

The role of oil surpluses in financing the Arab economic development

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Historically, economies of the Arab world are basically consisted of oil sector, which plays a central role in various areas, and since Arab exporting countries represent the largest share of world reserves, these countries are trying to customize and use the product through economic growth and development policies, especially by the optimal exploitation of oil booms then responding to the business environment changings, changes in the oil market, the investment policies and the level of Economic cooperation, whether regional or global.

To meet the future challenges, Arab economies need to achieve diversity by changing the negative exploitation of oil to a productive proactive industry based on long planning financially industrially, commercially and socially to achieve an overall growth, and therefore the Arab countries are trying to make petroleum surpluses a way to put the building blocks in diversifying the sources of incremental revenues and reduce dependence on oil as a primary source to that "an individual provider," so oil revenues raise questions on how to use them in this process.

دور الفوائض النفطية في تمويل التنمية الاقتصادية العربية

ملخص:

تاريخيا، اقتصاديات بلدان العالم العربي تتشكل أساسا من قطاع النفط الذي يلعب دورا محوريا في المجالات المختلفة وبما أن الدول العربية المصدرة له تستحوذ على أكبر حصة من الاحتياطات العالمية، فإن هذه الدول تحاول تخصيص واستخدام عائداته عبر سياسات للنمو الاقتصادي والتنمية خاصة بالاستغلال الأمثل للطفرات النفطية ثم الاستجابة للتغيرات في مناخ التجارة، تطورات سوق النفط وسياسات الاستثمار، ومستوى التعاون الاقتصادي سواء الإقليمي أو العالمي.

ولمواجهة تحديات المستقبل، الاقتصادات العربية في حاجة لتحقيق تنوع بتغيير الاستغلال السلبي للنفط إلى صناعة استباقية منتجة ومتنوعة على أساس تخطيط محكم وطويل المدى ماليا وصناعيا وتجاريا واجتماعيا للوصول إلى تحقيق نمو كلي، ولذا تحاول الدول العربية أن تجعل من الفوائض النفطية وسيلة لوضع لبنات أساسية في تنويع مصادر الدخل والتقليل التدريجي من الاعتماد على النفط كمصدر أساسي لذلك "فردية المورد"، ففوائض العوائد النفطية تثير التساؤل عن كيفية استخدامها.

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Introduction:

Despite the recognition that oil is not the only factor in the development, it still remains the most important resource and economic forces that rule the development process in the Arab countries producing oil and to a lesser extent in other Arab countries, thus, development experiences in the two past decades have shown that the Arab oil had exercised, and still exercising direct and indirect effects on the factors that affect economic development in the Arab countries.

The importance of oil for the oil states through its effective contribution in financing economic development via the Petroleum availability returns of hard currency, its importance also comes for the Arab oil-importing, first, as being one of the elements of production and a necessary commodity to satisfy basic needs, secondly, through existing of jobs opportunities for their citizens in the oil-exporting countries, resulting in remittances in hard currencies in addition to the aid and soft loans that can be provided by the Arab states Exporting Petroleum.

Oil surpluses can be affected by fluctuations in oil prices in different modes, they vary between high oil revenues and improvements in economic circumstances in case of high price, and between the sharp contraction of these returns and their impacts on the economic situation in case of its decline, the first case represents a real opportunity for the Arab economies to exploit their imports of oil to boost economic development, whether in oil or non-oil countries.

Research problematic:

In view of states' political, economic and security instability that the world has seen in recent years, it casted a pall over the global oil market starting from the oil and international crises (especially the crisis in 1986), Gulf wars, the 11 September events and the Iraq war ...etc, and ending up to the climate changes (hurricanes 2005) which shake the oil prices, so it was necessary to shed light on these fluctuations, which changed the economics as a whole due to external circumstances, especially when concerning oil countries such as Algeria that relies on the this resource as a sole source of its foreign revenues, hence the research problematic has emerged through the following question:

What are the actual effects and reflections of oil, including its prices and returns, on Arab economies?

