

OPEC: AN ANALYSIS OF FUTURE ECONOMIES AND AID

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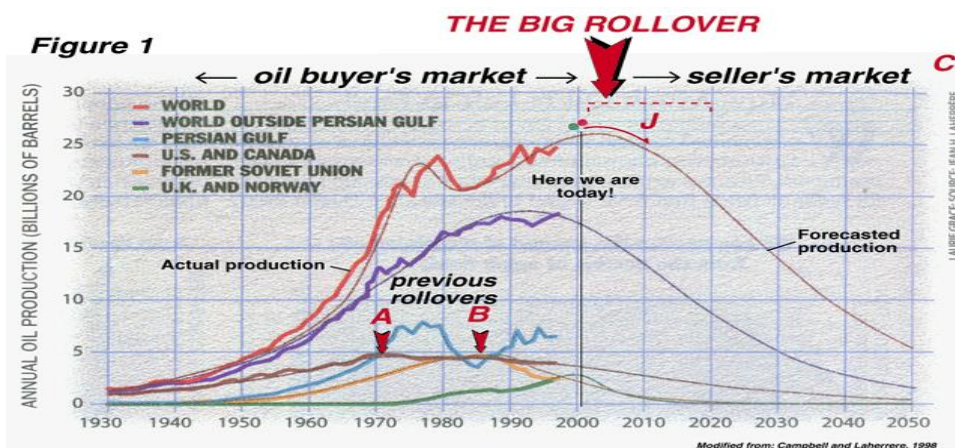
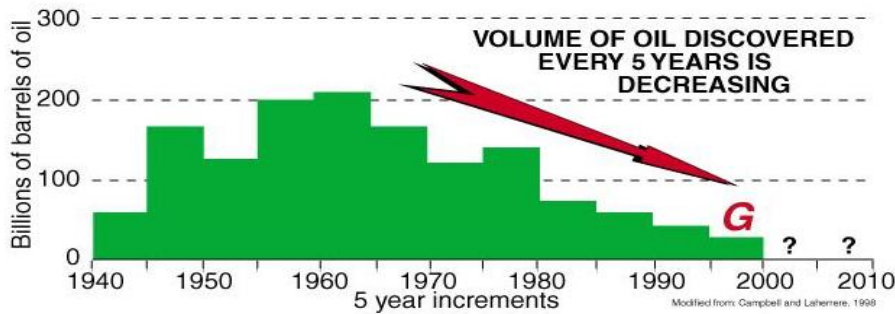
Introduction: A World Dependent on Oil

Modern life around the globe has become dependent on petroleum and petroleum related products, and this dependency grows every year with new technology and energy demands. An issue that has been widely discussed is the limited amount of oil as a natural resource. With the demand of oil rising, the global dependence on oil and the finite amount left makes it a very valuable resource. Who controls the world's remaining oil supply then? The Organization of the Petroleum Exporting Countries controls the majority of the world's oil supply. As demands rise and supply falls, the profit margin of oil exporting will increase in the future. The focus of this paper is an analysis of the past, present, and future of OPEC policies to ensure that the greater profits benefit the world economy and developing nations.

History and Future of Oil

Oil supply and demand peaks have long been predicted. The question these days is not whether oil will run out, but when it will run out. While there are many scenarios and many different statistics and dates that are juggled around, most experts agree that peak oil production will come within the next 20 or so years. Once this peak passes, production decreases until all of the world's oil becomes depleted. Based on the earlier work of Dr. M. King Hubbard and more recently the work of Dr. Colin Campbell, the world's oil supply is expected to last a mere 50-80 more years. These figures all point to the rise in the amount of effect that OPEC will have on the world economy in the upcoming years.

Figure 4



Figures taken from <http://www.oilcrisis.com/magoon/>

History of OPEC

OPEC is currently an organization comprised of 11 member countries: Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates, and Venezuela. It was formed in 1960 by 5 original countries. According to OPEC's own website, this is the mission statement:

“OPEC's objective is to co-ordinate and unify petroleum policies among Member Countries, in order to secure fair and stable prices for petroleum producers; an efficient,

economic and regular supply of petroleum to consuming nations; and a fair return on capital to those investing in the industry.”

In the late 1950s, the amount of oil produced worldwide was greater than demand. The oil companies controlled the price of oil, and when the prices were lowered, the oil suppliers received less money. OPEC formed in order to combat this payment drop. In addition to joining OPEC, some oil-producing countries nationalized the oil production and refining equipment of the oil companies, which generated large amounts of income for those countries.

OPEC clearly dominates world oil. Its member countries produce 41% of the world's oil, and comprise 55% percent of the world's traded oil. Perhaps the most important statistic is the amount of the world's oil reserves that OPEC member countries control; they control over 78% of all crude oil reserves. These reserves become even more important as the global oil reserves dwindle in the coming years.

Oil Revenues

Oil is the most valuable traded good, as it is the highest volume and value internationally traded goods. Estimates on OPEC's oil revenues for the year 2003 hover around \$250 billion U.S. dollars. Current revenues (inflation adjusted) are running around 30-40% higher than revenues in the 90's. Future revenues are expected to stay pretty stable, and climb steadily up due to the increasing demand and decreasing supply of oil. These statistics, combined with the vast proven crude oil reserves, provide OPEC member companies with massive and increasing amounts of financial resources.

