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YUSIF A SAYIGH

Arab Economic Strategy in a Changing World Oil Market

Introduction

During the early 1980s, the international oil market has changed from a sellers' to a buyers' market, that is, from one where the producers-exporters largely determined the price for that volume of exports which the market was willing (and eager) to buy, to one in which the importers-consumers have been able to press the price downwards and are willing only to buy a much smaller volume for the reduced price, than they had been buying by the end of the 1970s. But this identification of the current situation as one of crisis is only good enough as a first approximation. To be useful for the purposes of our analysis, it should be sharpened by several qualifications:[1]

1) Obviously, what is a crisis for the oil producers (a drop in demand, a drop in export price, a drop in production, and therefore a drop in export revenue) is a welcome development for importers (a smaller import bill, a smaller outward transfer of financial resources, a smaller degree of dependence on the foreign suppliers of a vital and strategic source of energy).

2) The impact of the crisis has hit all the members of OPEC (Organisation of Petroleum Exporting Countries) and OAPEC (Organisation of Arab Petroleum Exporting Countries) but the Arab members of OPEC have suffered a much greater shrinkage in their production and revenues, absolutely and relatively, than the non-Arab members.

3) Non-OPEC exporters (United Kingdom, Norway, Mexico, Canada, and the Soviet Union) have expanded their production over the three years 1980–2.

4) Although demand for, and production and consumption of, energy from all sources combined have dropped since the end of the 1970s, the drop has been very small (about 1.6 per cent), while the demand for, and the production and consumption of, oil have dropped by about 12 per cent during the same period. In fact, the efforts to conserve energy and the effects of economic stagnation in the Western industrial countries (OECD), have been wholly reflected in the demand for and the supply of oil, with the demand for and supply of every other source of commercial energy actually rising between the end of 1979 and the end of 1981 and, in some instances, the end of 1982.

5) World reserves of coal are five times those of oil, the source of energy with

[1] A number of items of quantitative data that are of relevance to the discussion have been grouped together in the Statistical Appendix.

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the second largest reserves. Nevertheless, oil remains the largest single source in international trade, and the largest supplier of energy for consumption, despite the decline in its position.

6) It is particularly urgent for the Arab oil producers, who have suffered most in the current oil crisis, to probe deeper into the nature, the causes, the impact, and the implications of the crisis in order to assess its magnitude correctly, to draw the useful lessons it has for them, and to chart the future course of their economies accordingly.

7) Finally, even if the angle of vision is broadened to include the world at large and the field of energy in its entirety, it can be seen that the drop in the price of oil and the development of a buyers' market, will have adverse effects for everybody, to the extent that a lower price for oil will disguise the urgency of, and weaken the incentives for the search for and the development of, new sources of energy, and will expose the world to another era of tightness in oil supplies and soaring prices, possibly within the course of a recurring cycle of strong demand pushing prices sharply upwards, followed by soft demand pushing them downwards. The emergence of such a cyclical pattern will be harmful to orderly economic growth and to the predictability of expectations of supply, demand, and prices. Obviously, this would be damaging to the interests of exporters and importers alike.

Causes of the Crisis

Several interrelated causes lie behind the crisis, and while some are of a transient nature and have been occasioned by the tangible upward adjustment of the price of oil in 1973–4 and in 1979–80, and by anxiety surrounding the security of oil supplies, most are of a longer-term nature that would have come into operation without the adjustment, even if at a later stage, because oil is a finite and non-renewable resource. Although this paper is meant to take the crisis as given and to focus more on its implications for the future of the Arab economies, it is necessary for a more probing and meaningful exploration of the implications to be based on a better understanding of the operative causes. This can be seen to be true even though the oil resource is not the only major determinant of Arab economic development. Reflection on the array of resources and forces involved in development, and on the experience of the Arab economies over the past decade, indicates that oil has become the most vital economic resource (and force) in the process of development. There is enough evidence to support this generalisation, not only with regard to the oil-exporting Arab countries but also, though to a lesser degree, with regard to the non-oil Arab countries.

To say that the correction of oil prices during the 1970s, though less substantial in real than in nominal terms, set the process of crisis generation in motion, is not to criticise the correction of prices and to endorse the condemnation which the OECD countries heap on OPEC as a result. Indeed, a

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very compelling case can be, and has been, made for price correction.[2] But, and this is a substantial 'but', price correction as experienced expedited the emergence of the developments that together constitute the crisis, and contributed to their magnitude and escalation, essentially because of an institutional-political factor.

