflict feeds itself. Although not all 1.5 billion people are affected by civil war, living in areas with VNSA creates similar living situations as those that do.

**B. History in the Arab World**

Over the past several decades, parts of the MENA region have been a part of internal and external conflicts. Today, the region is affected by the Syrian Civil War, the Yemeni Civil War, and the Palestinian conflict, along with general regional tension. Although not every member state is currently involved in conflict, all have felt the economic impact from them.

In 2015, the Syrian GDP was valued at less than half of its value from before the fighting began 4 years earlier, and the GDP of Yemen fell by 25-35 percent in that year alone. Places like the West Bank and Gaza have seen economic stagnation with almost no growth for almost 20 years. Conflicts in the countries have caused economic stress on neighboring countries as well.

In Jordan, a country that borders two conflict filled states, Iraq and Syria, the economic growth has dropped by approximately 1%, mainly because of the large influx of refugees into the country. Between 2012 and 2014, the price of rent increased by 68% in the Mafraq governorate on the border of Syria, in comparison with the only 6% increase in Amman. More generally, countries neighboring states of conflict in the MENA region have an annual average GDP decline of 1.9% and an accelerated inflation of approximately 2.8%.

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<sup>6</sup> "Violent Non-State Actor." US Legal, definitions.uslegal.com/v/violent-non-state-actor-vnsa/

<sup>7</sup> "The Economics of Violence." The Economist, The Economist Newspaper, 16 Apr. 2011, [www.economist.com/node/18558041](http://www.economist.com/node/18558041).

Other countries have also been impacted by the sever influx of population created by the migration of refugees during conflict. Approximately 170,000 people have been pushed into poverty from the Syrian conflict alone, and many more have been forced even further below the poverty line. Lebanon, the largest host of Syrian refugees, was able to place about half of the children refugees into school, but this had a severe impact on the size of classrooms, which led to drop in the quality of education and is affecting the skill level of workers in the economy.<sup>8</sup>

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

VNSAs are able to operate so effectively in poverty stricken countries because of their ability to raise income and offer incentives to civilians and those interested in joining. They raise these funds through various means such as ransoms, controlling oil fields, and taxation of citizens and officials.

VNSAs do not only use one way to collect funds, so a solution will need to reflect a multitude of options to stifle funds. The council may also want to look into how to best limit the negative affects VNSAs have on the economy. Committees like the Economic and Social Commission for Western Asia (ESCWA) are already involved in working with the Middle East and working with organizations like the IMF to partner with the League of Arab States. Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Palestine, Qatar, Saudi Arabia, the Sudan, the Syrian Arab Republic, Tunisia, the United Arab Emirates, and Yemen are members of the ESCWA and may be able to attest to its successes and downfalls.<sup>9</sup>

As the topic suggests, this committee should focus on strengthening social stability through economic factors. While it is important for this committee to look at ways to combat extremists' involvement through economic resources, it should also look for ways to increase economic opportunity within one's own state as well.

## **II. Questions to Consider in your Research**

- What conflicts, VNSAs, and extremists have affected my country and the ones neighboring mine?
- How have solutions put forth by outside organizations and committees been helpful or hurtful in countering the social instability?
- What about my country makes me receptive to VNSAs and extremists, or what about my country makes me effective at repelling them?
- What has my country personally done to help combat the funding of VNSAs and extremists?

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<sup>8</sup> Rother, Björn, et al. "The Economic Impacts of Conflicts and the Refugee Crisis in the Middle East and North Africa." IMF Staff Discussion Note, [www.imf.org/external/pubs/ft/sdn/2016/sdn1608.pdf](http://www.imf.org/external/pubs/ft/sdn/2016/sdn1608.pdf).

<sup>9</sup> "Middle East." United Nations, United Nations, [www.un.org/en/sections/where-we-work/middle-east/](http://www.un.org/en/sections/where-we-work/middle-east/).



