

Current economic development of oil exporting countries

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Current economic development of oil exporting countries. (by the example of Saudi Arabia) Introduction³ OPEC and oil prices. 4 History⁴ Common development problems of OPEC member countries⁶ Saudi Arabia⁸ History⁸ Economic development⁹ Main goals⁹ Role of the government¹⁰ New industry sectors¹⁰ Private sector¹¹ Foreign labor¹¹ Social and politic structure¹² Conclusion¹⁴ Literature¹⁵ Introduction. The subject of this research is the economy and society of the oil-exporting countries while the topic can be described as current economic development of the oil-exporting countries and their prospects.

As the best example we have chosen Saudi Arabia. The oil-exporting countries are important players on the world market. They can set up oil prices reducing or increasing extraction rates, and mostly this is the only way they get money for their budgets, oil deposits have great influence on their economy. That's what is called Dutch disease and what their biggest problem is. Some measures in many fields should be taken to get rid of this disease, to change economic and social structure, to make a shift to new phase in their development.

This statement constitutes the thesis of this term-paper. The general purpose of this research is to find common stages and common problems of oil-exporting countries development, try to explain them and suggest some solutions. The goals can be determined as the following: 1. To look at the OPEC, its history and common problems of the Member Countries; to follow the interconnectedness between oil price and prosperity of the oil-exporters. 2. To consider brief history of Saudi Arabia for better understanding of that

country. . To estimate the role of the government, private sector, new industry sectors, foreign labor and social and politic structure in economic development; to show current situation and topical problems in all these spheres. 4. In conclusion try to forecast the possible ways of further development. This term-paper can be used for further research in this sphere. OPEC and oil prices. Today oil is natural resource that has great influence on the development of oil-producing countries like Russia or the OPEC countries.

If a country exports huge amount of oil its price determines budget of the country, political situation, prices for a wide range of goods. It's so because oil isn't just raw material for gasoline production, also for plastics, construction materials and so on. Many oil-exporting countries can set up oil prices reducing or increasing extraction rates, and in the same time no one in the modern world can live without gasoline or electricity. So, we can say that oil is a race in which the main targets are power and money, huge sum of money.

But sometimes oil exporters go to the extremities - their budgets depend only on oil prices, in fact this field is a real money spinner. That's how the Dutch disease begins. A good example could be the OPEC countries. OPEC has the biggest oil deposits in the world (almost 80%) and they play a crucial role in oil pricing. This organization controls extraction rates (what leads to controlling of oil prices), foreign policy and strategy of Member Countries. That's why we'd like to consider OPEC itself, its history and common problems. History.

The Organization of Petroleum Exporting Countries (OPEC) is a cartel of 12 countries made up of Algeria, Angola, Ecuador, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela. The organization has maintained its headquarters in Vienna since 1965, and hosts regular meetings among the oil ministers of its Member Countries. The OPEC Member countries came together to form this international organization with several aims. Some of the aims are:

- To protect the interest of the member countries. To make sure that the price of petroleum products do not change much.
- To make certain a regular supply of petroleum oil to other countries.
- To make sure that member countries get suitable income from sale of oil products.
- To decide policies to follow relating to production and sale of petroleum oil.

However, OPEC has not always been able to achieve all these aims. Venezuela was the first country to move towards the establishment of OPEC by approaching Iran, Gabon, Libya, Kuwait and Saudi Arabia in 1949, suggesting regular and closer communication among oil-producing countries.

It was a topical question because all oil-exporting countries were exploited by such corporations as British Petroleum, Chevron, Exxon, Gulf, Mobil, Royal Dutch, Shell and Texaco, which controlled crude oil refining worldwide. These corporations organized a cartel and reduced procurement prices. Initially the OPEC wasn't taken into account. Europe and the U. S. didn't believe that Arabic governments could find a compromise and reduce extraction rates. Honestly speaking first 10 years wasn't very successful for OPEC.

But in the 1970-s with help of 1973 oil crisis, Arab-Israeli conflict and second crisis in 1979 OPEC transformed into important political and economic force. By the way being part of OPEC is a huge responsibility. High oil prices are the consequence of low extraction rate. But if one country in pursuit of higher incomes tries to sell a little bit more than its quota is, then price goes down even for those countries that did everything right. Nowadays oil prices are still high in comparison with 1990-s (when normal price per barrel was 22-28 dollars), but since June 2008 they have dramatically fallen, as it is shown on the graph below.

