

Economic Turmoil - Oil Prices and the Middle East Crisis

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Abstract *This study focuses on Economic turmoil due to issues of the Middle East and its relation to oil prices, hence transposing the crisis to other economies of the world. A qualitative and logical resigning technique is used during the study. The author finds that the Middle East has a lot of issues related to oil prices, oil production. Most important are wars and conflicts within the region, terrorism, radicalism, the influence of US in the region, weak government, and issues of politics. This study provides information to the government in policy making, in investment decisions, in politics and in financial decision making related to oil prices and its production in the region.*

Key Words:

Economic Turmoil, Middle East Issues, War and Conflicts in the Middle East, Oil Prices

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Introduction

The Middle East is identified by its geographical location and extensive oil reserve and natural gas and it has the potential for the production of sustainable energies. The Gulf States produce 60-70% of the world's oil reserves (Marafi 2009). The Middle East has its own best oil companies and oil refineries which increases its investment due to the very low cost of production (Mark much brown 2000). In the production line of oil and natural gas, these are the key countries. They have a critical role in the solution of world problems related to energy but it becomes difficult to the Gulf region to increase the oil prices and supply free oil to the world market due to extensive problems of security.

RQ 1 what are the issues in the Middle East related to oil prices?

RQ 2 what are the issues in Saudi Arabia and Libya related to oil prices?

RQ 3 what are the issues in Iraq and Iran related to oil prices?

RQ 4 what are the issues in U A E and Oman related to oil prices?

RQ 5 what are the issues in Kuwait and Egypt related to oil prices?

RQ 6 what are the issues in the Middle East before and after crises related to oil prices?

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Purpose of this study is to highlight the problems which bring drastic changes in oil prices and which have a vital role in fixation of oil prices, import and export prices and cost of production and refinement of oil fields.

Literature Review

The Gulf States are known by its geographical location and by reserves of oil and gas. However these potential were introductory in previous decades due to the low production cost of gas and oil. In current years because of high prices of oil in the world market and its co-existence with the situation of the decline of the financial market in 2008 and its result with the Arab spring circumstances ended up regionally.

The increase of oil price in the world was described as the era of modern development in the Gulf region. The six members of the GCC (Qatar, U A E, Oman, Kuwait, Bahrain, United- Arab-Emirate and Saudi Arabia) is having a source of one-third of world known reserves. Saudi Arabia contained the world largest oil and minerals reserves. Qatar produces the world highest natural gas (LNG). In the world, the major producer and suppliers of petroleum is a GCC and it has an important role in the world oil market. (Hilal MS Al- Maanary. Hussein A Kazem. Miqdam T Chaichan 2017). Due to the decline of oil prices the GCC countries such as Saudi Arabia and Bahrain are highly affected and disturbance occurred in countries due to the rise of Arab spring like Egypt and Tunisia and civil war between Syria, Iraq and Yemen and other the failure of leadership of the organization and government management. These issues have drastic effects on the price of oil and also on the social life of people in all aspects. In the region of the Middle East the geographical sense has serious effects on oil industries and this geographical sense is cooperative to the gas and Cyprus oil industry development and great impact on the economy and politics of the Middle East and it has direct and indirect impact on the Middle East region like a set of complicated interrelationship and potential equilibrium rating to the plan of USA, Egypt, Israel, Turkey, the U E, North Africa and other middle east plus countries of Gulf region. These political problems created serious issues in the Middle East and due to all of these problems the industry of Cyprus oil and gas is badly affected. Also, the threat of Iran, the crises of Ukrainian, the breakup of Iran, the Arab spring, the Palestinian problems, the independence issues of Turkish and many other issues are the great hurdles in the Cyprus oil and gas industry development. (Alkis, 2014)