Price correction was undertaken by OPEC governments through unilateral action in mid-October 1973, by taking control over their oil resources and assuming the power to formulate and implement price and production policies, without any further submission to the veto power of the giant concessionary oil companies, and, by projection, of the Western governments of whose economic-political power structure these companies were an integral part. The undoing of this structure by Third World countries that had for generations occupied a humble position in the hierarchy of the international order and power system was intolerable to the Western industrial countries. Consequently, these countries reasoned that action had to be taken without delay to deter OPEC members from further 'insubordination' and to counteract and undo as much of their new power as possible. In fact, the Western reaction went further and included a wide array of components, including angry condemnation and denigration in the media, overtones of racist attacks directed mainly against the Arab oil exporters, to threats of military action by responsible politicians.[3] The economic and technological reactions of the West were meant

[2] The literature on pricing is considerable, though probably more has been written by the critics of OPEC's pricing policies than by the defendants. For a discussion of pricing and for references of relevance to the 1970s, see: Fadhil J Al-Chalabi, *OPEC and the International Oil Industry: a changing structure*, Oxford: Oxford University Press, 1980; Ian Seymour, *OPEC: instrument of change*, London: Macmillan, 1980; J E Hartshorn, *Objectives of the Petroleum Exporting Countries*, Nicosia: Middle East Petroleum and Economic Publications, 1978. Prepared in co-operation with *Middle East Economic Survey* (a weekly review of oil, finance and banking, and political developments) and Energy Economics Research Limited, Nicosia; Petroleum Economist, *OPEC Oil Report* (2nd edn) London, 1979; Mahmoud Abdel-Fadil (ed), *Papers on the Economics of Oil: a producer's view*, Oxford: Oxford University Press, 1979, Nos 4, 6, and 7; Various issues of *OPEC Review*, published by OPEC, Vienna, and *Oil and Arab Cooperation*, a monthly in Arabic, published by OAPEC in Kuwait, for articles on the subject of prices and pricing; Yusif A Sayigh, *Arab Oil Policies in the 1970s: opportunity and responsibility* London: Croom Helm, and Baltimore, Maryland: Johns Hopkins University Press, 1983, chapter 3.

[3] Marwan R Buheiry, *US Threats of Intervention Against Arab Oil: 1973–1979*, Beirut: Institute for Palestine Studies, Paper No. 4, 1980. This booklet is well documented. For references to Western attitudes, see J E Hartshorn, *Oil Companies and Governments: an account of the international oil industry in its political environment*, London: Faber and Faber, 1967, esp. pp 66–8; see also James E Akins, 'OPEC Actions: consumer reactions 1970–2000' in OPEC, *OPEC and Future Energy Markets*, London: Macmillan, 1980, pp 215–38.

In this connection, Sayigh (*op. cit.*, note 17, p 262) says: 'The hostility to OPEC has expressed itself over the years in a large number of articles, news reports, commentaries, and cartoons in the Western press. As recently as the last few months of 1981 and the first quarter of 1982, several articles were published revealing undisguised gloating over the troubles that OPEC was having owing to the glut in the market and the resultant depressed prices. Some spoke of the 'death' of OPEC: William Brown of the Hudson Institute, a long-standing critic of OPEC, said 'OPEC is 100 per cent dead' (*International Herald Tribune*, 18 March 1982). Robert I Samuelson (*IHT*, on the same day) said, 'Oil prices are falling and OPEC is scrambling to prevent a total collapse. If it

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to deflate the new power of the Arab oil exporters and therefore to reduce the dependence of the OECD countries on Arab (and non-Arab) OPEC oil, by reducing the demand for it and forcing its price downwards. In the process, it was expected that OPEC itself would be considerably weakened, if not completely dismantled.

Two short-term reactions can be cited here. The first was the slowing down of economic growth in the advanced market economies, which by the end of 1982 had resulted in near-zero growth. Although oil prices cannot be wholly blamed for this development, with signs of economic strain and of unemployment preceding oil price correction, a part of the blame must be borne by them. The second reaction came as a dual response to the price rise in 1979, to the revolution in Iran in 1979, and later, in September 1980, to the Iraq-Iran war. Together, these events led to panic in the market and to heavy stocking. The stocks accumulated in 1979–80, estimated to have peaked at a certain time at 5 billion barrels, were later to press downwards on the price structure, through unduly high destocking in 1981–3.

