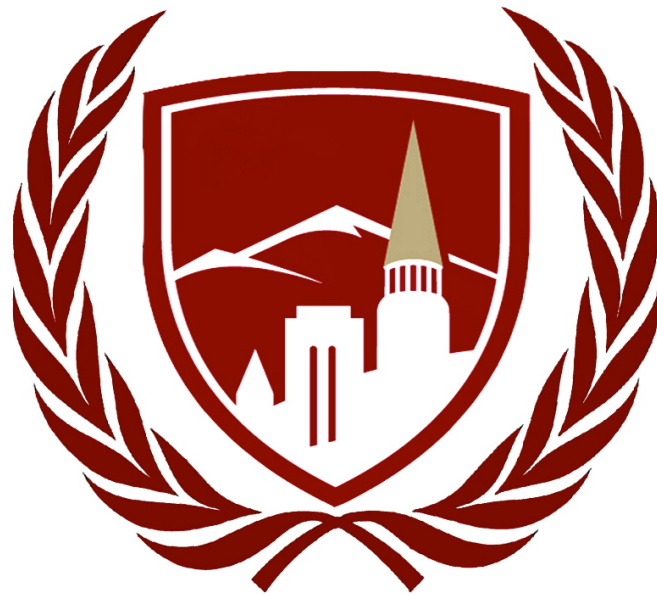


UNIVERSITY OF DENVER



INTERMEDIATE LEAGUE OF ARAB STATES

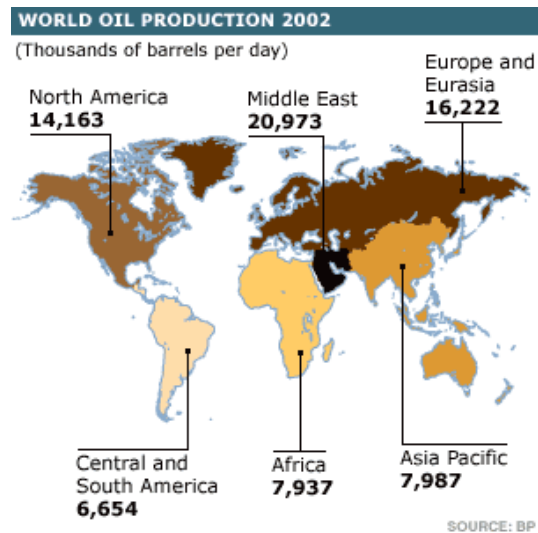
Exploring Economic Alternatives to
Oil



By Rachael Scoggins

Introduction

Access to oil has become one of the most important issues facing the modern world today. Developed countries depend on oil to keep their factories, government infrastructure, and economies moving, while developing countries hope that increased access to oil will help their country come into the developed world. However, oil is a limited natural resource, making it extremely valuable. Thus, countries that sit on oil reserves stand to make millions of dollars selling oil. In particular, the Middle East has a huge amount of oil within their natural boundaries. While this presents the opportunity for economic expansion, it also presents the opportunity for a large amount of fraud and government corruption. Furthermore, many Middle Eastern economies are built on the presence of oil and their ability to export it. Unfortunately, the fact that oil is a finite resource cannot be avoided. Because so many Middle Eastern economies are centered around oil, economists and other experts are worried about what will happen to the states when their oil reserves are exhausted and they can no longer export large quantities of oil. For this reason it is important to begin thinking about alternatives to oil that would allow Middle Eastern economies to grow and flourish once the supply of oil is exhausted.