Member Country Economies

The dominance of the world oil market by OPEC has brought a steady stream of revenue for its member countries. Why haven't these countries developed world leading economies then? The total combined GDP and GNP of OPEC countries is only a fraction of the United State's. Iz Osayimwese argues that a lack of investment opportunities and needs in relation to the amount of domestic savings has hurt these nations. Lack of development can also be attributed to the unstable social organization in the Middle East, where most of the member countries are. Major armed conflicts in the 80's, 90's, and the present have greatly affected their economies. Money has to be invested to rebuilding the countries instead of using the money to further these economies.

OPEC countries, for the most part, all rely on one primary commodity for the majority of what they earn. All of these countries are also food-deficit countries. This means that they must rely on importing agricultural goods in order to meet their food needs. The income that these countries receive from oil exports is not truly income; it represents the liquidation of capital or the draining of a finite stock of the oil. Because of this, GNP of these countries is often overestimated.

Improving OPEC Economies

It is absolutely crucial for OPEC member countries to continue and increase investment in their own countries in the coming years. The economies of these countries are dominated by oil export revenues. Although this revenue will continue to increase in the future, there is a point where oil will run out, and all the money that is generated by oil will disappear with it. This is why these investments need to be implemented

immediately. Investments made into oil and gas projects that stretch beyond maintenance and production expansion would significantly benefit these natural resource heavy economies. Of equal importance is investment in social capital; education, transportation, telecommunications, healthcare, etc. If these investments are made while oil revenues are steadily increasing, OPEC member countries will benefit socially and economically in the future.

While domestic investment plays a key role in the development and progress of these economies, regional spending is also very important. The bulk of OPEC is located in the Middle East, and the economies of each of the nations in this area are greatly linked to those around it. So, while expending money on regional spending, these countries are not only helping those around it, they are also helping themselves. Algeria, Libya, and Nigeria can increase regional spending as well and help development in Africa. Indonesia can contribute to the development of Southeast Asia. Venezuela has taken an active role in talking to Brazil and other countries to contribute to the growth of Latin America.

Investment from other countries would also help bolster the economies of OPEC countries. High tariffs and strict protective policy have created a barrier to greater trade opportunities. Lowering these tariffs and opening up these countries to greater international trade can be an effective way for them to compete in the world trade market.

All of these factors can help contribute to greater economic development and success of OPEC member countries. Increasing domestic investment in oil and gas projects, investing in the domestic private sector, regional spending, and an opening up of

these countries to international trade and investment can play a major role in strengthening the development and success of these countries. These policies must be implemented quickly while oil revenues are on the rise. Once this time passes, the revenues of these countries will not be strong enough to begin a major investing program like this.

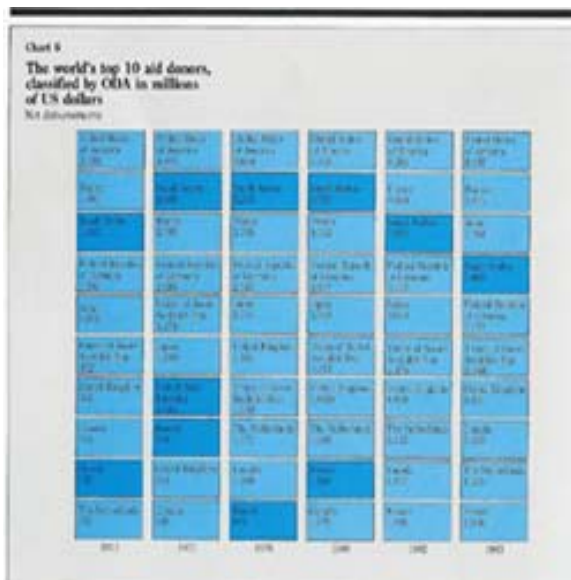
Opportunities for Foreign Aid

Foreign Aid has long been a hot international topic. It has almost become the duty of developed and international powerhouse countries to provide aid to third world and undeveloped countries. It is also in the aid givers' interest to win friends and promote economic development. The United Nations came out with guidelines for foreign aid in 1969. According to the Pearson report: "We therefore recommend that each aid-giver increase commitments for ODA (official development assistance) to the level necessary for net disbursements to reach 0.7% of GNP...." This number has been a constant benchmark for international foreign aid dispersed by world-leaders.