We will address, in this research, the following two chapters:

- The first: the evolution of the Arab oil surpluses and their use and employment
- The second: the impact of oil revenues on the economic sectors and the impact of oil prices fluctuations on them

Hypotheses:

To answer the problematic, we rely on the following two hypotheses:

- Oil revenues play a prominent role in achieving sustainable development of the economies of the Arab countries if they took advantages of their good use.
- The movement of oil prices contribute in determining the status of the Arab economy and its indicators (stable or imbalance).

Chapter One: The evolution of the Arab oil surpluses and their using

First, oil-led development is the overwhelming dependence on revenues from the export (and not the internal consumption) of petroleum, as measured by the ratio of oil and gas to gross domestic product, total exports, and the contribution to central government revenues. (Karl, 2004).

Oil plays an important role in the economic of the Arab countries in particular the producing ones whose financial returns are considered the most important source of funding for economic development; therefore we try to get the ability of Arab countries to use their oil surpluses developmentally.

First: Arab oil revenues and their surpluses

Mundhiri (1995) said that Arab Petroleum revenues witnessed significant increase since the price correction of 1973 where they multiplied more than 12 times in five years, rising from 4.6 billion dollars in 1970 to 57.7 billion dollars in 1975 and then to 79.8 billion dollars in 1976 to 85.9 billion dollars in 1977 while in 1978, these revenue had recorded a slight rise, reaching 86.9 billion dollars and then they rose suddenly to reach 138.2 billion dollars in 1979, and jumped in the following year to reach a record by 211.7 billion dollars as a result of the surge in oil prices, but they had returned to decline since 1981 to record 184.1 billion dollars.

The Arab sources estimated that the official accumulated surpluses of OPEP group during the period 1982-1975 are about 374 billion dollars and that the share of four Arab countries. (Tamar, 1986). These include Saudi Arabia, Kuwait, UAE, Qatar amounted to about 75% of the total accumulated

surpluses or more than 279 billion dollars until 1981; it is noted that the official surplus of the Arab States Exporting Petroleum was a subject to a decline during the period 1981-1980-1,982 recording the lowest level in 1982 by 7.8 billion dollars compared to 58.4 billion dollars in 1981 and 6.89 billion dollars in 1980 i.e. it dropped by 86.6% and 40.8% for the years 1982 and 1981, respectively.

Second: the evolution of the Arab oil revenues

The effect of oil price fluctuations on Financing for Development in the Arab countries is mainly seen in oil revenues source, in the followings, we'll show their evolution over a period of study.

01- The evolution of Arab ores prices between 1988 and 2008

Based on Table 3-1, which illustrates the evolution of the nominal price of oil during the period 1988-2008, and on the basis of Appendix 5 data which shows the evolution of prices of major Arab ores and Brent crude during the same period, we will learn about the most important fluctuations that Arab ores prices had known in light of the world's oil price fluctuations, and the impact of this price crisis known to the world oil market, and avoid reference in this regard to the extent to which these prices are affected by crises happened in the world oil market, it should be noted, in this connection, that the world oil price which is taken into account in the economic, artistic and technical analysis, is the OPEC basket barrel price.

Table 3-1: the evolution of the nominal price of crude oil during the period 1988-2008

Years	1988	1989	1990	1991	1992	1993	1994
Price:U.S.\$ /barrel	14.2	17.3	22.3	18.6	18.4	16.3	15.5
years	1995	1996	1997	1998	1999	2000	2001
Price: U.S.\$/barrel	16.9	20.3	18.7	12.3	17.5	27.6	23.1
Years	2002	2003	2004	2005	2006	2007	2008
Price: U.S.\$/barrel	24.3	28.2	28.2	50.6	61	69.1	94.4

Source: Issues of various statistical reports from the Arab Petroleum Exporting Organization.