However, the current crisis is more appropriately explainable in longer-term reactions, namely in the conservation measures adopted generally, but more particularly (and effectively) in the Western industrial countries. Consumption shrank as a result of deliberate energy-saving policies, but also in response to the effort to devise and apply energy-saving technologies in industry, transport, and household uses. At the same time, another three developments added downward pressure on OPEC oil: energy substitution, with greater recourse to coal, nuclear energy and gas at the expense of OPEC oil; a shift away from OPEC oil to non-OPEC oil, particularly from the North Sea and Mexico; and, the weakening of the 'historical link' between energy consumption and economic growth.

Over and above these various developments along the profile of known and established sources of energy, the search for and development of new sources was accelerated during the period of high oil prices and a sellers' market. In addition, the search for new oilfields in the OECD countries was considerably intensified. It is both ironical and contrary to far-sighted economic logic that the efforts to find substitutes for oil in general, and for OPEC oil in particular,

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cannot, obituary writers from New York to Tokyo will gleefully proclaim the cartel's demise.' Articles containing equally undisguised hostility can be found in *US News and World Report* on 15 March 1982 and *Newsweek*, 15 March 1982. See earlier articles both in *Newsweek* and *Time*, of 31 August 1981. At the official level, a senior White House official was reported by Reuter on 23 March 1982 as saying that after a long wait, they (the US) had begun to weaken the control of OPEC (*An-Nahar* of Beirut, 24 March 1982). In short, neither the Western objective of weakening OPEC and bringing about its disintegration, nor the gloating over the near-achievement of this objective, is a secret. And, in addition, the climate of hostility and hatred, with concentration on the Arab oil exporters, can be specially felt and seen in the style and vocabulary used and in the obviously racist and defamatory cartoons accompanying much of the writing about Arab exporters'.

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have slackened with the shift to a buyers' market, even before notable success rewarded the efforts. And this is where the danger of the recurrence of the events of the past decade in a disequilibrating cycle really lies. (Would it be a ten-year cycle from peak to peak?)

Understandably, much of the thinking and policy-formulation meant to redress the 'adverse' impact of price rises was undertaken by individual industrial countries in their capacity as sovereign states concerned with what they considered their national interests. However, a novel development characterised the years immediately following the price adjustment of 1973–4. This was the formation in November 1974 of the International Energy Agency by the OECD countries (except for Finland, France, and Iceland). The IEA's basic aims are:

a) cooperation among IEA participating countries to reduce excessive dependence on oil through energy conservation, development of alternative energy sources and energy research and development;
b) an information system on the international oil market as well as consultation with oil companies;
c) cooperation with oil-producing and other oil-consuming countries with a view to developing a stable international energy trade as well as the rational management and use of world energy resources in the interest of all countries; and
d) a plan to prepare participating countries against the risk of a major disruption of oil supplies and to share available oil in the event of an emergency.[4]

The formation of the IEA came not only as an economic response to the price adjustments of 1973–4, but also as an institutional-political response to OPEC's new-found power upon its assumption of the 'policy of control' in mid-October 1973. The IEA was also meant as an instrument for the design and promotion of measures to contain the power of OPEC and OPEC oil alike. This is the true sense of the basic aims of IEA which no euphemism can conceal.

Impact of the Crisis on the Arab Economies

The current oil crisis acquires its dimensions from objective, measurable causes, but also from the perception of those on whom the incidence of the crisis falls. And the incidence on the Arab oil-exporting countries, in my view, is a function both of attitudes, policies, and measures outside the control of these countries, and of a combination of 'sins of omission and of commission' generated within the Arab region. Here we refer not to the pricing of oil but to the complex of Arab attitudes, policies, and behaviour relating to a number of basic issues. We will present these further on, in order to show why there is justifiable anxiety about the effects of the oil crisis on the Arab economies, and

[4] Quoted from the inside cover of International Energy Agency, OECD-IEA Parliamentary Symposium, *Energy and the Economy*, 10–11 April 1981, Paris: OECD-IEA, 1981.

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what the future could bring to these economies if the Arabs fail to correct the effects of the crisis and prevent it from recurring.

Before we indicate where Arab policymakers erred in the decade 1973–83, we ought in fairness to put on record a major extenuating factor, which is that the assumption of the power of policy formulation and implementation is only a decade old—which is a very short period for adequate 'apprenticeship' in policymaking and decisionmaking. Under the circumstances, the Arab sins of omission and of commission are not only understandable, but also largely forgivable. But to understand and to forgive is not to erase the slate of history. With this point made, the internally-based issues will now be presented:

1) Perhaps at the root of the problem is the excessive enchantment with the scale and magnitude of oil revenues earned after 1973, and particularly with the rate of increase in these revenues, along with the complacency that the revenues came to create in the Arab oil countries and, indeed, in the region as a whole.[5] The complacency had serious far-reaching implications, including an exaggerated faith in the power of money at the expense of other more fundamental and powerful determinants of development.