The revenues amassed by OPEC provide a big opportunity for a big role in foreign aid. So far, OPEC has stepped up and become a major player in world foreign aid for developing countries. OPEC member countries' ODA has been consistently higher than the U.N. target of 0.7%, in some countries it has been around 15%! Compare this to ODA dispersed by the OECD. The OECD is the organization for economic cooperation and development. It has 30 member countries, including the United States, United Kingdoms, Austria, Japan, and Australia. The ODA of the OECD has constantly been around half of the U.N. target, and in the most recent years, it has dipped to an all

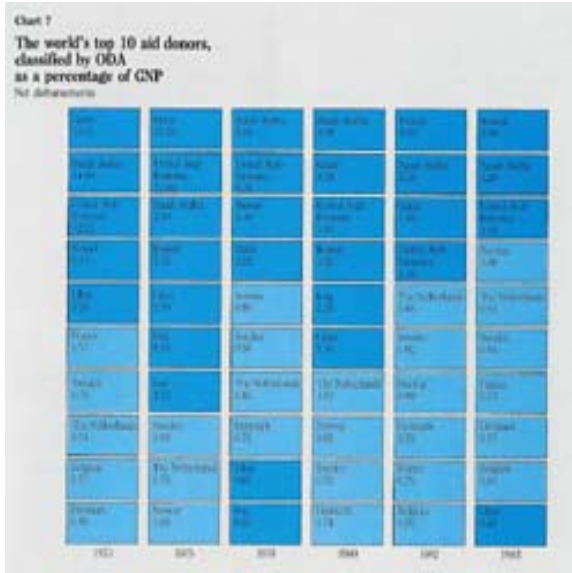
time low below 0.3% of combined GNP. Although the combined GNP of the OPEC countries is only fractions of many of the most powerful countries, several OPEC countries have placed in the world's top aid donors. When listing the world's top ten aid donors based on a percentage of GNP, OPEC countries often make up over half of the list!

The following charts illustrate these figures. The data is a little dated, but the figures today are similar. While the ODA percentages of OPEC countries have declined, so have the percentages of OECD countries. OPEC ODA has still stayed above the U.N. target of 0.7%. The OPEC countries are highlighted.



The world's top 10 aid donors, U.S. dollars.

OPEC Aid and OPEC Aid Institutions.



The world's top 10 aid donors, as a

percentage of GNP. OPEC Aid and OPEC Aid Institutions.

Reasons Behind High Foreign Aid

As discussed above, OPEC ODA has been consistently higher than the U.N. target, and it has been even greater than ODA of OECD countries. What is the reason behind this great discrepancy in aid? These OPEC countries are also much less developed than most of the countries in OECD, yet the aid amount dispersed is much greater. An analysis of this discrepancy can lead to an analysis of the background of the OPEC countries. After looking into the cause of this generous aid, teachings of the Koran can be looked at.

Zakaat: Helping Those in Need

The majority of countries that belong to OPEC are Muslim countries. Their holy book is the Koran, and they strive to live their life according to it. Zakaat is one of the five pillars of Islam. Zakaat literally means purification and growth; it is the main act of

worship of Islam that is performed monetarily. It is the second most important tenant of Islam behind Salah, or prayer. Each able Muslim is to give a portion of their wealth to those in need, in the name of Allah. Zakaat helps remind Muslims of the fact that their wealth is due to the blessings of Allah, and it helps the needy with a grant from Allah.

Zakaat is obligatory for every Muslim that possesses wealth beyond the money necessary for personal needs. Zakaat is calculated at 2.5% which is the amount of ODA that OPEC averaged through its wealthiest years during the 80's. Who receives this aid, and who can receive this aid? According to the Koran:

“Alms are for the poor and the needy, and those employed to administer; for those whose hearts have been reconciled; for those in bondage and in debt; and for the wayfarer: ordained by Allah, and Allah is full of Knowledge and Wisdom.” (Koran 9:60)

At a national level, Zakaat almost exactly parallels ODA and foreign aid. Money that is amassed through oil export revenues by these countries are given to other more “needy” and underdeveloped countries. This Zakaat benefits every party involved; the giving country fulfills Zakaat, and the receiving country has a grant to help them out. I believe that this is one of the biggest reasons that ODA of OPEC countries has far surpassed that of OECD countries. According to the 2002 OPEC Aid Institution Profile: “Over the past few years, very few of the OECD countries have adhered to the target set nearly three decades ago of providing ODA at 0.7% of gross national product. Under the economic difficulties facing many major industrial countries today, such expectations could be “wishful-thinking.” Nevertheless, greater exertion on the part of these donors

must also be forthcoming, if any progress is to be made toward the creation of a more equitable and just global society.”

This statement is a call for all major countries to fulfill their ODA obligation to make the entire world a better place.

Conclusions

As shown, OPEC countries have always been at the forefront of international developmental aid. Although this is a very valiant and important cause, it is even more important for these countries to look to develop themselves first. This should become a priority as more money comes in from rising oil prices. OPEC countries also need to begin investing in other areas of their economy in order to keep revenues coming in even after oil runs out. Spending money on regional investments is also a good idea for these countries; helping those around them will also help themselves. Another way to boost investments in these countries is to open up policy and invite international investment.

Foreign aid can still remain a priority for these countries, but in order to continue this aid in the long run, OPEC countries must improve their own economies. On the other hand, other countries that are economic powerhouses must increase their ODA. ODA is an obligation according to the U.N., and it is beneficial for everyone involved. Once these OPEC countries bolster their economies and OECD countries become more involved with their ODA, the entire world economy will be strengthened greatly.

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