02- The evolution of the nominal values of the Arab oil revenues

Table 3.2: evolution of the nominal values of the oil revenues to OAPEC countries during the period 1986-2007

Year	Oil price : U.S.\$/barrel	OAPEC Value of the annual nominal oil revenues
1986	13,0	51,5
1987	17,7	63,8
1988	14,2	59,8
1989	17,3	78,6
1990	22,3	97,4
1991	18,6	85,6
1992	18,4	92,6
1993	16,3	83,3
1994	15,5	83,0
1995	16,9	93,7
1996	20,3	108,7
1997	18,7	110,0
1998	12,3	76,8
1999	17,5	109,7
2000	27,6	177,2
2001	23,1	148,6
2002	24,3	142,0
2003	28,2	162,0
2004	36,0	218,8
2005	50,6	316,5
2006	61,0	394,8
2007	69,1	408,3

Source: different annual reports of the Organization of Arab Petroleum Exporting General Secretary

Based on the data of Table 3.2 and the previous table 3-1, it is clear that there is a direct correlation between the evolution of the nominal price of oil and the evolution of the nominal value of returns of oil, so once the price of nominal oil gets higher, the nominal yields of oil value increases and vice versa, but this relationship was not realized in the years 1992, 1997, where, despite the price has increased, the nominal value of returns of oil decreased because the Arab states in these two dates were forced to increase their productions by the repercussions of the Gulf War in 1992 and in line with the increase in global oil demand by Southeast Asian countries in 1997.

In 2002, despite the rise of Price, the nominal value of returns of oil was because of production cuts as a result of the events of 11/9/2001 to lack

of demand, we also notice that the nominal values of the Arab oil revenues were influenced by the occurrence of crises in the world oil market, this in 1986, oil revenues were not exceeding 51.5 billion dollars, and in the 1990 Gulf War, Arab oil revenues have increased at a rate of 23.91%, but 1998 they decreased to about 33 billion dollars as the events of 11/9/2001 contributed to the decline in these revenues to 28.6 billion dollars in 2001, the 2003 Iraq war has increased these revenues by 20 billion dollars in 2003, and in the light of rising of oil prices between 2004-2007, the nominal value of Arab oil revenues jumped to 408.3 billion dollars in 2007.

02- The phenomenon of Arab financial surpluses between 2003 and 2007:

The phenomenon of fiscal surpluses Usually happens when funds resulting from the economic activity accumulate and cannot find a way to be employed and used because of the decline of investment opportunities to the fact that the country's economy is aging, but the Arab economies are not old to made up financial surpluses in excess of the needs of their economies, but economists launched this term on the Arabic oil surpluses to justify their carrying over from original homelands towards industrialized countries under the pretext that they do not have the opportunity to be employed locally. (Mechdan, 2006).

Hormuz et al (2007) noted that all the Arab countries that export oil and since 2003 to 2007 witnessed great heights to their values of oil revenues, as a result to:

- High oil prices, which led to an increase in oil revenues. (Alfaifi, 2014).
- Increase of Arab oil production as a result of the world demand.

If we had spotted the evolution of the oil revenues of the Arab countries individually since 2003, we will get the following table:

Table 3.3 evolutions of the nominal values of the oil revenues of the Arab countries individually during the period 2003-2007, Unit: million dollars

State/year	2003	2004	2005	2006	2007
Emirates	22054	29624	43506	52437	56030
Bahrain	2677	35054	5162	6353	6180
Algeria	12300	13862	21029	25769	27760
Saudi Arabia	70642	92856	137050	171422	171840
Qatar	7500	11694	13774	17838	18740

Kuwait	19002	26363	39430	48859	48870
Libya	12780	18263	27518	34968	36940
Oman	8080	9105	13373	16154	/

Source: 2007 Annual Statistical Report, the Organization of Arab Petroleum Exporting

As, due to the weakness of absorptive capacity of the economies of Kuwait, Qatar, UAE, Bahrain, Oman, Libya and Saudi Arabia, it is clear that a large volume of oil revenue is surplus of the need for these countries, and consistently because of high oil prices during the period 2003-2007, these surpluses have accumulated despite that coupling the failure of these economies. (Abdel-Fadil, 1979).

2 - The true values of Arab oil returns:

Two factors affect the real value of the Arab oil returns namely the purchasing power of the U.S. dollar and the inflation, thus oil states prefer the period of high nominal price of oil associated with the rise in the purchasing power of the dollar, although they are, on the other hand, affected by imported inflation.

A- The impact of the volatility of the purchasing power of the U.S. dollar: (Hammadi, 2011).

To know the evolution of the exchange rate of the U.S. dollar during the study period, we take the exchange rate of the dollar against a basket of major world currencies between 1986-1998, then the exchange rate of the dollar against the single European currency between 1999-2007, and explaining the evolution of its purchasing power taking 1980 the base year as shown by Table Appendix 6.

