

A study on the development of Arab sector

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Abstract

Like no other region, several resources have shaped the Arab sector and its modern-day development trajectory. Endowed with some of the world's most important oil and natural gas reserves, countries in the Arab world have over the past four decades produced and exported more oil than those of any other region, and hold reserves sufficient to supply world energy markets for more than another hundred years at current rates of production.

Its wealth has benefited the Arab sector, despite significant differences across the region alongside differing national resources, and their management across governments.

This paper attempts to provide a very brief overview of the role energy has played in driving economic development in the Arab world, its effects on development choices, and the challenges faced by the resultant development model.

Keywords: Arab Sector, Development, Economy

Introduction

Significant challenges also derive from the Arab energy led development model, particularly patterns of domestic energy consumption, rising demand for energy across the region, and rising domestic investment needs.

Energy has undoubtedly played a defining role in the Arab world's economic development over the past fifty years, if not more. The region's energy resources have affected development choices, shaped economic structures, promoted certain patterns of industrial activities, and have integrated the Arab world into the global economy.

More than any other economic activity, oil and gas industries have provided the most important source of income for many producing countries' governments, allowing for the creation of modern welfare states among the GCC states, and similar development programs in a number of other large and medium sized producers. Many other parts of the Arab world have benefited from the region's large hydrocarbon reserves via intra-regional labor and remittances flows, financial investment, and aid from large oil and gas producers^[1].

It does so by looking at four different aspects of energy-led development:

- 1) The effect of energy on regional Arab economic growth;
- 2) The inter-linkages between energy and Arab economic structures;
- 3) The implications of energy for intra-regional integration; and
- 4) Evolving challenges from this development model.

Nevertheless, the role played by energy resources in the Arab world is by no means positive by default. Energy export revenues have fuelled the development of some industries more than others, particularly of energy-intensive manufacturing at the expense of organically grown, alternative economic sectors and small and medium enterprises, particularly in the large oil and gas producers.

Oil and gas reserves have also proven to have the potential to exacerbate differences between countries, and possibly even

to be a source of conflict, both nationally and bilaterally. Countries such as Sudan, Iraq, and Yemen suggest that energy wealth does not automatically translate into higher levels of prosperity and human development; effective government management, and a local modus operandi that allows many, rather than just a few, to prosper from their country's natural resources, are essential ingredients to making energy resources a fuel for growth, rather than economic decline^[2].

As such, the Arab world illustrates the classical dilemma of resource-led growth: its economic performance as a region has perhaps been lower than expectations that would have seen the Middle East as an Asian growth miracle, owing to its oil and gas reserves.

But as shown above, the region holds a number of very different development trajectories, which include energy rich economies both at the top and at the bottom of rankings for both per capita income and wider development indicators, suggesting that some parts of the region have used their natural resources significantly more to the benefit of socio-economic development than others.

Research Study

The Arab world hence is clearly not just one country; it is a mosaic of very different ways of managing and benefiting from natural resource wealth.

Energy is much more interwoven with a producing country's macro economy than is at first apparent. On the most basic level, oil and gas exports provide producers with an important revenue stream that determines government budgets and congruent levels of investment and savings. The more detailed picture, however, shows that the oil and gas sector's contribution reaches far beyond that^[3].

Hydrocarbon exports push forward various related industries, the two most prominent examples of which are given in this report: refining and petrochemicals, both key contributors to the Arab world's output in manufactured goods Hydrocarbon exports also pull other sectors along, for instance various

service industries; and they could create key employment opportunities, particularly in the region's more favored skilled labor segment.

Much existing research does not yet fully capture the strength of these various economic linkages. That many of these linkages have also established entrenched chains of interests, and energy producer-typical development patterns, is most evident in the Arab world. With an industry focus on energy-intensive activities, the Arab world supposedly built its own competitive advantage, but at substantial cost; while many industries in the Gulf and North Africa benefit from cost competitive fuel and feedstock in both crude oil and natural gas, the value added in some of these industries may be low.

Existing hydrocarbon wealth also implies a tendency to over staff and use various sectors as employers of the first and last resort, which can dampen the value of energy resources in driving productive economic growth. Some observers might hence take Arab oil and gas producers as key examples of economies where industrial and labor market policies have negatively affected long-term economic growth – a development pattern fed by hydrocarbon rents as much as by political decision-making.

Trade in energy itself has notably been unable to lift what has otherwise been a relatively small amount of intra-Arab trade in commodities. While oil and oil products are traded flexibly both intra- and extra-regionally, other types of energy have not yet become part of larger intra-regional trading transactions. The political obstacles to increased intra-regional trade in natural gas illustrate this continuing problematic best.

Despite the availability of significant regional resources and rapidly growing demand markets within the region, most Arab gas exports are sent outside the region. Both natural gas and electricity are energy commodities which are traditionally traded regionally, making use of the proximity of markets and hence lower transportation costs ^[4].

However, the Arab world's unique domestic price environment for energy, coupled to the lack of political will, means that many regional energy options have remained under-utilized. Rising levels of domestic energy consumption in the Arab world will undoubtedly constitute one of the future's most pressing challenges for the region and its continued economic growth.

Significance of the Study

Far from being immune to challenges in the way the region consumes energy, the Arab world is as vulnerable as many net importing regions of energy with regards to the effects of wasteful consumption, and the impact of climate change. Arab oil and gas producers, particularly the Arab Gulf monarchies, already consume more energy on a per capita basis than most other parts of the developed and developing world.

In the absence of suitable strategies to manage the region's growing energy demand, domestic consumption may well compromise future regional energy exports. There is no better time to understand the importance of choices made today: in the wake of the street protests which have shattered political regimes across the Arab world, ensuring the long-run prosperity of the region and its people should stand at the heart of policy-making in every Arab country ^[5].

Increasingly, the rise in the Arab world's own energy consumption will raise the question whether a diversification of the region's energy sources could help render its energy use more sustainable in the long-run. Oil and natural gas, both depletable fossil fuels with significant environmental footprints, do not constitute a sufficient energy base for a region consuming by now more energy than Latin and Central America combined.

Mirroring similar developments elsewhere in the developing world, the future of Arab energy consumption will likely no longer rely only on fossil fuels, but on a more diverse fuel mix which includes renewables, and which will likely include nuclear power as well.

Conclusion

Beyond the consumption of energy, increasing numbers of oil and gas producers will need to pose the question of whether or not their economic diversification efforts over the past four decades have been effective. Many Arab economies, those of both large and medium-size producers, remain exceptionally dependent on oil and gas revenues.

Diversification into energy-intensive industries, as has been demonstrated above, raises questions over how energy-independent such policies render the region's oil and gas producers, in reality. This should not detract from the fact that many of these industries have created added value, and have created valuable high-skill employment opportunities; but the question is whether or not alternative industries might have achieved the same objectives, while reducing the region's own energy demand. In light of the above, the Arab world is likely to yet face many emerging new policy questions, which should do nothing to diminish the essential role played by energy in the region.

A change in the way Arab economies consume energy will undoubtedly need to be an important part of these countries' future policy agenda. Reforming domestic energy pricing frameworks will form an essential part of managing future regional energy demand.

As part of this work on the issue of energy subsidies, we have encountered time and again the very real concerns of both Arab and non-Arab countries in reforming a policy area as sensitive as energy prices – both in net importing and in oil and gas producing countries.

Recent reform efforts by countries such as Jordan and Iran, however, serve as encouraging examples of how such reforms can be implemented in a way that protects energy access but incentivizes more efficient energy use, while avoiding the type of protest that prevents many Arab governments until now from overdue reforms.

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