Historical Background

Oil first rose to prominence at the beginning of the 1900s. In 1908 the first Middle Eastern oil was found by an English businessman in the region known as modern day Iran.¹ In 1911 Britain decided to convert their navy from coal power to oil power, providing a huge opportunity for the Middle Eastern countries to export their oil. However, it was after World War I that the industry of Middle Eastern Oil began to grow and become the massive market force that it is today. Though coal remained the primary method of energy across much of Europe and the United States, the discovery of more oil throughout the Middle East made oil much more accessible, and countries slowly began increasing their use of oil before World War II.² While the prevalence of oil was rising during the interwar period, it is World War II that helped to fully determine the importance of oil as a natural resource.³

During World War II access to oil was paramount for both the Allied and Axis powers. Because the Middle East was in such close proximity to the fighting, vast amounts of oil were exported to Britain, the US, Germany, and the USSR. However, because of the

¹ <http://www.abadieschill.com/2012/07/04/a-brief-history-of-middle-eastern-oil/>

² Ibid

³ Ibid

delays the war caused, most countries did not start to see the riches of the war until the 1950s when money started flowing from the bigger powers again.⁴

After WWII oil exploration once more resumed in Middle Eastern countries. Exploration was led by Texaco, Chevron, Exxon, and the predecessor to British Petroleum. While larger Middle Eastern countries like Saudi Arabia and Kuwait had been producing oil for years, smaller countries like Oman and Abu Dhabi first began exploring the possibilities of oil after WWII.⁵ The influx of oil money also allowed many Middle Eastern territories to become their own states, taking advantage of their right to self-determination. Without the oil cash, these countries would not have had access to the money necessary to support their national economies and stand apart from their parent country's economies. Without oil, countries would not have had the resources necessary to sustain their economies and develop their assets.⁶ Thus, the discovery, development, and export of oil was vital to the development of the Middle East as a whole.

In the early 1960s, the oil producing nations in the Middle East realized that their voices could be projected louder if they spoke as one entity instead of multiple different states. It was along this sentiment that the Organization of Petroleum Exporting Countries (OPEC) was founded in 1960.⁷ The initial members of OPEC were Iraq, Iran, Kuwait, Saudi Arabia, and Venezuela. Over the 60s OPEC grew to include Qatar, Indonesia, Libya, the United Arab Emirates, Algeria, Nigeria, and Ecuador.⁸ As membership in OPEC grew, the bargaining power of member states grew as well. This gave states the power to demand higher prices for their product, as well as considerable political power. Now, if the US, Britain, or any other power supported policies that were not in the Arab States' best interests, they could withhold oil from the said nation, creating a huge safety net for themselves.

The full extent of OPEC's power was first seen in the 1973 Oil Embargo. Tensions between Israel and its Arab neighbors had always been strained. On October 5, 1973 these tensions came to head when Syria and Egypt attacked Israel. Even though this was strictly a regional dispute the US and many other countries remained steadfast in their support of Israel.⁹ As a result, Arab countries enforced an oil embargo on the US and other western countries. In the US alone, this caused oil prices to more than triple by 1974.¹⁰ This event demonstrated how much power the oil producing countries had over the supply of oil. As a result, alternatives to Middle Eastern oil were discussed and explored. This led to the discovery of oil reserves in Alaska, the Gulf of Mexico, and South America, which helped to diversify the global oil supply, which led to a deflation of prices in the 1980s.¹¹

⁴ <http://voiceofmoorecounty.com/2011/02/11/history-of-oil-in-the-middle-east-implications/>

⁵ <http://voiceofmoorecounty.com/2011/02/11/history-of-oil-in-the-middle-east-implications/>

⁶ <http://www.abadieschill.com/2012/07/04/a-brief-history-of-middle-eastern-oil/>

⁷ Get source.

⁸ <http://voiceofmoorecounty.com/2011/02/11/history-of-oil-in-the-middle-east-implications/>

⁹ <http://www.pennenergy.com/articles/pennenergy/2013/10/a-brief-history-of-oil-prices-and-middle-east-tensions-fear-of-a-black-gold-shortage.html>

¹⁰ Ibid

¹¹ <http://www.abadieschill.com/2012/07/04/a-brief-history-of-middle-eastern-oil/>

As oil resources became scarcer, prices became lower, and the value of oil became fully known, OPEC countries realized just how valuable the commodity of oil was. Because of the political instability of the region experts became concerned about interstate violence prompted by the presence of oil. These fears were realized in August of 1990 when Iraq, under Saddam Hussein's leadership, invaded Kuwait. This was especially concerning because the two countries, when combined, controlled about 70% of the Middle East's oil supply.¹² At this point the US intervened, sending troops and military supplies to Kuwait so that it could fend off the advances of the Iraq army. Throughout this time oil prices jumped and plummeted based on the events happening in the Gulf War.¹³ After Iraq had been defeated and the geopolitical boundaries of the region preserved, oil prices evened out again, and the coalition of oil producing states was calm and stable until the events of September 11, 2001.