From this appendix, it is noted that despite the rise in the dollar exchange rate during the period 1986-1989, however, its purchasing power has been eroded, which means that the real value of Arab oil revenues in that period was less than it is, and in 1990, despite the rise in Arab oil revenues, but that was offset by a decrease in the purchasing power of the dollar by 11.3%, and in 1991 and 1992, the conditions were even more worse when the concrete value of those returns coincided with low exchange rate of the dollar and the decline in its purchasing power, and in 1993 coincided decline in value of those returns Arab oil with a high exchange rate of the dollar and its purchasing power, which illustrates the inverse relationship between the oil nominal price and the purchasing power of the dollar, the higher the price of oil nominal decrease the ability of the dollar purchasing power, and it seems

so obvious the years 1997 and 1998 when he suffered the world of the Asian financial crisis and suffered the Arab States of the low price of the nominal increased purchasing power of the U.S. dollar, Between 2003 and 2004, when the Arab nominal yields rose, purchasing power of the dollar decreased by about 17% in 2003.

Accordingly, whenever the nominal Arab oil revenues rise, it is corresponded by deterioration in the purchasing power of the dollar and thus a low in the real value of those returns, especially for Arab countries with strong commercial link with the United States in terms of imports.

B - The impact of inflation: (Hammadi, 2011).

Inflation is related to the real values of the Arab oil revenues, to the extent of the trade correlation of Arab countries to the oil-consuming countries, and in this regard, we classify the oil-producing Arab countries into two groups:

- The GCC and Egypt with a strong commercial link with the United States.
- Algeria, Libya, and Syria, with a strong commercial link with the European Union countries.

As the rate of inflation prevailing in the countries that the Arab countries producing oil deal with commercially affects the purchasing power of oil revenues in these countries, and according to a schedule Annex 7, which represents the evolution of inflation rates in the major trading partners of the Arab countries in the period 1986-2007, it is generally noted that whenever the oil nominal prices rise, the rates of inflation in the industrial countries consuming oil get higher, as it happened in 1990 and 1991 in Britain wherein the inflation rate ranged between 7-8%, while in 1998, when oil nominal prices fell, the rate of inflation got lower than it was in 1990 and 1991.

The true values of returns Arab oil are more influenced by the rate of inflation prevailing in the countries that they are dealing with, thus, the first group is more affected by the rate of inflation in the United States because the majority of their imports come from this country, while the second group is more affected by the rate of inflation prevailing in European countries.

OPEC is working to preserve the interests of its member states through a fair price for oil, and therefore it attaches great importance to the purchasing power of a barrel of oil exported by, and it periodically issues statistics about the price of its basket barrel adjusted by the U.S. dollar exchange rates,

inflation and the real price of oil based on the 1973 dollar, and this is demonstrated in table 3-4 .

Table 3-4: the evolution of real oil according to 1973 dollar during the period of 1986-2007 (Unit: USD per barrel)

Years/Price	Nominal price	Average price 1	Average price 2	Real price
1986	13,0	17,7	4,2	5,54
1987	17,7	20,7	5,4	6,29
1988	14,2	16,2	4,2	4,75
1989	17,3	20,9	4,8	5,79
1990	22,3	24,3	5,8	6,38
1991	18,6	20,7	4,7	5,19
1992	18,4	20,0	4,4	4,81
1993	16,3	19,8	3,8	4,61
1994	15,5	18,8	3,5	4,24
1995	16,9	19,4	3,7	4,24
1996	20,3	23,6	3,4	5,01
1997	18,7	23,5	3,9	4,89
1998	12,3	15,7	2,5	3,21
1999	17,5	22,9	3,5	4,62
2000	27,6	40,3	5,4	7,93
2001	23,1	34,9	4,4	6,69
2002	24,3	35,3	4,6	6,65
2003	28,2	35,5	5,1	6,63
2004	36,0	42,0	6,5	7,57
2005	50,6	59,0	8,9	10,39
2006	61,0	70,9	10,5	12,19
2007	69,1	75,2	11,6	12,63

Source: 2007 OPEC annual statistical bulletin

Where: average price 1 is the nominal price of a barrel of oil at the rate of exchange of the dollar against a basket of major currencies.