2) Admittedly, the rise in revenues derived more from the rise in export price per barrel than from the expansion in production. Nonetheless, average production by the seven Arab members of OPEC in the 1970s was 2.2 times as high as that in the 1960s.[6] The powerful combination of higher prices and larger exports led to the vast increase in export revenues. These in turn made possible a vast expansion in the import of consumption and capital goods and services, which were acquired to meet the pent-up demand of consumers for necessities as well as for a wide range of luxuries, and to meet the demand of investors in the public and private sectors alike, who launched very ambitious 'development' programmes.[7] Domestic production could only satisfy a rather small proportion of the vastly expanded demand. It was this new purchasing power which in large part consequently created far greater linkages and integration

[5] The oil revenues of the Arab members of OPEC amounted to $4,534 million in 1970, but to $134,916 million in 1979. They averaged $49,018.8 million for the decade of the 1970s. (See Sayigh, *op. cit.*, Table 4.2 p 181.)

[6] Production rose from 4.3 million barrels/day in 1960 to 12.5 million b/d in 1969, with an average of 7.9 million b/d for the decade. During the 1970s, it rose from 13.8 million b/d in 1970 to 21.1 million b/d in 1979, with an average of 17.3 million b/d for the decade. (Sayigh, *op. cit.*, Table 4.2 p 181.)

[7] Investment allocations according to development plans in the second half of the 1970s for the Arab countries excepting Bahrain, Qatar, and Jibouti totalled $326,119 million. See Arab Fund for Economic and Social Development, *Study on the Development of Human and Manpower Resources in the Arab Region* (Kuwait, 1978) mimeograph, pp 17, 43, 44 (in Arabic). However, vast increases in budget allocations were introduced in the late 1970s into the plans for the first half of the 1980s. Thus, Saudi Arabia, whose plan for 1975–80 had been the largest among Arab plans, officially reported that it would raise investment allocations by $119.7 billion for 1980–5. Other countries raised their allocations by an estimated $35 billion. For Saudi Arabia, see *Middle East Economic Survey* 23(21), 10 March 1980. For the other countries, the estimate is reported in Sayigh, *op. cit.*, p 193.

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with the production machinery and markets of the advanced industrial countries than with the Arab countries. This the oil sector achieved through the recycling of oil revenues, in addition to the aspect of integration connected with the export of oil.

3) While much of the importation can be explained and justified, much defies justification. Thus, the 'consumerism' that blossomed in the 1970s is not only morally reprehensible, but also economically short-sighted and damaging, in that it has already cultivated patterns of behaviour that are difficult and painful to uproot, and it has diverted resources that to an appreciable extent could have been saved and invested. On the other hand, not all the investments made fell into a rational system of priorities or led to sound overall economic and social development,[8] although they brought about concrete improvements in the economic and social infrastructure and a rise in the rate of economic growth.

4) Irrespective of the degree of real need or urgency for imports, whether consumers' or producers' goods and services, a significant proportion of these imports could be produced within the Arab region, if development had been so directed as to lead primarily to the building of national and regional productive capability and capacity. This is truest of goods and services calling for simpler technologies, and most particularly of agricultural commodities.

5) The financial resources which were used for local consumption and investment, for imports, and for aid to Third World countries and support to international organisations, together fell short of the oil revenues earned. Most of the surpluses have gone to Western money markets for placement. While a part of these surpluses went into direct investment, the larger part was subject to the eroding effect of inflation and has lost heavily in purchasing power as a result.

6) What looked like the acquisition by the Arab countries of greater power and political leverage in the international system and the economic order, proves today to be largely illusory. The greater degree of interdependence vaunted, between the Arab and the Western industrial countries, is in effect a greater degree of dependence by the Arab on the Western countries than ever before. One statistical indicator of this dependency can be found in the ratio of the external sector (imports plus exports) to Gross National Product. This sector amounted to 60 per cent of GNP for the whole Arab region in 1970, but rose to 94 per cent for 1979.[9] Another way of looking at the enormity (and danger) of

[8] See, for instance, Galal A Amin, *The Modernisation of Poverty*, Leiden: E J Brill, 1974; Yusif A Sayigh, 'A Critical Assessment of Arab Economic Development, 1945–77', in United Nations Commission for Western Asia, *Population Bulletin of the United Nations Commission for Western Asia*, No. 17, December 1979, pp 32–45; Georges Corm, *The Missed Development: studies in the Arab civilizational and developmental crisis*, Beirut: Dar Al-Tali'at, 1981 (in Arabic): and Yusif A Sayigh, *The Arab Economy: past performance and future prospects*, Oxford: Oxford University Press, 1982, chapters 10 and 11.

