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Oil Industry in the Gulf Market

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Abstract:- This research paper aims at explaining how the oil industry has emerged since the time it was invented. The relationship between the major oil producing countries and OPEC. Also, answers the various important questions like, how this industry has an important influence on the overall health of global economy.

I. INTRODUCTION

In the bygone era of agriculture, people used to survive on woods for warmth and energy. It emerged as the most valuable commodity for ages. In the 18th century, steam engines were invented and coal set apart its impact on industrialization with its tremendous contribution towards growth. But due to environmental issues (e.g thick smoke) generated by flames of coal and invention of new technologies, energy source was shifted from coal to oil.

For the first time, in 600 B.C., oil was invented by Chinese which was carried in bamboo sticks for transportation. However, America's first oil discovery in Pennsylvania in 1859 by Colonel Drake and then in Texas in 1901 by Spindletop activated an arena for this business. As 19th century brought up tremendous change through industrialization, many oil companies emerged and oil became the leading fuel in the 20th century. The technological advancements brought the emergence of oil as the most preferred source of energy. The electric bulb replaced the oil lamps as well as the demand for ownership of automobiles increased, this resulted in an increase in demand for oil.

Kerosene was considered to be more reliable and economic than other fuels but in 1919, gasoline sales exceeded. Petrol became a vital source of energy, as it powered most of the military equipments from ships to airplanes in the World War I. Natural Gas is formed by burning fuels, it became a very useful source of energy in the residents as well as in industries which resulted in becoming a priced fuel in itself.

II. IMPORTANCE OF OIL IN AN ECONOMY AROUND THE WORLD

For the world to become more economically prosperous and to feed the population, we need more sources of energy. The US consumes the largest chunk of oil in the world and it would become highly dependent on foreign supply if there was no production of oil, this would make the US economy to be directly controlled by price of oil and gas exports. The country faced a similar situation earlier but then hydraulic fracturing (a process of fracturing rocks for extracting oil and natural gas) was invented which saved the country's oil industry. US uses 25% of global oil production and 45% of gasoline production in spite of having only 5% of world's population. And needless to say, the countries like Brazil, Russia, India and China whose economies are blooming, their demand of oil will only increase in the coming future.

Scaling the importance of oil is imprecise, as it books for less than 10% of world's GDP but most of the global capital stock is arranged to use it. Finding an alternative source of energy or developing new sustainable batteries are the main reasons for reducing the dependency on oil and gas. But they tend to cost 4-5 times higher than current price of fuels. The new global market will have to extend the capital to maintain the current supply of oil and pull up the prices to validate its investment. The most challenging part since the last few decades is the industry becoming much more capital intensive for both the common and uncommon sources of petroleum. From 2000-2013, capital expenditure increased from $250 Billion to $700 Billion, which is almost three folds in real terms. For that duration, global supply of crude oil went up by only 11 percent and the reason for that was increased production of oil in the US and oil sands in Canada.

III. GEO-POLITICAL TRENDS IN THE OIL INDUSTRY

In Kuwait, 10 percent of the oil revenue are secured directly for the future generation because the policy makers are trying to sustain moderate level of expenditure and occupation in the public sector by borrowing from the fund. Kuwait and many other oil producing economies in the Gulf are under the same dilemma as to decide on the usage and produce which might be related to the assets accumulated through the past production because the next generation is being taxed for the benefit for the current one. Politicians may deal with this easily but it happens to be economists who gets disappointed.

There are two associated principles in the new developing energy market, first is the rivalry among the buyers to control the supply of oil and the second is the association between oil manufacturers and consumers to centrally renovate the Middle Eastern oil mart.

Saudi Arabia is strengthening its strategic ties with China and Russia which are interested for oil supply and production respectively, as it aim to build up its strength to confront the pressure put forward by US on different reforms. Similarly, Iran is making robust economic expansion deals with Japan, India and China on bilateral grounds by utilizing its bargaining chip to rift the US imposed sanctions against it. Both India as well as China are

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setting up their feet in the middle-east, where China is taking up a more assertive posture fronting the US.

Qatar left OPEC, effective January 1, 2019, as announced by its energy minister Sherida Al Kaabi. Qatar joined OPEC in 1961, but after six decades of being part of this oil consortium, it has now severed its ties. Qatar desired to focus on its manufacturing performance in the oil industry and boosting up its produce from 77 million tonnes to 110 million tonnes per year in the future. Despite the fact that Al Kaabi's statement mirrors Qatar's desire for permanent resource planning but it escapes from describing the main reason for Qatar's exit from OPEC-the growing disputes with OPEC's de facto ruler Saudi Arabia and constant deadlocks in the Gulf Cooperation Council (GCC). Qatar's pact of leaving OPEC is more inclined towards the department of political affairs rather economic affairs. The insignificant members like Kazakhstan, Russia etc. have almost missed their strike in the OPEC+ configuration but Qatar's departure does not seem to encourage others to leave OPEC.