### III. Questions a Resolution Might Answer

- How might a nation economically secure their borders to stop the funding of VNSAs without otherwise hindering their trade?
- How can a nation work with banks to stop the funding of VNSAs?
- How can a nation work with outside organizations like the ESCWA without affecting the national sovereignty of each member state?
- How can a nation struggling with VNSAs and extremists revitalize their own economies to ensure stability?

### IV. Additional Resources

- [Inside Story - The Economic Impact of the Arab Spring](#)

*Although this topic is not directly about the Arab Spring, there is much of what is discussed in this topic that can be brought back or related to what happened in the Arab Spring. This YouTube video does a good job of helping those first looking into this topic.*

- [Economics and Violent Conflict](#)

*This entire article talks about Civil War and conflict and how it affects the economies of those involved and those surrounded by it. It goes into great detail on the topic, even to the point of talking about the origins of conflict. If nothing else, the end of the article has a strong summary of the article, which can be used to find which parts of the article you feel deserve the most attention.*

- [The Causes of Stability and Unrest in the Middle East and North Africa: An Analytic Survey](#)

*A presentation that is full of statistics over conflict in the Middle East, not just the economic side. This presentation is good for reference on exact figures, and helps give an overall view of the demographics of the region as a whole.*

- [How are Terrorist Groups Making Money?](#)

*An easy to read article that gives the top ways the VNSAs raise money. This article is meant to be a starting point on the topic, but should by no means be the only research done. If anything, this article helps you understand the many unique ways in which VNSAs raise funds, and why it is so difficult to combat it.*

### **Topic III: Proposing reforms to Arab financial institutions and banking laws to increase economic opportunity for lower- and middle-class populations, and also to attract foreign investment to Arab economies.**

#### **I. Introduction to the Topic**

##### **A. General Background**

A foreign investment involves capital flow from one country to another, granting extensive ownership stakes in domestic companies and assets. When talking about foreign investments, it is important to distinguish between Direct Foreign Investments (FDIs) and Indirect Foreign Investments, sometimes Foreign Portfolio Investments (FPIs). A FDI is a physical investment into another country, typically through constructing buildings, plants, etc. On the other hand, a FPI is the buying of stakes or positions in a foreign corporation, such as shares and bonds.<sup>10</sup>

Typically when trying to increase opportunity in an economy, FDIs are the preferred form of investment. This is because FPIs are not consistent and can be sold off or traded even moments after purchase. An FDI is seen as a long-term investment into a country's economy, so the corporation or entity has much more investment into the well being of the host country's economy.

According to the International Monetary Fund (IMF), macroeconomic stability is essential for growth and reform in the financial sector. The thing that normally hinders this growth is government-enforced regulations and restrictions. These regulations are usually in place so the government can use the financial sector as a form of public finance. This is done through high inflation taxation and ceilings on deposits and loan-interest rates, referred to as financial repression. Financial repression, contrary to popular belief, has been shown to undermine economic growth.<sup>11</sup>

##### **B. History in the Arab World**

The banking sector in the Middle East is diverse in ways that would seem obvious. The GCC countries are up to date on worldwide regulations, profitable, and well developed. On the other hand, the public banks over saturate about half of the countries in the MENA region. The problem with the public banks in these countries is that they are known for high government intervention in credit allocation and interest rates. Out of the public banks that are used, the three largest banks control 65% of the assets. The GCC countries align with the Basel III standards, a set of standards by the Committee on Banking Supervision to strengthen the regulation, supervision, and risk management of

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<sup>10</sup> Johnson, Walter. "Foreign Direct Investment vs. Portfolio Investment." The Finance Base, [thefinancebase.com/foreign-direct-investment-vs-portfolio-investment-5059.html](http://thefinancebase.com/foreign-direct-investment-vs-portfolio-investment-5059.html).