The average price 2 is the nominal price for a barrel of oil amended by the inflation factor. The real price is the price in 1973 dollar including inflation and exchange rate of the U.S. dollar.

It is clear that, from the previous table, the real price of oil is much less than its nominal price and therefore it does not guarantee the interests of the producing countries, especially the Arab ones. The lower real price of oil means less oil revenues in real values, as shown in Table pro:

Table 3-5: The evolution of the real values of the OAPEC oil revenues during the period 1986-2007

Years	Nominal Price 1 Dollar/Barrel	Nominal Revenues 2 Billion/Dollar	Real Price 3 Dollar/Barrel	Real Revenues (2/1)*3 Billion Dollar
1986	13	51,5	5,54	21,95
1987	17,7	63,8	6,29	22,67
1988	14,2	59,8	4,75	20
1989	17,3	78,6	5,79	26,3
1990	22,3	97,4	6,38	27,87
1991	18,6	85,6	5,19	23,89
1992	18,4	92,6	4,81	24,21
1993	16,3	83,3	4,61	23,56
1994	15,5	83	4,24	22,7
1995	16,9	9307	4,24	23,5
1996	20,3	108,7	5,01	26,83
1997	18,7	110	4,89	28,76
1998	12,3	76,8	3,21	20,04
1999	17,5	109,7	4,62	28,96
2000	27,6	177,2	7,93	50,91
2001	23,1	148,6	6,69	40,03
2002	24,3	142	6,65	38,86
2003	28,2	162	6,63	38,08
2004	36	218,8	7,57	46,008
2005	50,6	316,5	10,39	64,99
2006	61	394,8	12,19	78,9
2007	69,1	408,3	12,63	74,63

Source: Hammadi Naima, op.cit.p.116.

From the previous table, it is clear that the evolution of the real values of the Arab oil revenues reflects the influence of these values by the fluctuations in the oil nominal price and by oil crises, thus they did not exceed 20.04 billion dollars in 1998 and 27.87 billion dollars during the second Gulf War in 1990, and despite the high nominal value of these returns in in 2007, their real value by 1973 dollar did not exceed 74.63 billion dollars, which

means that there is an exaggeration in estimating the size of wealth flowing to the Arab countries.

The International Energy Agency uses 2005 dollar which its value declined by the inflation factor inflation since 1973 to estimate the real value of those returns to make them equal to 338 billion dollars in 2005 for OPEC countries instead of 44 billion dollars in the same year as (Hussein, 2005) noted using the dollar of 1973, this looks as if oil-producing countries joined the wealthy industrialized nations, and to fallacy the Arab public opinion that the state governments receive significant revenues from the export of oil, but it does not find an embodiment of that on the ground. (Muhailbi, 2012).

Third: Employments of Arab oil revenues

We considered that oil revenues are the most important sources to fund development in the Arab oil states, but this does not mean that all these returns employments have been serving the development, and with a focus on the recent oil boom period 2003-2007, we can identify the main trends to spend these proceeds as follows:

1 - Consumption expenditure and import financing:

Through a quick look at the official data, it is clear to find the trend of Arab oil states to increase the Consumption expenditure and imports whenever their oil revenues rise, though the trend during the current oil boom was towards reducing this pattern of spending and avoiding the same method of employing oil revenues during the previous oil booms, the figures do not reflect this trend, for example, in 2006 the volume of Saudi imports rose up to 69 billion dollars, and the volume of imports of Kuwait to more than 15 billion dollars, and the same thing happened with the rest of the Arab oil states, which confirms the reliance of these countries on oil revenues to finance their Consumption expenditure and their imports of goods; the proportions of this expenditure remain significant and exceed half of GDP in all Arab oil states, and if we know that in 2006 the total OPEC spent about 875 billion dollars on imports, with the knowledge that 7 out of 13 members states are the Arab countries, we can visualize the size of the Arab Consumption expenditure.