Assessment and Analysis

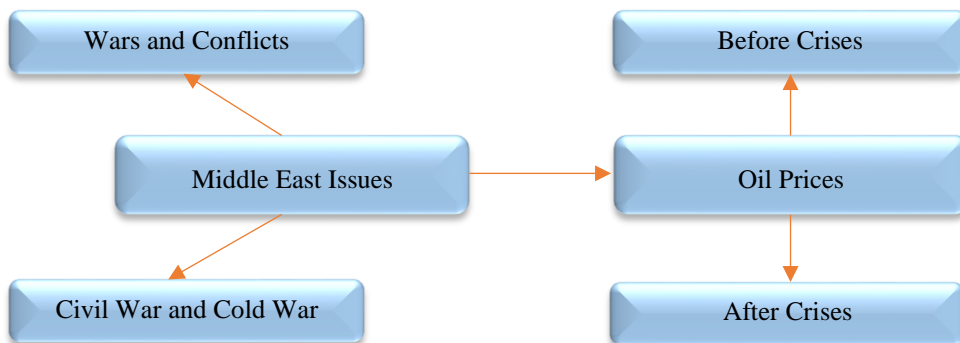
A descriptive qualitative study is conducted to know about issues in the Middle East related to oil prices. Data is collected through scholarly articles from different websites like emerald, Google scholar, HEC digital library and science direct com. Through analysis a lot of issue come under consideration which changes oil production and its prices. These issues and their solution are highlighted in the literature review and discussion.

Middle East Issues

In the Middle East following are the issues which are closely related to those aspects and event which have a direct and indirect influence on the oil price. Oil was much used and its economic importance is increased day by day in the ninetieth century. The most important issue which created crises of oil and critical problems in fixation of oil prices

and became hurdles in the economy of the Middle East is the world wars and Middle East region wars. It created oil shocks which are shown in the form of Suez crises of 1956-57, the OPEC oil restriction of 1973-1974, The Iranian revolution of 1978-79 and The Iraq-Iran war of 1980, The Gulf Persian war 1990-91 and the spike of oil price of 2007-8. (James D. Hamilton 2011)

Conceptual Framework



The situation of Saudi Arabia

Saudi Arabia is the largest oil producer. It is ranked as the biggest producer of oil in the world in the decade of 2003-12 and ranked as second in the United States in the growth of oil production. The world largest oil and petrol exporter is Saudi Arabia has 266 billion barrels of the proven reserve of oil with very low cost of production. For the future, it is needed to maintain its position as a top producer of oil in the top three countries. Its oil and gas industry is controlled and operated by Saudi Aramco which comes in control of Saudi Arabia's ministry of petroleum and mineral reserves and the supreme council of petroleum and mineral. There is no interference of international countries in Saudi's oil production due to country law but some international companies have joint ventures in the plants of petrochemical and in refineries of oil. The partners include total S.A, Sumitomo chemical co, Royal Dutch shell PC and Exxon Mobil Corporation. Saudi Arabia is part of one of the largest oil producer among the top 20 largest economies, having the largest economy in the region of North Africa and the Middle East (Bassam-A. Albassam 2015). In 2015 ten million reserves were lost according to the world estimation and 16.8% of GDP was shown as a deficit budget in 2016. In the same year, the target of government was to increase subsidy up to 64% and it was expected that the local oil prices come in the range of global prices. The changes in the oil prices start in mid-January of 2016 and petrol and diesel increased up to 33% and it is also estimated that the tax rate may increase from 12-15%. All the above aspects are approved by the council of Shira and the acceptance also shown by GCC-wide. VAT. (World Bank 2015). The western financial system Saudi Arabia, Abu Dhabi and Kuwait hold investment portfolio of trillion dollars and play a critical role in the reserves of South. These countries have big investments related to the business of lucrative

and investing hugely. It makes historical achievement in the field of oil and petrol reserve due to fewer conflicts and issues in Saudi Arabia. (Frank-Bracho 2000)