[9] For 1970, see Arab Fund for Economic and Social Development, *Study of the Developmental Achievements of the Arab Homeland in the Seventies, and the Outlook for the Eighties* (Kuwait,

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this dependency is to consider the fast-increasing insecurity of the Arab economies, represented by the huge imports of consumer goods (including food imports, every Arab country today being a net importer of wheat), the hardware and software of technology, and armaments. Furthermore, the large financial reserves outside the Arab region, currently estimated at about $350 billion, can turn into a much more powerful pressure mechanism in the hands of OECD countries than in Arab hands. The political and security implications of this aspect of dependency can hardly be overestimated.

The presentation of these developments is not meant to indicate or even to suggest that the 'oil era' has not also produced a number of concrete, positive results that are directly attributable to the takeover of control of the oil sector and the significant appreciation in value of the oil resources, and, therefore, the accrual of substantial oil revenues. Yet the performance of the Arab economies (whether or not oil-producing) though improved in several respects, is not the object of this article. It is instead concerned with the inner causes and structure of the current oil crisis, and how this crisis impinges on the future health and progress of the Arab economies.

The crisis would not loom as large as it does today had the attitudes, the policies, and the behaviour of the oil countries, in the areas associated with the oil resource, been sufficiently different to avoid the shortcomings and the imbalances and distortions just listed that have beset the Arab economies. This may sound tautological, but it is in fact the statement of a causal relationship. In brief, this relationship attributes the distorted economic performance in the different aspects indicated to certain attitudes and policies which were, in turn, a function of the acceleration of oil production in the 1970s, the vast expansion of the oil revenues accruing, and the way in which these revenues were utilised. That the crisis clearly has other extraneous causes and manifestations does not invalidate the allocation of a certain part of responsibility to internal causes. We would like to go further and say that the crisis would have been considerably more tolerable and manageable and much less damaging had the Arab oil policies been sounder and more far-sighted.

The new oil era opened up great opportunities for the Arab countries but also laid upon them great responsibilities. A number of these were assumed creditably, particularly within the international context, in the sense that the oil exporters took the needs of the international community for oil and for foreign aid amply into account in their policies. But a number of opportunities have been either missed or sub-optimally utilised. Three failings stand out in particular. The first is the complacency with which the production and export of oil was expanded which generated revenues of a size which permitted

1980) p 24 and Table 2 in *Appendix* 3. The percentage for 1979 has been calculated along the same lines by the present writer.

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consumerism and wastefulness to the point where most oil countries today suffer financial stringency.

The second failing was the faulty design of development plans and programmes, which frequently deviated seriously from a sound and defensible system of priorities. The implementation of the plans suffered because of over-ambitious budgets and the inadequacy of manpower skills and of available institutions. As a result, the plans and programmes proved to be excessively costly and wasteful. The third failing was the failure to lay enough stress on three crucial determinants of development: (i) the vigorous training of manpower in the skills on which modernising economies depend; (ii) the provision of opportunities to the Arab people to participate effectively in the process of decisionmaking, if true commitment to the objectives and efforts of development were to be obtained; and, (iii) the promotion of effective and far-reaching Arab economic complementarity. Complementarity would have made it possible to identify and utilise the much wider regional opportunities available for investment, markets, and a better allocation of manpower and financial resources. The new oil era opened up all of these opportunities, and their utilisation would have helped to avoid a large part of the distortion witnessed in the past decade.

Outlook for the Future: two mainstream scenarios

The serious distortions and imbalances generated by or associated with the oil era have blocked the course of Arab economic and social development. Consequently, they will have a lasting impact on the future of development and well-being in the region. It is therefore essential to read the lessons of the immediate past correctly and to look ahead into the future to consider what expectations are warranted, and to explore how the course of future events can be cleared and straightened.

To simplify matters, we can say that two possible mainstream scenarios can portray the years ahead to the end of the 1980s. In the first the Arab oil exporters (and the non-oil Arab countries, whose attitudes, policies, and behaviour are considerably influenced by those of the oil exporters) will *not* draw and benefit from the main lessons which the crisis has clearly imparted.