2 - Establishment of foreign exchange reserves:

Oil revenues help in building huge financial reserves for the Arab oil States, and when tracing the evolution of foreign exchange reserves without gold in these countries, we note that they increase as oil prices rise, and since 2000 exchange reserves have risen due to high oil prices, with more about

211.4 billion dollars for the combined Arab oil States in 2005, and in 2007, exchange reserves in Algeria alone, recorded 110 billion dollars, more than 79 billion dollars in Libya and more than 48 billion dollars in the United Arab Emirates. In these countries, foreign exchange reserves coincides with the high rate of coverage of those reserves of imports in months, for instance, in 2006, this rate amounted to 54 months in Libya 45 months in Algeria, 10 months in Kuwait, while not exceeding 7 months in Libya and 4 months in Algeria in 1991.

3 - Payment of external and internal indebtedness:

Government repayment of national debt makes countries more attractive to international investors and improves their credit ratings from such international rating institutions such as Moody's and Standard and Poor which raised the Kingdom's ratings last year as a sign of confidence. (Ramady, 2014).

After a drop in oil prices in 1986, many Arab oil states proceeded to resort to public domestic debt and to external debts to meet the need of funding their economies, and with the improvement in oil prices since 2003, they have benefited from the financial revenues to fulfill a part of their obligations, so KSA paid about 10 billion dollars of its interior obligations in 2005, while this helps Algeria to reduce its external indebtedness of from more than 23 billion dollars in 2003 to nearly 5 billion dollars just in 2006.

4 - Military expenditure:

Arab oil states are considered more spendable on the purchase of weapons than Arab non-oil countries due to pressure of Countries Exporting weapons that are the same countries that consume the Arab oil, and it is noted that imports of weapons in some Arab oil states do not always take the same movement in oil prices, for instance, between 1992-1993, Saudi Arabia UAE, Qatar and Oman military expenditures rose to reach about 2477 million in Saudi Arabia alone in 1993. In Qatar, the expenditure to purchase weapons moved from 16 million dollars in 1992 to 73 million dollars in 1993. In 1998, Algeria's imports of weapons jumped to 103 million dollars while not exceeding 35 million dollars in 1997. Since 2000, in all Arab countries especially the oil-ones, spending on arms takes an upward trend on the whole though it is fluctuating from a year to another; the size of this pattern of spending grows in the GCC more than the other Arab countries after the establishment of U.S. military bases on their territories.

5 - Purchase of gold:

It is known that gold is a store of value, so Arabic oil revenues move to a safer employment which is investment in gold despite its high prices at the same time when oil prices are high and this is what was seen between 2002-2008 where 5.8 million ounces of gold piled in official treasuries of Algeria, Libya's 4.6 million ounces and the same amount in Saudi Arabia, 2.5 million ounces in Kuwait, while there were no such quantities in official treasuries of the non-oil states, thus, Jordan maintains only 0.41 million ounces of gold, Tunisia 0.22 million ounces, Morocco 0.71 million ounces. As (al-Najjar, 2004) reported, oil revenues used to buy gold and be kept to adopt them as a store of value is a disruption to part of the capital for the economic development process in a metal whose prices can fall at any time so it will lose its stored value or its prices continue to rise to convert its stored value to a magnificent force, so investing Arab oil revenues in gold is only a convert of those returns to countries exporting gold which are the same oil-consuming countries, so the process is a non-producer recycling of oil money. (El-barazi, 2008).

6 - Investment expenditure:

The Arab oil states also use their oil revenues in a field considered the best employment of those which is investment expenditure, but when tracking the aspects of this spending in the Arab countries, we note that even this employment does not serve much of Arabic Economic Development, thus the Arab areas of investment are limited in the real estate, oil, services and stock exchange sectors in addition to the expansion of the infrastructure, where the investment spending in the Gulf States reaches about 140 billion dollars in 2006 of which 35 billion dollars has been invested in the oil sector.

The estimated volume of Arab Energetic investments programmed for the period between 2007 to 2011 is about 345 billion dollars of which a large part is financed by oil returns, and as the trend towards speculation in the Arab stock exchanges and in purchasing real estate have led to higher prices for stocks and real estate despite the poor performance of the economies of the Arab countries before the prices collapse after that, some data point out that 41.2 billion dollars only are invested in infrastructure facilities in all Arab countries during the period between 1990-2005 (energy sector acquired to 37% of this amount, telecommunications 56%, transport 5%, water 2%).