Current Status

Today oil is still one of the most coveted natural resources on Earth. Because Arab states have so much access to it, there have been little attempts to build industries that significantly support the economy outside of oil. However, the political instability within the region just proves how important developing alternative industries and economies are to the success of the Arab states.

In 2011, widespread political unrest, particularly among young people, spread throughout the Middle Eastern region. This unrest, known as the Arab Spring, led to the toppling of several governmental regimes. Fears about the availability of oil led to huge increases of the price of crude oil, while the fighting and regime changes led to a decrease in oil production, adversely affecting economies worldwide.¹⁴ However, it is important to note that the protests and uprisings that occurred during the Arab Spring were reflected of the public's attitude towards oil and the institutions that supported it for so long.¹⁵

Even though the presence of oil has brought great wealth to the Middle East, the distribution of that wealth has remained highly concentrated in the upper classes. Instead of being distributed throughout society, the wealth generated by oil sales tends to stay within the families that own the refineries and exporting companies.¹⁶ This creates a huge gap between the upper class and the lower class. Youth unemployment is at all time highs in many Arab countries, with finding a decent job next to impossible in many states. The lower classes, especially the most recent generation, has become fed up with the status quo and is demanding changes in the way their countries' economies are run.¹⁷ However, there are no other industries that can sustain a country, and very little money is being put towards the development of new industries. Thus, the need for an alternative to

¹² <http://www.abadieschill.com/2012/07/04/a-brief-history-of-middle-eastern-oil/>

¹³ <http://www.pennenergy.com/articles/pennenergy/2013/10/a-brief-history-of-oil-prices-and-middle-east-tensions-fear-of-a-black-gold-shortage.html>

¹⁴ <http://www.pennenergy.com/articles/pennenergy/2013/10/a-brief-history-of-oil-prices-and-middle-east-tensions-fear-of-a-black-gold-shortage.html>

¹⁵ <http://www.fairobserver.com/360theme/middle-east-economy-oil-wealth-youth-unemployment>

¹⁶ Ibid

¹⁷ <http://www.fairobserver.com/360theme/middle-east-economy-oil-wealth-youth-unemployment>

oil that allows the masses to prosper, instead of just the few who have invested in oil, is necessary if the region hopes to find any sort of political stability in the upcoming years.

Furthermore the exploration and development of alternative oil sources and clean energy sources has adversely affected the Arab States' economies. With more sources to choose from, it has become easier for states to find oil that is cheaper than what is being sold in the Middle East. Additionally, the west's emphasis on developing clean energy alternatives to oil leaves an ominous vision of the importance, and therefore value, of oil in the near future. Both of these factors have led to decreased exports and foreign investment in the Middle East region.¹⁸ Additionally, the IMF reports that import costs for the region have sharply increased recently due to droughts, rising global food costs, and natural gas supply disruption.¹⁹

Preparation Questions

- Why is it in the best interests of states with vast amounts of oil (i.e. Kuwait) to begin to diversify their industries?
- What are some industries that could feasibly bring in a similar amount of money to a country? Is this even possible?
- How should the new industries work to incorporate the unemployed youth currently seen in the Arab states? Should these new industries cater more towards the people in power (who have money) or should they focus on bringing more wealth to the general population?
- Does creating new industries and lessening the importance of the oil industries require a global effort, or is it something the Arab States can accomplish alone?

¹⁸ <http://www.imf.org/external/pubs/ft/reo/2013/mcd/eng/pdf/mcdreo0513.pdf>

¹⁹ Ibid