<sup>11</sup> Creane, Susan, et al. "Financial Development in the Middle East and North Africa." International Monetary Fund, International Monetary Fund, [www.imf.org/external/pubs/ft/med/2003/eng/creane/](http://www.imf.org/external/pubs/ft/med/2003/eng/creane/).

the banking sector. In addition, its goals are to enhance supervisory understanding by ensuring the supervision of banking is efficient.<sup>12</sup>

Along with banking regulations, countries in the Middle East are financially open. Financial openness is the willingness of a nation to adopt more progress legislation regarding the business and commerce that goes on in their nation. Although countries are more financially open than they used to be, most of them still have restrictions on foreign ownership of assets. These kinds of restrictions along with the political and social unrest throughout the region are what make FDIs less appealing to the outside. In 2013, the MENA region received approximately 52 billion USD in FDIs, which was a 52% decrease from the 93 billion USD that was given in 2008.<sup>13</sup>

Another thing to keep in mind when considering banking regulation and reform in the Middle East is the fact that the region has Islamic banks. Most Islamic banks were established in the 1970s and 1980s, and they have seen rapid growth in the Arab region.<sup>14</sup> Islamic Banks are banks that adhere to the regulations set out in sharia law. The two main parts of Islamic banking that make it differ from other financial institutions are:

- 1) Financial transactions involving interest payment are strictly prohibited. The ramifications of this principle go beyond the obvious prohibition of conventional interest-bearing lending, as it tends to limit certain aspects of financial market development (e.g., fixed income markets).
- 2) Risk management under Islamic Finance (IF) emphasizes risk sharing versus risk transfer in conventional finance, which significantly restricts IF investors from using derivatives and other conventional hedging mechanisms.<sup>15</sup>

Islamic banking can help broaden financial markets by creating new modes of financing to reach the unbanked, but it also has important financial stability and regulatory implications. Islamic banking, while growing rapidly, can challenge both central banking and supervisory authorities.<sup>16</sup>

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

Although parts of the MENA region attempted to reform their financial institutions to help attract foreign investment, the rest of the world has been reforming at a faster rate.

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<sup>12</sup> Basel III: International Regulatory Framework for Banks, Basel III, 20 Mar. 2015, [www.bis.org/bcbs/basel3.htm](http://www.bis.org/bcbs/basel3.htm).

<sup>13</sup> Lesser, Caroline. "Draft Background Note: Recent FDI Trends in the MENA Region." MENA-OECD Investment Programme, [www.oecd.org/mena/competitiveness/Draft%20Note\\_FDI%20trends%20in%20MENA\\_Dec.%202014.pdf](http://www.oecd.org/mena/competitiveness/Draft%20Note_FDI%20trends%20in%20MENA_Dec.%202014.pdf).

<sup>14</sup> Sherbiny, Naiem A. *Oil and the Internationalization of Arab Banks*. Oxford: Oxford Institute for Energy Studies, 1985

<sup>15</sup> Shabsigh, Ghiath. "Ensuring Financial Stability in Countries with Islamic Banking." International Monetary Fund.

<sup>16</sup> Ibid.

The council should look at the region as a whole and see where it is useful for regulation to be in place and where it is useful to remove certain guidelines, if at all. An example of this would be to look at the amended Arab League Investment Agreement. Amendments made included changes in free trade, compensation in case of expropriation, investment insurance, and other related fields.<sup>17</sup>

Particularly, the council may want to focus on Islamic banking and see how to stabilize it so that foreign corporations see the MENA region as a choice for DFIs. Specifically, it is important that Islamic banks establish a well-designed plan for resolving failed Islamic banks. Many of the countries that currently host Islamic banks do not have an official plan to help restructure the assets in Islamic banks in the event that they begin to fail. If corporations are going to consider investment, it is important that they know assets are secure, especially in an institution that is not as well known.

## **II. Questions to Consider in your Research**

- Does my country practice Islamic banking? If so, to what extent is it used, and what effect does it have on the rest of the banking sector
- What regulations and standards have been passed by my country in an effort to align with the regulations and standards in the rest of the world?
- Has my country been successful in receiving both FDIs and FPIs? If so, what about my country makes them attractive to foreign investments? If not, what about my country makes them unattractive to foreign investments?
- What other financial institutions besides the banking sector could be improved on in my country to help attract foreign investment?