Even if the investment spending in the Arab oil states is not often done in productive sectors of wealth, its rate of GDP in most of these countries is

still below the level, thus in 2005, it recorded in Saudi Arabia, Kuwait, Oman and the UAE respectively, the following rates: 16%, 20%, 18%, 24%, and the highest proportion was in Algeria by 29.6% in 2006. These foregoing ratios and areas of investment spending reflect the returns of the investment climate in the Arab countries in addition to the lack of investment opportunities in the oil Arab Gulf especially because of the weakness of their volume of absorptive economies, it also reveals the leakage of a large portion of oil revenues towards the outside, and the orientation of Arab investors towards the areas that are characterized by an increase of profitability and safety and by a risk margin dwindling.

In spite of all the flaws and foibles, a precious opportunity should be provided for the petroleum countries, in order to shift the Financial phenomenon of to a real one, oil states, on top of which the Gulf states, can devote a program to help the least developed countries, but this is not enough, it is necessary to guide the huge investments to less developed countries to reduce restrictions on the display of funding for development to eliminate bottlenecks, lack of absorptive capacity, and investment obstacles, apart from the internal institutional and cultural constraints that can dimensions adapted to fit in with the needs of development, the Arab Gulf States, can play a major role through high investment opportunities, and high financial assets insurance. (Beblawy, 1980).

7 - Savings in SWFs:

Sovereign wealth funds are Seen as specializing investment funds established or owned by governments in order to keep financial assets for the purposes of long duration, those funds are frequently financed by international reserves or other sources of foreign currency, the are also of large estates, which take the form of rights or claims in foreign currency to non-residents. Thus, those funds, state-owned, are entities that can manage the savings of the country for investment purposes and are composed of financial assets such as stocks, bonds, rights, and other financial instruments. (Mneef, 2009).

The Arab oil states, during the current oil boom, resorted to a more careful policy to manage their financial revenues, seen in savings of surpluses of oil price benchmark adopted in their budgets in the so-called sovereign wealth funds. (Saif, 2009). They are investment funds owned by the state to accumulate the funds of the national wealth, especially oil, which contribute

to achieve a number of goals such as to maintain economic stability in the case of oil price shocks and to protect the oil resources in long term, for that, Arab oil states sought to configure these funds and pumping huge amounts of money in after the rise in oil prices, these assets are estimated to about 875 billion dollars in 2007 in Abu Dhabi fund (United Arab Emirates), 264 billion dollars in Kuwait Fund , 60 billion dollars in Qatar Fund, 5.2 billion dollars Saudi Fund and 46 billion dollars in the Algerian fund of resources adjustment. (Wikipedia, 2008).

8 - Expenditure on education, health and social transfers:

This kind of spending is one of the aspect of development spending, thus when revenue Arab oil states improve in the face of rising oil prices, the latter seek to increase funding for education programs, health care and Social Security in order to raise the level of human development. (El-Sakka, 2005) observed through 207 HDR that Arab oil states occupy the first ranks among the other states in this regard spearheaded by Qatar, UAE, Bahrain, Kuwait and then to a lesser degree, Saudi Arabia, Libya, Oman despite the fact that this expenditure is determined by the approved spending policy in each country and not by the level of oil prices.

Even a critical analysis of the present boom in Arab economies has to conclude that there is an excellent window of opportunity for development, which may and should be used. This positive outlook is not confined to oil economies. Oil exporters have reacted in a way very different from the 1970s, implementing strong policy changes.

These radically different policies justify optimism. The present awareness of the volatility problem, reflected in the establishment of oil funds, will allow oil exporters to absorb or at least to cushion future external shocks. (Raffer, 2007).

9 - Diversification of the national economy structure: (Menaha, 2011).

Oil (and gas) revenues provide the necessary capital and foreign exchange for the build-up of human and physical infrastructure required for the development of the non-oil sectors. (Al-Moneef, 2006).