Libyan Crisis and Economic Turmoil

The country of Libya is facing civil war. Two governments' The Tobruk-based government (elected parliament) and the Tripoli-based-government (General National Congress). Uprising the low price of oil and in oil fields. Libya depends upon 98% of the export of oil and 98% of reserves comes from oil supply. The 500,000 barrels of oil per day in 2015 is produced by Tripoli-based government and 450,000 b/d and export approximately. In 2015 the government approved two budget one is related to oil and second budget for other daily used goods and infrastructure. A budget of 42.9 billion LYD is approved for oil and its production by Tripoli-based government and it export with the price of \$50 a barrel of half a million b/d of oil and half of the budget is for sector of food, fuel, salaries and in forced the GNC to makes improvement in the field of fuel and food subsidies and change its currency into dinner of 50 dinars (\$36.5) for every citizen but the parliament of the country refuse to implement this idea. So the political authority and economic sanctions started against Libya from 1960 to 2003. Due to global consumption the natural gas specially the reserve of oil and other fuel minerals of Libyan oil industry has been continuously changing as the result of ban imposed on refinery equipment importing on Libya the refinery sector of the Libya was severely hit and its requirement cannot be fulfill it is unable to improve its production process of oil. It put a down word pressure on his economy and its oil. The relationship between buyer and suppliers cannot reach its destination. For the production, Libyan industries needed spare parts such as turbine, generators and others refinery spare parts and these industrial tools can only be importing from Europe and USA for oil production this ban has a negative impact on Libyan oil. The most important resource which Libya need is not only the technology but also the skill transfer and intellectual knowledge because without skill labor Libya is unable to operate machinery and run oil production process. The imposition of the ban put down pressure on the oil and gas industry also its economy. Second most important issue which low down its production process of oil some of the supplies which remains with Libya and have longstanding relationships with oil companies of Libya change their procedure of payment into cash instead of the letter of credit at the time of delivery. All these aspects makes the Libyan oil industry highly inaccessible and during this period the supplier countries froze their relationship especially companies of American.

Iranian Situation

The abandonment of the Iranian assertion to Bahrain is obviously a favorable moment in the history of Iranian and this type of begin movement enforce Iran to know and focus on important moments such as revolution of the parliament (1905), Shah's white revolution (1963), the revolution of Islam (1997), the Iraq and Iran war (1980-88) and the newly talk on capabilities of Iran towards nuclear. The scholars of Iran try to keep a record of their early civilization and historical development but cannot construct their accounts accurately. So the result of this the minor moments is often ignored to clarify large developments affecting the Middle East and Iran (Lucy flam 2015). In the political economy of Iran oil reserve play a very vital role, an average from gas and oil resource of revenue of the

government of Iran and 90% of revenues from exporting is originated and these oil reserves play a vital role in the economy of Iran. International current authorization on Iran has targeted the import of Iran to the international market and its capacity of production of oil (Muhammad, 2011). The world boycott of Iran's oil was removed 19 million per month production from world market in the summer of 1951 as a result of nationalizing Iran's oil industry by Prime Minister Mossadegh the 1973 Arab-Israeli war was proved to be the wild decade in the middle east. Since 1973, 5 key members of OPEC was producing oil.

Iraq Crisis and Economic Situation

By 1990, the production of Iraq decline like late in the 1970s as a consequence of the invasion of Kuwait by Iraq in August 1990. Both countries accounted for 9% of world production and a general strike reduced 2.1m b/d of oil production in December 2002 to January 2003 from Venezuela. It happened shortly after the U.S attack on Iraq that eliminate an additional 2,2m b/d over April to July (James D. Hamitton 2011). With the arrival of the fierce jihadist group, the Islamic State of Iraq and Syria has now been extending from Syria into other neighboring countries. Al-Qaeda a radical organization, which was rooted in Iraq, quickly took control in some parts of both countries of Iraq and Syria (Zahra R Syed 2016). National authorities in Iraq propose gradually to point out the grants on fuels and on power generation, a move already under examination in Algeria, with an objective of saving at least 14 million dollars per year, though in both cases the effective application of such potentially and socially undermining measure could be postponed by the respective government for the reason of political stability (Nicolo Sartori 2016).