The war in Iraq and increasing demand in Asian-Pacific Region, especially in India and China that are consuming large amount of fuel, can be named as a reason for such growth. Anyway the OPEC countries still have their problems and many of them are much the same because of cultural, historical, governmental and economical similarity, some countries almost overcame them and others didn't. Most illustrative will be the example of Saudi Arabia as the country having the biggest oil deposits in the world. Common development problems of OPEC member countries. Below is the list of the typical problems which OPEC countries usually face.

Not long ago Arabic countries were under the reign of the USA and Europe, which exploited their resources leaving countries themselves underdeveloped. In the end of XX century everything changed. Briefly the scheme of their development could be described this way: 1. Dependence on western countries. 2. 1970-s crises. Inflow of petrodollars. 3. Euphoria, thoughtless investments and projects. 4. Attempt to create a new type of

social structure. 5. Admitting mistakes, appearing of new aims like development of different industry sectors, not only oil-extracting.

All these periods have their common difficulties. Firstly, Arabic countries fell behind all developed countries and because of their cultural specialty weren't ready to radical innovations which were so needed. Women are still not interested in education; almost 50% of them are illiterate. By the way it is one of the crucial problems in such countries - the lack of educated people, especially with higher technical education, consequently appears deficit of well qualified workers on the plants and other enterprises. Employees were absolutely not ready to start working on advanced equipment.

That's way many executive positions are occupied by foreign specialist, what isn't very good option for the country. Second main problem is the Dutch disease - too strong dependence on one industry sector. Budget, living standards, national projects - all these depends only on oil prices, which are not always foreseeable and controllable. For example too warm winter reduces consumption of fuel, what reduces oil demand and consequently oil price. Many other factors have the same influence, and all of them hit oil-exporters, making them too vulnerable.

In Saudi Arabia 85% of budget are petrodollars, so it's clear how important for them oil price fluctuations are. And the last important problem is that government not always can make reasonable investments. Arabic sheikhs started huge constructions and projects "to the glory of the country" which were usually unprofitable. Only later this wish to spend money became

weaker and investments – more useful. Actually, these are main difficulties of OPEC countries. In every oil-exporting country governments more or less successfully tried to find proper solutions to these problems. Saudi Arabia. History.

The Kingdom of Saudi Arabia is an Arab monarchical state. It is bordered by Jordan on the northwest, Iraq on the north and northeast, Kuwait, Qatar, Bahrain, and the United Arab Emirates on the east, Oman on the southeast, and Yemen on the south. The Persian Gulf lies to the northeast and the Red Sea to its west. It has an estimated population of 27.6 million, and its size is approximately 2,150,000 square kilometers. Today it is one of the few fastest growing countries in the world with a high per capita income of \$20,700. Some figures: Population: 27,601,038 (0.3% of world population) Density: 11/km² Urban population: 80%

GDP (2007): \$555,055 billion Oil resources: 261.2 billion barrels, 26% of world oil resources (amount that is enough for 86 years of consumption)

Extraction rate: 8 million barrels per day. Among Arabic countries Saudi Arabia is the richest, because its oil deposits are the biggest, like its OPEC quota. Country itself isn't very big, but population is growing. Literacy rate is very low – only 63% and it is very serious problem, as was said earlier.

Economic development. As it was mentioned, economy of Saudi Arabia depends on oil market and it's impossible to analyze it without taking into account oil industry.

Because of oil export and money inflow this country made visible leap in development and today some indexes are just like in Europe or in the U. S. Society is developing too, leaving behind prejudices. Main goals. There are three main goals for the state: 1. GDP growth 2. Diversification of national economy. 3. Development of human resources. These goals were set 30 years ago and still being a topical question. But a lot of efforts were put to reach these goals. For example in 1970 GDP was 22. 9 billion riyals and in 1982 already 524. 7 billion. A diversification is also present. The role of oil sector is reducing.

Processing industry was established, and there are a lot of financing projects. What is not less important, financial sector has appeared. But anyway, as of 2007, non-oil manufacturing contributed 10% to Saudi Arabian GDP and less than 6% of total employment. But development of human resources is falling behind. Actually the problem of lacking qualified labor force was solved by inviting foreign specialists. Role of the government. Initially the most profitable oil deposits were exploited by western companies, but today the biggest oil producing company - ARAMCO - was nationalized and oil policy was reviewed.

Now extraction rates became smaller and deposits were used in more rational way. Today more than 95% of all Saudi oil is produced on behalf of the Saudi Government by the ARAMCO. In June 1993, ARAMCO absorbed the state marketing and refining company (SAMAREC), becoming the worlds largest fully integrated oil company. But the second problem was how to spend money. Governors were wrong hoping that petrodollars inflow will last

forever. Money was invested in useless projects, and some spending was just uncontrolled. It all led to overheated economy. Also there was an effort to copy western system of production, but it also wasn't successful.