## **III. Questions a Resolution Might Answer**

- How can we take worldwide banking standards, such as Basel III, and adapt them to fit Islamic banking?
- How can we work with countries within our region to better comply with the Arab League Investment Agreement signed in 2013?
- How can we make adjustments to the banking sector without stepping across another nation's national sovereignty?
- How can we ensure that the banking sector is stable enough to attract investment and to prevent the funding of extremist groups?

## **IV. Additional Resources**

- [The GCC Banking Sector: Topography and Analysis](#)  
*This is an article written by the International Monetary Fund (IMF) that focuses on the GCC countries. However, this article will still be a good starting point. Although the GCC countries are not perfect in their banking policies, it is agreed that they are*

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<sup>17</sup> "Fostering Regional Integration on Investment."

| *the most reformed out of all countries in the MENA region.*

- [Bank Financing for SME's Around the World: Drivers, Obstacles Business Models, and Lending Practices](#)

| *This article focuses on banks' lending to small and medium enterprises (SME's). This does not focus as much on the foreign investment. Instead, this focuses on creating economic opportunity for lower- and middle-class populations. It is typically agreed that SME's are good for up and coming economies, and many see them as good alternatives to typical jobs, which may be a solution to over saturation of jobs in the public sector.*

- [Trade and Direct Foreign Investment](#)

| *This article does not specifically focus on the MENA region, but gives a larger understanding of the impacts of direct foreign investment. It is written by the World Trade Organization, and goes into immense detail of the benefits of FDI, which will hopefully spark ideas that lead into further research.*

- [Policies to Attract Foreign Direct Investment: An Industry-Level Analysis](#)

| *This article assesses policies that will help with FDI's. While the topic does not say to only look at FDI's, this article still provides plenty of ideas towards banking reform.*

## **Topic IV: Contending with the rapid expansion of virtual currencies, and assessing the opportunities they present, as well as the dangers they pose.**

### **I. Introduction to the Topic**

#### **A. General Background**

For the purpose of this background guide, virtual currency will be defined as, “a digital representation of value that can be digitally traded and function as a medium of exchange, a unit of account, a store of value but does not have legal tender status.”<sup>18</sup> One of the more popular forms of virtual currency is Bitcoin. Before Bitcoin, there were other virtual currencies, but Bitcoin was the first decentralized cryptocurrency. This means that the government and financial institutions, unlike regular currencies and credit cards, do not regulate Bitcoin.<sup>19</sup> The introduction of Bitcoin to the market rapidly expanded, but along with all of its benefits, it brought some consequences as well. Throughout this background guide, Bitcoin will be used as the example of virtual currencies unless otherwise stated. However, it should be noted that other virtual currencies do exist and do operate similarly to Bitcoin.

The first thing to understand is that Bitcoins run off of a technology known as blockchain. Blockchain is a ledger that stores the record of each of the interactions that occurs using virtual currencies.<sup>20</sup> Blockchains can be used for a variety of purposes from storing transactions using virtual currencies to helping detect fraud in the government. Although Bitcoins are not the same as blockchains, blockchains are directly correlated to the function of Bitcoins. The key idea to understand about this ledger is that although the transactions taking place are public, the people involved in the transactions are anonymous. Some see this as positive because it allows for more privacy in interactions, but some see this is a danger because it can allow illegal activity to take place anonymously. The concern is that large criminal organizations will be able to use Bitcoin to launder their money because of the lack of regulation and the privacy that it gives.<sup>21</sup> Some argue that cash is just as anonymous, but even cash is regulated and difficult to store large amounts illegally.

A benefit of Bitcoin is its extreme sets of encryption that make it difficult to hack and steal from other users. Since Bitcoin runs off of blockchain, every transaction that takes

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<sup>18</sup> “FATF REPORT Virtual Currencies.” 2014.