The central feature of this scenario is a grossly insufficient realisation by the Arab oil exporters that they bear a certain responsibility for the crisis because of the permissiveness with which they expanded production during the 1970s together with increased prices, and of their reaction to the availability of (relatively) vast financial resources. As a result, their economies and societies fell into faulty and dangerous grooves of consumerism and over-spending; incorrect investment priorities; confusion between mere growth and meaningful development; the equation of the importation of the hardware and software of advanced technology with the acquisition of technological capability; and satisfaction with the outward trimmings of power and influence in world

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economic affairs at the expense of deeper concern with the consolidation of power on the sound foundations of development, Arab economic complementarity, social cohesiveness, and popular political participation.

The danger is that this pattern of attitudes, policies, and behaviour, which together constitute the backdrop to the 1980s, may have so hardened as to deter the political, social, and economic leadership from developing a new vision. They must realise that radical change is essential and critical. Change should begin with a new conceptualisation of the course of action required, and should inject a new discipline and a new orientation into the design and implementation of economic strategies, policies, and programmes. These should primarily aim at enabling the Arab societies first to live with the new realities, and secondly to change them as the underlying factors and forces are redirected and transformed.

Under this scenario the failure sufficiently to realise and acknowledge responsibility will make the Arab countries seek short-term palliatives. The most dangerous of these is to seize the first opportunity of appreciably increased demand to expand oil production tangibly and/or to raise prices excessively, and thus to fall into the trap of the 'oil cycle', to which we referred earlier as a serious danger that must be avoided as far as possible. Three interrelated aspects of this danger must be stressed: (i) the danger of falling into the trap yet once again because of the mere fact of having fallen into it once before, in spite of the lessons and warnings that the current crisis has generously demonstrated; (ii) the danger of once again ignoring, even if only partially, the imperative of oil conservation for the dubious 'benefit' of the expansion in monetary revenues and surpluses; and, (iii) the danger of rationalising the dilution of the conservation imperative by the urgency of the acquisition of expanded financial resources for the pattern and scale of spending/investing which characterised the last few pre-crisis years, and thus downgrading the urgency of socioeconomic discipline and rationality.

Admittedly, it is easier to make such pronouncements that are loaded with values and normative imperatives, than to design strategies and policies that embody them, and to actually implement the strategies and policies effectively. There are constraints and temptations that combine to make the design and implementation objectively difficult, and subjectively undesirable to decision-makers. The constraints refer to the international pressures that invoke the interests of the world economy and its health and growth, particularly if the productive capacity of non-OPEC countries does not expand considerably and speedily, and if non-oil sources of energy already developed are for one or more reasons not made to satisfy a much larger share of energy requirements than they now do, or yet if the search for new sources is allowed to slacken and falter further. They also refer to domestic pressures that invoke consumption and investment needs, even when these are in part unwarranted, wasteful, or misguided.

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On the other hand, the temptations refer to the attractiveness of increased monetary revenues, of the recapture of the position of pre-eminence which OPEC oil had occupied or had (even if precariously and superficially) permitted to the major OPEC members, and of the sense of satisfaction which is gained from merely acceding to the pressures of domestic groups that had benefited enormously, in terms of private fortunes, from the era of free spending and insufficiently controlled government contracts. The combination of constraints and temptations may well be extremely difficult to resist except for the most enlightened and determined of leaderships. Furthermore, given the narrow political base of power in most of the Arab countries, and the limited 'international constituency' where the Arab countries can seek political support within the Western community,[10] resistance will be additionally difficult.

The need for discipline and far-sightedness is particularly great in view of the likelihood that different OPEC members may react differently to a change in conditions towards firmer demand and the opportunities this provides for expanded production and/or increased export prices. The absence of consensus could well bring about the adoption of different policies by different members, and the considerable weakening if not the fragmentation of OPEC, with a price and quota war which will pave the way for yet another oil cycle.

But apart from these structural implications of the first scenario, it will have serious implications for aid and development at the national, the regional, and the international levels. Thus bilateral and multilateral foreign aid by the Arab oil exporters—though still substantial for 1981 and 1982—obviously cannot be maintained at its high level. Even within the Arab region, aid flows have become hesitant and in some instances certain commitments have not been met. Development budgets have been trimmed in almost every oil-exporting country, but this can be a blessing in disguise in many instances where the scale of priorities had not been carefully designed and where lavishness had been permitted. In short, Arab socioeconomic development could be slowed down for several years, if the opportunity to instil much greater discipline is not utilised in setting priorities, in the planning processes, and the design and implementation of programmes and projects.