UAE and its Role

The UAE set the latest example that low oil price does not effect. The oil producer although the officials added to the index of UAE dropped by almost 2 points from 54 to 52.8 in March 2016. the metric above 50 means economic expansions, in UAE this expansion was due to manufacturing and services not counting the oil industry the latest dimensional statements released by UAE banks pointed out another factor for their slowdown. All the big investors reported profit drops for the first quarter of the year, on the whole, oil production is the major economic contribution in oil-producing countries due to the low oil price, the economy of the country has to suffer but the suffering of UAE is mild than other oil producers.

A diversified economy, however, can absorb the economic shock in any one industry that is oil. The UAE economy may slow down for a while but it will soon pick up the pace again as compared to the others who are solely relied on oil production (Charles Kennedy 2016). Among other results, the supply risk reduction is achieved by increasing the cost of the total energy system for E U 27. The security objectives and cross effects of climate migration are also be kept under consideration. Due to diversity need, the under risk scenario is increases by the helping of GCC countries to UE energy imports. The analysis show that on the market shares of fossil fuel imports from MEMA countries, the European energy system has no effect and unable to show any effect on it also strongly dependent on these nations but also the total energy used and total fossil fuel imports reaches its lowest level under the risk adverse scenarios(Gian Carlo Tosato 2013).

Crises in Oman

Oman has less oil and reservoirs as compared to its neighboring countries except for Bahrain with the only production of less than one million b/d of oil. The government has taken some bold steps to increase revenues from nonoil sources after a sharp drop in oil prices in 2014. As the local fuel prices are taken in line with the global prices that results in 64% of fall by Oman's expenditure in subsidies. In Bahrain and Qatar, the gas prices at the pump rose by up to 60% and 30% respectively at the beginning of the year (Nicola, 2016).

Due to low prices of oil Oman has to face a number of crises like unemployment, reduced public spending but along with that pressurized to diversify the economy as say by Reese Erich. Low oil prices may be beneficial for the European countries but it had a negative influence on Gulf state. According to Al.saud-Al-Salmi, the unemployment is increasing day by day. "Now some contracts are finishing and there is no other contract coming," he said. "It not only affect the oil industry rather effect the whole economy. As Oman's 77% of the budget comes from oil reserve, which means low oil prices are hardly hitting the country. Back in the 1990s, the leader of Oman discussed diversifying the economy but the country has no manufacturing or agricultural industry till now (Reese Erlich 2015). As compared to other countries of gulf region the price of oil highly goes down of Oman and remains in a condition of fluctuation due to political instability. The oil reserves are continuously decreasing. According to (Vivian Nereim) 2014, Oman is continuously exploring its oil reserves, its total reserves are estimated previous year at 5.15 billion barrels that shown in 2013 and its production rate is about 940000barrels per day also its oil reserves has just left for 15 years.

Kuwait and the Situation

In 2014, Kuwait produced 2.8 million barrels of oil per day, having it just outside the top 10 oil producers in the world. It has maintained constant production for more than a decade between 2-8 million ravel per day. Yet according to EIA, Kuwait has been struggling to raise production to 4 million barrels per day during this period, falling short due to insufficient foreign investment and other delays in oil production projects (Erdogan, 2013). The cold war divides the competitors into two parts Warsaw and the NATO. After the cold war era China, Russia and France start to compete with the British for oil in the region of the Gulf and the US also the countries like China Russia and France start investing in Iraq and Iran due to economic sanctions in the UN and US in the sector of defense and energy. (IEA, 2001, Klara 2000).