<sup>19</sup> Economopoulos, Yula. “Will That Be Cash, Credit or Bitcoin? The Pros and Cons of Digital Currency.” Blakes Business Class, 10 Jan. 2017, [www.blakesbusinessclass.com/bitcoin/](http://www.blakesbusinessclass.com/bitcoin/).

<sup>20</sup> Crowe, Portia. “There Is a 'Game Changer' Technology on Wall Street and People Keep Confusing It with Bitcoin.” Business Insider, Business Insider, 5 Mar. 2016, [www.businessinsider.com/what-is-blockchain-2016-3](http://www.businessinsider.com/what-is-blockchain-2016-3).

<sup>21</sup> Fagan, E.J. “Bitcoin and International Crime [Commentary].” Baltimoresun.com, The Baltimore Sun, 3 Dec. 2013.

place is stored in the chain.<sup>22</sup> If someone wants to open up a previous transaction and look into the information, they must open every transaction that came in the chain before the one of interest. Again, although this is a large benefit, many view this as a way for Bitcoin to be exploited and cause more harm than good. In general, it is important to remember that virtual currencies allow for anonymous transactions to take place that are difficult for hackers and thieves to break into.

## **B. History in the Arab World**

Since virtual currencies are fairly new, they are only recently beginning to have an impact on the MENA region. This year a company in Dubai, ArabianChain Technology, rolled out the first virtual currency in the region. The currency, like Bitcoin, uses blockchaining as its main foundation and is called DubaiCoin-DBIX. The company says that the currency can help save foreign workers millions of dollars per year by saving them the cost of transferring funds back into their local currency.<sup>23</sup>

The UAE is currently in disputes over the legality of digital currencies for transactions in their country. The UAE Central Bank recently published the “Regulatory Framework For Stored Values and Electronic Payment Systems,” which stated, “All virtual currencies (and any transactions thereof) are prohibited.”<sup>24</sup> Although this seems like a blanket statement, the head of the Central Bank made a statement saying that the legality of virtual currencies is still under review. The talks in the UAE brought up a few points to consider when talking about virtual currencies. It seems that the one of most importance is whether virtual currencies will be considered a commodity like gold or as a currency like the dollar. This matters because it affects its regulation, whether or not it will be taxed, and its property rights.

As a widening acceptance of virtual currencies expands in the region, new programs were created to help governments adapt to its use. For example, platforms such as Nouqood in Tunisia and Yellow in Lebanon are both used to facilitate virtual currency transactions. The Palestinian National Authority is exploring ways to create its own digital currency in order to avoid restrictions that ban the PNA from having its own currency.<sup>25</sup> Bitcoin’s growth in the region continues to grow; however, its benefit is still questioned in several countries.

There have also been some general concerns throughout the region as to whether or not virtual currencies could be used to fund extremist groups. While many experts say it is

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<sup>22</sup> Thompson, Collin. “How Does the Blockchain Work? – The Intrepid Review – Medium.” Medium, The Intrepid Review, 2 Oct. 2016, [medium.com/the-intrepid-review/how-does-the-blockchain-work-for-dummies-explained-simply-9f94d386e093](https://medium.com/the-intrepid-review/how-does-the-blockchain-work-for-dummies-explained-simply-9f94d386e093).

<sup>23</sup> Donville, Christopher. “Bitcoin of the Arab World: Dubai Company Creates Region's First Digital Currency.” Middle East Eye, 17 Mar. 2017, [www.middleeasteye.net/news/bitcoin-arab-world-dubai-company-creates-region-s-first-digital-currency-534613320](http://www.middleeasteye.net/news/bitcoin-arab-world-dubai-company-creates-region-s-first-digital-currency-534613320).