Conversely, the current crisis could prove useful, though painful, if its lessons were recognised and learned, as the second scenario stipulates. The central part of this scenario is the realisation that Arab policies had erred in certain fundamental respects, and the proper identification of the errors. Likewise, the realisation must include the conviction that the crisis could be the launching

[10] The weakness of Western support to the Arabs (not to say the hostility towards them) precedes the take-over of control of the oil industry in October 1973, when the initiative was taken by six OPEC members, all of whom except Iran were Arab. It derives from historical-religious factors, but relates in more recent times to the Arab-Israeli conflict and the extensive Western support of Israel.

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pad for basic reforms and the correction of attitudes, policies, and behaviour patterns. It must also include the identification of the proper course to be pursued if balanced, healthy development is to be promoted. Finally, the oil policies must be so designed as to embody delicate balance between the many interrelated and interacting components.

These components often pull in different directions. Thus, as illustration, to expand production tangibly in order to earn larger revenues would damage the conservation desideratum, yet to allow revenues to shrink would constrict development and welfare outlays domestically and development aid within the Arab region and the Third World at large. In fact, an integrated oil policy must provide for all its components to have room to operate, but must also reflect and express the dynamic interrelationships and interactions among these components, in such a manner as to indicate how the totality of the system behaves when one of its components changes. To 'solve' for an optimal system of policy-making would very much be as complicated and as delicate as to 'solve' for a system of general equilibrium in academic economics. However, in both instances, the fundamental prerequisite for the system to reach equilibrium is the proper definition of the various components and the understanding of their workings and implications, individually and in interaction.

The second scenario goes beyond the oil sector, even given the wide influence of oil in the economies of OPEC countries. One of the lessons which needs to be learned is to place oil resources (and oil revenues) in their proper place, without undue exaggeration or underestimation. This would mean assigning the proper weight to the sectors of industry and agriculture, and to education, training, and the acquisition of technological capability. The Arab region needs to become much more sensitised to the need to approach self-reliance in these sectors and areas, rather than to the deceptively easier course of importing whatever products and skills it needs. Several of the oil-exporting countries must progress from being *rentier* societies and become much more involved in direct production.

To achieve this transformation it is necessary to create relationships of complementarity among Arab countries, in order to compensate for the handicaps from which some of them suffer in terms of small populations and a narrow economic base. National development efforts would benefit from a regional dimension. This would be true particularly in those cases (like the pursuit of agricultural security, the promotion of science and technology, the development of engineering industry, and—obviously—the pursuit of national security) where the mobilisation of the resources and capabilities of several countries would be essential and crucial for tangible desirable results to materialise.

In brief, in all the instances to which reference has been made during the discussion of the second scenario, the current crisis could be of positive value for the future of the Arab economies and societies. Under this scenario, the

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different aspects of the role of the oil resource will be crowned by two achievements. The first is that the crisis teaches us that to produce less oil currently will conserve more oil for the future, when Arab industrialisation accelerates to reach a high level of spread and performance, and to contribute substantially to Gross Domestic Product. This would involve a much heavier emphasis on refining and petrochemicals and, therefore, the need for smaller production than when the emphasis is on the export of crude. The second is that the crisis teaches us that the oil resource which is presently a large contributor to GDP can render a greater service to the Arab economies by becoming instrumental in reducing dependence on itself (that is, becoming rather superfluous in a sense), by promoting development.

Conclusion

Which of the two scenarios has a greater likelihood of coming true in the years to come? Almost certainly neither will unfold in its 'pure' state, as reality is rarely as stereotyped and stiffly categorised as theoretical or speculative models depict. Some of the lessons will be drawn and learned, and indeed there are indicators in support of this assertion. Foremost among these is concern with conservation, and a willingness within OPEC to programme production and, by and large, to adhere to the individual quotas assigned. But the acid test will come when the market firms up and demand exerts heavy pressure for substantially increased supply. Will the conservation discipline remain operative then, or will complacency and over-concern with expanded revenues take over again, and lead once more to an oil cycle?

However, some other lessons will probably not be drawn and learned adequately within the time horizon of the 1980s. Foremost among these is the realisation that Arab economic development has been faulty in certain major aspects, and that it needs to undergo basic changes in its objectives, content, strategies, policies, programmes, and mechanisms. Especially dangerous in this context is the narrow base of political participation which we expect to characterise Arab societies in the immediate future. Possibly, the future will bring with it a clearer understanding of what sound oil policies are and ought to be, but the Arab economies in general will continue to suffer from insufficient awareness of the imbalances and distortions of development as it unfolded over the past decade, and the corrective process here will be even below the level of this limited awareness.

