

# What Critical Opportunities and Challenges Await the Arab League Summit?

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**The President's Notes** - *Commentary*

*By Marc Otte – BIC President*

The agenda of the Arab League summit in Saudi Arabia on May 19, 2023, will have to accommodate developments in the region and elsewhere in the world. The Secretary General of the AL, Abul Gheit, indicated recently during a visit to Beirut that it would mainly deal with economic issues. But obviously, recent geostrategic upheavals have forced Arab Leaders to refocus beyond the usual concerns of the AL. The war in Europe, the attacks against the Western model, and the rapprochement between Iran and Saudi Arabia, mediated by China – to mention only these – are forcing the Arabs to rethink their alliances and to take on new responsibilities. That does not mean, of course, that long-lasting crises in their region are about to fade away. Think of Libya, the civil war in Sudan, the people's demands for reforms and better governance, the setbacks of the "Arab Springs" (see the renewed repression in Tunisia) and the continuing tensions between Algeria and Morocco, a still not resolved conflict in Yemen, not to mention the ever-lasting Israeli-Palestinian conflict.

The war in Europe following the Russian invasion of Ukraine has upset many policy options. According to the UN, coming at a time when the global economy has not yet fully recovered from the impact of COVID-19, the sanctions imposed on the Russian Federation and the disruption to some major global supply chains are having significant impacts globally. Since the beginning of the war, wheat and maize prices have risen by 35 per cent in 2022, while overall food prices have increased by 5 per cent globally. The Russian Federation and Ukraine produce 55 per cent of the

world's sunflower oil, 32 per cent of the world's barley, 30 per cent of the world's wheat and 20 per cent of the world's maize. Disruptions to harvesting and shipping are likely to increase if the armed conflict is prolonged, with severe consequences on the availability and prices of staples.

The war in Ukraine is expected to have asymmetric economic impacts across the countries of the Arab region. The worst impacts are likely to be faced by low-income and middle-income countries that import energy and food, and those that are dependent on financial aid. Due to the war, Arab middle-income countries were likely to lose 2.3 per cent from their expected GDP in 2022. Arab least developed countries (LDCs) are expected to lose 0.6 per cent of their GDP, while Arab conflict-affected States will lose 0.5 per cent of their 2022 GDP. Only Arab energy-exporting countries will see an increase in their GDP, primarily due to increased demand for and prices of energy. If these trends continue, the economies of the region will lose \$16.9 billion in 2023. The increase in oil prices would negatively impact fiscal and current account balances in oil-importing low-income and middle-income countries, increasing their external deficits and liquidity shortages. An increase in external borrowing is likely in this situation, as public debt in middle-income countries of the Arab region is already high (at 92 per cent of GDP on average). Several Arab LDCs are at risk of debt distress: middle-income countries would likely face an increase in debt service, which amounted in 2022 to around \$500 million due to a surge in interest rates and currency depreciation (in some countries).

The surge of international prices has put pressure on the international reserves of food-importing countries and consequently their exchange rates. Currency depreciation is having a negative impact on inflationary pressures on food as well as other goods and services, which depletes purchasing power of individuals' incomes and also puts an additional burden on state budgets. Food prices have already gone up in several countries across the region. Terms of trade will worsen as currencies devalue, with the prices of imports surging relative to exports. Some Arab economies may incentivise domestic grain production, while others will turn to new trading partners to replenish their food stockpiles. Both measures are likely to negatively impact the terms of trade. Just as COVID-19 accelerated digital transformation, the war in Ukraine will trigger a supply-chain transformation, albeit at a slower pace, where old economic alliances and old trading routes will be reconfigured.

This situation has provided scope for enhancing intra-Arab regional trade. With the price of oil exceeding \$100 per barrel, Arab energy exporting countries have enjoyed significant windfalls. These countries hold more than 40 per cent of petroleum reserves. Their public and private sector energy companies are likely to channel these windfalls into expanding production capacity, particularly if the sanctions on the Russian Federation continue to extend to the energy sector and are maintained in the medium to long term. If such an expansion of oil and gas production were to occur, and if the idea of an eastern Mediterranean gas hub were revived to reduce European dependence on oil, there could be a transformative long-term impact on energy trade in the Arab region. Higher oil revenues could be invested into strengthening sovereign wealth funds or postponing the removal of energy subsidies and tax hikes that were planned before the crisis. Those countries might also find themselves with less of a drive towards economic diversification away from dependence on the oil sector and with a reluctance to continue or add to short-term investments in renewable energy. The longer-term result would be an increase in greenhouse gas emissions and a failure to meet climate promises such as net-zero emissions by 2050 under the Paris Agreement. The crisis does not carry good news for net energy-importing countries.