<sup>24</sup> Meenagh, Brian. “The Legal Status of Bitcoin in the United Arab Emirates.” Al-Mirsal, 16 Feb. 2017, [www.al-mirsal.com/2017/02/16/the-legal-status-of-bitcoin-in-the-united-arab-emirates/](http://www.al-mirsal.com/2017/02/16/the-legal-status-of-bitcoin-in-the-united-arab-emirates/).

<sup>25</sup> “Outlook for Virtual Currencies in the Middle East.” August 2, 2017.

currently unlikely, they say that it is possible if cybercrime, and terrorism come to a crossroads. The problem that this raises is that if extremist groups were able to use virtual currencies effectively, they could anonymously launder their funds. This may be becoming less and less likely because it now takes more technical skill to remain anonymous using Bitcoin. This does open more accessibility to making illegal purchases on the dark web because many dark web distributors are skilled enough to remain anonymous and accept most forms of virtual currency.<sup>26</sup>

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

It will be the job of the council to keep up to date with changing ways of virtual currencies worldwide. Particularly, the council will want to focus on how virtual currencies impact the countries with low stability and poorly regulated financial systems.

Another topic the council should consider is the effect that the introduction of virtual currency will have on the job market, specifically in the banking sector. Since virtual currency is decentralized, it cuts out much of the need for the middleman. In this case, the middleman is the banking industry. Most of the transactions between the banks and the people can now be done between two individuals using virtual currency. Along with its effects on the banking industry, the council should also look into the economic impact caused by the volatile nature of virtual currency. Virtual currencies tend to change in value sporadically. Sometimes the value remains constant for weeks at a time and other times it changes drastically in the same day. This means that a transaction you received one day could drastically decrease in value the next day. An unstable currency is bound to have severe affects on an economy, especially on those that are currently unstable.

## **II. Questions to Consider in Your Research**

- What has my country done in terms of adopting virtual currency since the rise of Bitcoin in 2009?
- Would the adoption of Bitcoin affect the stability of currency in my country?
- Could virtual currency be used to fund extremist groups in the region? If so, how could this be combatted? If not, could something about virtual currencies cause this to change sometime in the future?
- What are the positive impacts that may be brought to my country with the adoption of Bitcoin?

## **III. Questions a Resolution Might Answer**

- How might the League decide to classify virtual currencies? As a commodity, or a currency?

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<sup>26</sup> Fanusie, Yaya. "Will A New Generation of Terrorists Turn to Bitcoin?" The Cipher Brief, 11 June 2017, [www.thecipherbrief.com/article/tech/will-new-generation-terrorists-turn-bitcoin-1089](http://www.thecipherbrief.com/article/tech/will-new-generation-terrorists-turn-bitcoin-1089).



- How might the League combat the misuse and exploitation of virtual currencies both on and off the dark web?
- What other industries may need to be reformed in order to pave a way for a safe usage of virtual currencies?
- How might virtual currencies be regulated in transactions across countries?
- How might the League help combat the volatility of the value of virtual currencies?

#### **IV. Additional Resources**

- [IBM Think Academy: Blockchain, How it works](#)

*This is a short animation on YouTube that goes over block chain and the basics of how it works. This video is useful because it gives real world examples of the usefulness of block chains, but it falls short by failing to mention any of the concerns that members of the financial community have.*

- [How can law enforcement leverage the blockchain in investigations?](#)

*This article is useful because it shows that even though something can be exploited; there can still be solutions to the problem. Even though it doesn't focus on the MENA region, it is still helpful in showing the effects in parts of the world where virtual currencies are more popular.*

- [FBI is Worried Criminals Might Use the Private Cryptocurrency Monero](#)

*In contrast with the article above, this one focuses on many of the cons that come with virtual currency. With the introduction of virtual currencies into an economy, new ones can pop up that make completely anonymous behavior easier.*

- [IMF and World Bank Panel: Bitcoin Block Chain Could Boost Financial Inclusion](#)

*This last article goes away from the criminal aspect that many people think of when they think of virtual currencies and focuses on how they can be used to include more citizens financially. This is especially important in the MENA region where much of the region is considered "unbanked."*