On balance, the current crisis threatens to leave much of its unhealthy mark on the Arab economies for the coming years. The note of hope that we feel is warranted here is that the economies could be so unhealthy and in such disarray as a result of the current crisis, that the need for reappraisal and correction would force itself on the consciousness of the political and other leaderships. In other words, the men and women of the region, who are both the agents and the beneficiaries of development, would force their interests and their voices on

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the leaderships in their pressure for radical change; and the debilitating effects of political and economic fragmentation of the Arabs would force to the front both a regional approach to problems and a regional mobilisation of resources and resourcefulness.

STATISTICAL APPENDIX

Table 1: Oil and Natural Gas Reserves

a) Oil (billion barrels, end 1982):

World	670.2
OAPEC	347.0
OPEC	447.8
OAPEC/World	51.8%
OPEC/World	66.8%

b) Gas (billion cubic metres, end 1982):

World	85,652
OAPEC	12,126
OPEC	28,631
OAPEC/World	14.2%
OPEC/World	33.4%

Table 2: Oil Production (1000 barrels/day)

1982:	World	54,572
	OAPEC	12,756
	OPEC	18,398
	OAPEC/World	23.4%
	OPEC/World	33.7%
1979:	World	63,185
	OAPEC	22,204
	OPEC	31,209
	OAPEC/World	35.1%
	OPEC/World	49.4%
1973:	World	55,803
	OAPEC	18,340
	OPEC	30,979
	OAPEC/World	32.9%
	OPEC/World	55.5%

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Table 3: World Energy Consumption (million petroleum barrel equivalent)

	1979		1980		1981	
	mn pbe	%	mn pbe	%	mn pbe	%
Oil	64.1	45.7	61.6	44.1	59.8	43.1
Natural Gas	25.6	18.2	26.1	18.7	26.6	19.2
Coal	39.5	28.1	40.1	29.0	40.1	28.9
Nuclear	3.1	2.2	3.3	2.4	3.82	2.8
Hydroelectric	8.16	5.8	8.29	5.8	8.33	6.0
Total	140.5	100.0	139.4	100.0	138.7	100.0

Table 4: Oil Revenues for Seven Arab Members of OPEC ($ billion)

1961	1.2
1970	4.5
1973	12.5
1974	51.5
1979	134.9
1980	204.2
1981	189.0
1982	142.6

Table 5: Gross Domestic Product ($ million at current prices)

	1979	1980	1981
Arab OPEC Members	205,919	292,524	281,542
Other Arab Countries	76,313	91,519	96,589
Total 21 Countries	282,232	384,043	378,131

Table 6: Commodity and Service Exports ($ million)

	1979	1980	1981
Oil Exports	142,183	214,093	198,317
Non-Oil Exports	7,383	13,909	12,298
Total 21 Countries	149,566	228,002	210,615

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Table 7: Commodity and Service Imports ($ million)

	1979	1980	1981
Arab OPEC Members	77,406	106,419	121,206
Other Arab Countries	30,206	39,350	47,843
Total 21 Countries	107,612	145,769	169,049

Table 8: Consumption, Private and Public ($ million)

	1979	1980	1981
Arab OPEC Members	89,988	120,938	136,467
Other Arab Countries	61,045	78,895	84,717
Total 21 Countries	151,033	199,833	221,184

Table 9: Gross Fixed Capital Formation, Private and Public ($ million)

	1979	1980	1981
Arab OPEC Countries	61,772	79,324	88,296
Other Arab Countries	17,380	22,653	27,086
Total 21 Countries	79,152	101,977	115,382

Sources:

a) Items 1, 2, 3, and 4: OAPEC, *Secretary-General's Eighth Annual Report, 1981*. Kuwait 1982 (Arabic); and OAPEC, *Secretary-General's Ninth Annual Report, 1982*. Kuwait 1983 (in Arabic).

b) Item 4 for revenues: for the years 1961, 1970, 1973, 1974, 1979, and 1980: *Middle East Economic Survey*, 25(1) 19 October 1981. For 1981 and 1982: OAPEC, *Secretary-General's Ninth Annual Report, 1982*, p 67.

c) Items 5–9: Secretariat-General of the League of Arab States, Arab Monetary Fund, Arab Fund for Economic and Social Development, and OAPEC, *Consolidated Arab Economic Report 1981*. 1982 (in Arabic), Table 2.7, p 195; and *Consolidated Arab Economic Report 1982*. 1983 (in Arabic). Tables 2.1 and 2.2, pp 147 and 148.

NOTE

The title originally suggested by the author for this article was: 'The Current Oil Crisis and the Future of the Arab Economies'.

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