The Russian Federation and Ukraine are significant sources of grain and vegetable oil imports for the Arab region. Egypt, Lebanon, Oman, Qatar and Somalia sourced over two-thirds of their wheat imports from the two countries in 2020. At the same time, sunflower oil imports of Iraq, Jordan, Lebanon, Oman, Qatar, Saudi Arabia and the United Arab Emirates were greater than 60 per cent in 2020. In the case of Algeria, Egypt, the Sudan and Tunisia, this share exceeded 90 per cent. The supply chain disruption caused by the war and the associated sanctions has reduced the grain and edible oil supply from the Russian Federation and Ukraine. Combined with the seasonal high demand for food and the low food reserves in some countries, prices are rising, putting additional fiscal pressure on governments as most of the food items are subsidised.

The situation in Lebanon is particularly worrisome since its food reserves were estimated at just 1.5 months in March 2022, as some of its food storage capacity was lost due to the 2020 port explosion that destroyed the country's only grain silos. In addition, most North African countries are facing a drought, leading to lower wheat and other grain production and making them more reliant on imports. The

Russian Federation is also a major producer and exporter of fertilisers. If supply constraints due to the conflict and sanctions are protracted, food security concerns in the medium term will be aggravated globally. Under such a scenario, Arab countries are likely to be much more affected than other regions, as they have limited capacity to ramp up food production and their reliance on food imports is particularly high.

In the new international context affecting the region, there have been increasing calls and initiatives by Arab governments to re-integrate Syria into the Arab League after the exclusion of Damascus because of the civil war that started in 2011. Opponents of Syria's return to the League sought a gradual approach to the reintegration process, in order to get assurances from Assad on issues such as humanitarian issues, refugees and stopping the illicit trade of captagon, a stimulant that has become a source of income for Damascus. However, on 07 May, Assad was officially invited by Saudi Arabia to attend the summit. Foreign Ministers of the Arab League agreed to reinstate Syria and announced, *"the resumption of the participation of Syrian delegations in the meetings of the League Council and all its affiliated bodies, starting today"*.

It is claimed that despite being in existence for seventy-seven years, the League has never managed to create a powerful presence of Arab countries on the global stage. However, with the right approach and support, the summit could mark the beginning of a new era of cooperation and progress in the Arab region, leading to a potential consolidation of its position as a regional block. As there is more political willingness for a strengthened regional engagement, the time could be ripe for discussions on internal reforms within the organization on the most pressing issue – the lack of an enforcement mechanism. The Arab League, if reformed, could have a more powerful diplomatic impact in various areas, such as the decades-long stalled Israeli-Palestinian peace process. Moreover, as this looks like a victory for Russia and Iran – the main supporters of the Syrian regime – the summit also presents an opportunity for the EU to become more involved in the region, by providing support and resources to help strengthen the Arab states and promote economic and political stability.

Overall, the Arab League summit could be an opportunity for leaders to take steps to turn the League from a symbolic regional bloc to a more influential one. This could involve increasing collaboration and coordination between Arab states in more

concrete terms, as well as strengthening and expanding the League's institutional capabilities. Additionally, it could involve revisiting the League's founding principles and mission to ensure relevance in the current geopolitical climate. Ultimately, such an effort should be carefully evaluated to ensure that it is in the interest of all Arab stakeholders in the region, as it could lead to increased regional stability and prosperity. It remains to be seen if the Arab League will soon become an effective platform for true regional collaboration or if it will continue to struggle to coordinate a common approach to the region's most pressing challenges.

## About the BIC

The BIC is an independent, non-profit, think-and-do tank based in the capital of Europe that is committed to developing solutions to address the cyclical drivers of insecurity, economic fragility, and conflict the Middle East and North Africa. Our goal is to bring added value to the highest levels of political discourse by bringing systemic issues to the forefront of the conversation.



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