Countries	GDP (In billion US Dollars)	Production (Th/B per day)	Consumption (Th/B per day)
United States	19485.4	11,700	19880
China	12014.6	3,980.6	12799
India	2602.3	734	4690
Japan	4873.2	3.9	3988
Saudi Arabia (OPEC)	686.74	10,460	3918
Russia	1577.53	11,200	3224
Brazil	2055.1	2,515.4	3017
Germany	3700.6	46.8	2447
Canada	1653.04	3,662.6	2428
Mexico	1151.05	2,186.8	1910
Iran (OPEC)	439.5	3,990.9	1816
Iraq (OPEC)	197.7	4451.5	791
United Arab Emirates (OPEC)	380	3,106.7	1007
Kuwait (OPEC)	124.9	2,923.8	449
Venezuela (OPEC)	314	2,276.9	505
Algeria (OPEC)	178.4	1,348.3	411
Ecuador (OPEC)	98	548	237

Table 1:- Depicting comparison of massive production and consumption of top GDP countries (2017)
Source: CEOWORLD Magazine and Wikipedia*

IV. IMPACT OF OIL PRICES IN THE ECONOMICS OF GULF STATES

The middle-east is mostly an integrated and organised zone standing out with a proper flow of both labour and capital whereas the gulf market is majorly classifies into only two types of economies: oil economy and non-oil economy. Often, the government of the top oil producing countries find themselves in a dual dilemma when the oil prices fluctuates because 60-70 percentage of exports comprises of oil and their major part of revenues are linked with it. Fiscal pressure increases: expenditures and consumption can't be cut down instantly and ultimately the balance of payments is affected due to the setback in revenue from the foreign exchange. The reduced flow of investment as well as tourism and trade results in growth decline as the interconnections within Arab countries start to act in response. For example, the high-ranking countries of this story line as per the regional standards are proposed to drop by 2-2.5 percent points due to the oil price inconstancy and these countries are Egypt and Tunisia. This has debt consequences where if the government reports international debt, the country has to face uncertainty and in case of domestic debt, the country faces distress of crowding the private sector.

The challenge of unemployment is the one which almost every Arab nation is facing specifically for the young graduates and educated people, which leads to involuntary unemployment and social pressure. The lack of jobs for these young citizens is causing concerns for the European Union as well. There is a high pressure to catch up with the growth rate in Saudi Arabia, Kuwait and Oman which will increase the pressure for indigenization Saudization, Kuwaitization and Omanization of the labour force. The cost of doing business is affected by high oil prices and it ultimately gets passed on to customers and businesses with a positive or a negative effect. Whether it is higher cab fares, cost of Apples transported from California, or any commodity imported from all around the world, prices of related products and services are directly proportional to the price of oil which sometimes affects prices of unrelated products also.

V. OPEC ROLE

OPEC called Organization of Petroleum Exporting Countries is a conglomerate of 14 countries which are world's major oil-exporting nations. It coordinates amongst its member states to provide the petroleum policies as well as technical and economical aid. It manages the supply of oil in the global market, also sets the price in order to avoid fluctuations which might have an affect on the economies of trading countries. Throughout the last five decades, OPEC has faced extreme situations in oil price cycle fluctuations where it has tried to respond in the most suitable and correct manner in keeping the market equipped. During the time of crisis, OPEC maintains the market and controls its demand and supply by handling the pricing game. It has always proved to keep the oil market balanced, even at the times of unexpected events, such wars or natural disasters.

Qatar's decision to quit OPEC is not going to negatively impact the organization's performance, since the country's production was about 6,00,000 barrels of oil in a day. Shiekh Hamad Bin Jassim, the previous prime minister, tweeted: "Leaving OPEC is a sound decision, as it has become a useless organization that does not add anything to us, and is only used for purposes that harm our national interests." Calling OPEC useless is a bit of an exaggeration but its role is definitely uncertain.

OPEC's influence on the global market lessened as it had a major impact of fracking, a new technology in US and it took a toll on oil prices worldwide. OPEC's remained in a sensitive position, when the oil prices fell drastically as a result of high production in the US. As the performance of these non-OPEC countries grow, no one can predict how OPEC's efforts will stabilize in this fragile oil market.

VI. CONCLUSION

Saudi Arabia, Oman and Kuwait which are the three biggest economies in the gulf faced a common issue of fiscal adjustment. Saudi Arabia kind of plays a monopoly in the global market, being the sixth biggest oil consuming and biggest oil producing country. It also holds the second biggest proven oil reserves worldwide.

According to the most esteemed researchers, there is going to be enough oil resources available for the next three decades but its only possible if the resources are rightly managed. At the same time, some of them anticipated that oil production reached over the top very soon and this should not be overlooked because there has been a huge gap between the estimates and the mainstream estimates inclusive of our judgement of present and future resources.

All the nations are conscious of this but its difficult for them to withstand successfully for lease sharing nature of societies and the fact that public employment has always been the means by which oil rents are shared out of the general population. They currently stand up to the likelihood of isolating the issue of profession with the issue of privilege. As the question of economic diversity remains very much on the table, that's why these economies confront the need to create a diversified and profitable private segment. But from multiple perspectives, the private sector faces an adverse environment. At last, the world economy finds a need to balance it out and discover better techniques to smooth the business cycle fluctuations in the oil industry that has become possibly the most significant factor with oil prices moving fundamentally over the past three decades. Well, that's the reason why they call economics 'the Dismal Science'.

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