All these things were a reason to work out a new plan of economic development, attracting more private capital and making more reasonable investments. In the last few years there is a privatization tendency in Saudi economy, of course except ARAMCO. Also government supports oil industry, giving money for development of the new deposits. New industry sectors. In the world Saudi Arabia plays the role of crude oil exporter, and it isn't the best position on the world market. That's why they are trying to find new profitable spheres. And one of them could be petrochemistry.

This field grows every year and today Saudi Arabia is the main manorial supplier on the Middle East. Of course today it's impossible to cure the Dutch disease, but maybe someday oil exporting countries will not depend so much on oil prices. Private sector. In 70-80-s government created good conditions for private sector. Such things like transfers, legislative support, special banks and funds were aimed at supporting this sector of economy. Powerful oil industry till now is a good base for economic development. The government is still attempting to promote growth in the private sector by privatizing industries such as power and telecom.

Saudi Arabia announced plans to begin privatizing the electricity companies in 1999, which followed the ongoing privatization of the telecommunications company. Shortages of water and rapid population growth may constrain

government efforts to increase self-sufficiency in agricultural products. But this governmental support has the second side - private enterprises are still hoping on help and transfers from government and western partners. Without such support it's more profitable to invest money abroad. And that's the problem. But anyway private sector is growing and private capital goes to high-tech development and research.

Foreign labor. As was said, there is a lack of well educated specialists on the plants. The government tries to promote so called Saudization - national policy to encourage employment of Saudi nationals in the private sector instead of workers from South and Southeast Asia. Despite these efforts, the country draws a significant portion of its labor force from foreign countries, especially from South and Southeast Asia (notably India, Pakistan, Bangladesh, Indonesia, the Philippines, Nepal, and Sri Lanka), East Asia, East Africa and from other Middle Eastern countries.

There are also some people from North America, South America, and Europe. Hundreds of thousands of low-skilled workers and skilled workers from regions of the developing world migrate to Saudi Arabia, sometimes only for a short period of time, to work. Although exact figures are not known, skilled experts in the banking and services professions seek work in the Kingdom. Social and politic structure. An Arabic country always remains an Arabic country with its own culture, social and politic structure. Saudi Arabian culture mainly revolves around the religion of Islam.

Islam's two holiest sites, Mecca and Medina, are located in the country. Also it shouldn't be forgotten that it is the monarchical state. All it leaved an imprint on people and their set of mind. Although huge sums of money were spent on healthcare and educational programs, the social structure didn't change a lot. It is still important to which family or place you belong; ruling establishment stayed the same, just like the attitude to women. Saudi Arabia is the only country in the world where women are banned from driving on public roads.

Women may drive off-road and in private housing compounds, that can be very huge. Their attempts to change something usually lead to nothing. Several international human rights organizations, such as Human Rights Watch, Amnesty International and the United Nations Human Rights Committee have issued reports criticizing the Saudi legal system and human rights violation in various political, legal, and social areas, especially severe limitations on the women rights. The Saudi government typically dismisses such reports as being outright lies or asserts that its actions are based on its adherence to Islamic law.

Political structure also is very traditional - the monarch makes all decisions and any attempts to loosen his power, like advisory board, have failed. There is no freedom of speech and no political opposition, although there are a lot of people abroad who criticize such policy. So, development of Saudi Arabia is very controversial. On the one hand, financial and oil-producing sectors are growing in high gear. On the other hand people's set of mind didn't change and with this excess baggage it's impossible to move forward.

Other controversial thing: government wants to keep Islamic values, but in the same time educational system is an exact copy of the American one, and American talk-shows and cartoons are demonstrated on the national television. There is an opinion that all it happened because of too fast growth. The society wasn't ready for petrodollars and all these goods which it gets. That's why people have very vague ideas of what they need today or in the future - new way of life or traditions and Islamic values. Conclusion. To sum it all up, we'd like concern possible future of oil-exporting countries. In a foreseeable future it is impossible to find alternative energy sources which could fully substitute oil and gas. World demand will grow and there are only four countries which can increase extracting rates. These are: Saudi Arabia, Kuwait, Nigeria and Gabon. It means that political and economic power of OPEC will grow. But also it's obvious that raw materials like crude oil are cheaper than processed goods like gasoline. That's why huge sums of money must be invested in the development of oil refineries and it's a very important long term investment.

By the way this developing process must involve not only industries but also people themselves, because a state can change only after its citizens.

Anyway, dependence on oil prices is very unreliable and undesirable, like any dependence, even if it helps to finance social projects. Current economic crisis has shown that. Governments of oil exporting countries must find a compromise between this Dutch disease with massive capital inflows and healthy but maybe not so rich economy.