Egyptian Role and the Economic Situation

On the bases of energy, the two groups can be made of African countries the net exporters of energy are Libya and Algeria, whereas net importers are Tunisia and Morocco. Moreover, Egypt is also importing energy because its consumption is increasing sharply since 2006 due to the increase in domestic production and also the country increased the use of gas to meet the domestic demand. (AFDB2012a). In the past decade during the summer season in Egypt the burden of shortage becomes double from 2001 to 2012 due to out of gas and shortage of energy (EEHC Annual Report 2011/20012). To meet the demand of the country there is great responsibility of the politicians and first priority of them is to

meet this demand of energy for domestic use (Andreas Beneking, Saskia Ellenbeck Antonella Battaglini 2016). After the Arab-Israel war in 1957, the Egypt president shut down the Suez channel. When Arab produces oil and put new industries in the fields of energy to produce more against Europe and the US after Israel war in 1973 in the same year first oil shock were felt. This era is very critical for Egypt economy (samil Sena, tuncay babal 2007) because of closed down of Suez channel the Suez channel is nationalized by the president of Egypt. The president Nasser in July 1956 is hoping to get again control of the canal but Israel is supported by France and Britain to take over it. They helped by giving own forces and during this war too many losses occur. The pumping stations were destroyed which are producing oil for Iraq, the blocking of canal occurs through which oil was transported.

Yemen and the Situation

In the Middle East, Yemen is one of the most overcrowded countries and its unemployment rate is about 40% (US Department of state 2000). And since the Gulf war, its poverty rate is increasing (IMF 2000). In rural areas, 70% of its population left (SO 2004) the under 5-death rate is 114 per 1000 (WHO EMRO 2004) and health services and centers only cover 30% of the total population (Taiar, Chandler, Eryani and Whitty 2009). Yemen has lots of problems which are the big challenges for the country. It has very low oil revenues, the political system is very shattered and the tribal leaders in the country are very strong. In 1990 the country depends on Saudi Arabia remittances and funds flow from Saudi Arabia play a very vital role in economic stability of the country. it has 11.6 million population in 1990, have too many hurdles in the management of water. In all these conditions the management of oil, water and food need a lot of efforts (Allen 1993).

Issues in the Middle East before and After Oil Crises

These are the following most important issues which are related to oil prices fluctuation and cases to much changes in the field of oil and gas industry in 1970 introducing Iranian Revolution and the Arab oil embargo, in 1980 following the Iran- Iraq war 1990s being En Gulf by war, 2000-2002 putting a lot of pressure on OPEC, 2003 tracking the war of Iraq, 2008 Increasing fear of a supply short, 2011 the political issues in middle east, 2012 Growing the violence in Syria and tension in Iran in 2013 continuing unease and unrest. Looking down the barrel.

(Www. Penn energy.com,home>oil\$gas 2013) Also, newly issues between the US led to dramatic and Venezuela decreases the export of oil and in 2013 the 1.2 million barrels of oil reduction occurs say by the administration of energy information, who show report monthly .shttp://www.eia.doe.gov/emeu/labs/chrn 2004. (Collect on August 28, 2009)-2002-3 the oil production also goes down due to further threats by Venezuela. 14 confusion in Nigeria further reduces imports to the US because of strikes of a labor union, the kidnapping of machinery and workers at oil sites and sabotage with killings which kept the oil supply unbalance oil export. The Russian, Lebanon and Nigeria political environment causes a disturbance in crude oil supply which causes uncertainty in the country sabotage and instability in politics. The US began to observe a lot of problems in importing foreign oil because of the international relational ship with oil-rich countries in the Middle East. The war in Iraq causes huge instability in supply but some of the relations between oil

exports and their positive contribution have a positive effort on the oil supply. Other issues that cause changes in the availability of oil were the OPEC which has a serious impact on the global market. Also, it has a vital role in the supply of oil to the global market and changes occur since the 1980s in the Middle East and it has a vital impact on the states of the United States.

Conclusion

This study is conducted to know about issues in the Middle East specifically related to oil prices. A descriptive and qualitative technique is used during the study finds that the Middle East has a lot of issues related to oil prices. Most important are war and conflicts within the region, weak government, Sunni Shiite rivalry in the region, region politics, terrorism and radicalism, US influence in the region. This study provides information to policymakers, politics, investment and in a financial decision related to oil prices of the region.

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