Use of oil revenues to diversify the economic structures of the oil countries and to reduce dependence on the oil sector is hardly only an official statement without having a big practical reflection on the ground. (Elbadawi, 2009). Thus the structures of the economies of the Arab oil states have not much changed, and the industry strategy still dominate economy. The statistics of 2006 in Saudi Arabia show that 50.1% of GDP come from the

mining sector, oil and strategic industry after being in 2000 at 37%; in Libya, the same percentage to 71.9% after 39.5% in 2000; in Kuwait, strategic industry sector got 55% of GDP in 2006 after a produce of only 47% in 2000, although official Arabic data, especially from the Gulf Cooperation Council confirm that 36% of oil revenues is spent on economic diversification. (Shaker, 2006). This appears in UAE economy where the proportion of industry's contribution to the strategy of GDP is estimated to about 37% in 2006.

Chapter two: The impact of oil on economic development in the Arab countries

First: the impact of oil revenues on the economic sectors :

1- Industry: (Tahar, 1997).

The industrial sector usually consists of extractive industry and manufacturing. As a result of the big contribution of the extractive industry in the industrial sector, the performance of this sector in the of the Petroleum Exporting states is too affected by what is happening in the extractive industry that accounted for about 73% of the total added value in the manufacturing sector in these countries in 1993.

Industry relies on the extractive industry products as raw material for the production and export, as a source of financing and investment projects in the industry in particular and development projects in general. While the contribution of the extractive industry in the GDP of the petroleum countries reached 61.4% in 1980, it declined to 32.7% in 1985 and 32.1 in 1995. The contribution to manufacturing in GDP increased from 4.6% in 1980 to 8.4% in 1985 and 10.5% in 1995, but there is no doubt that the picture is different in the non-oil Arab countries where the extractive industry did not represent more than 5.1% of GDP in 1995 and 14.3% in the manufacturing industry in the same year.

The impact of oil on the industry is seen in its impact on the manufacturing industry which relies on crude oil and natural gas. Despite the decline in the contribution of manufacturing to GDP, the nature of this industry in the Gulf oil exporters mainly the petrochemical and modern oil refineries, metal industries and chemical fertilizers, make them more important than they are in other Arab countries representing traditional industries such as Food Industry, textile, Clothing and footwear industry, the hallmark of the manufacturing industry. And therefore they are industries aiming to satisfy the needs of the domestic market, unlike petrochemical

industries, oil refineries and metal industries that depend on the oil sector and oriented mainly to foreign markets where the most important manufacturing industries in these countries are oil refining industry which evolved dramatically since the mid-seventies, where it seemed clear the importance of cutting-edge technology in such an industry on the one hand and the role of the States concerned away from foreign posts on the other hand.

Hence their ability comes to provide domestic demand and keep up with global demand. The size of the energies of oil refining in the Gulf States increased from 979 thousand barrels per day in 1975 to about 3 million barrels per day in 1990 and then to 3.2 million barrels per day in 1995; this proportion of a large increase reflects the importance of the manufacturing industry and its relation to the oil sector.

The impact of oil on the manufacturing sector especially in the petrochemical industry is mainly seen in value-added. A value-added per barrel of crude oil after refining, for example, is about \$ 3 but it reaches \$ 36 if converted to basic petrochemical (Ethylene and propylene) and to more than \$ 2.600 if they were converted into finished specialized products.

Hence the entry of Petroleum Exporting Countries in the petrochemical industry is in order to develop their core resources, especially since crude oil reserves in the Arab countries amounted to about 66% of world reserves and 20.4% of natural gas reserves, which means that it will remain able to feed the petrochemical industry for a long time, especially as Arab production of oil did not exceed 35.8% of global production and only 7.2% of gas available, in addition the availability of Petroleum refineries with a production capacity of up to about 7.5 million barrels per day which represents 10% of the world refining capacity which provides a source of some raw materials required for the petrochemical industry in these countries. A lot of Arab countries exporting oil seek to expand existing projects in addition to the establishment of new Industries petrochemical complexes.

2- Agriculture sector: (Tahar, 1997).

The steering of a part of oil surpluses to the agriculture sector is an urgent need with a strategy of clear dimensions as a result of the importance of this sector and the providing of goods for domestic consumption. In spite of the limited land and water resources in the Gulf Cooperation Council, which is considered the basis for the development of this sector, it a large part of the oil surpluses has been directed for the development of the agriculture sector which reflected on the size of the food gap for these countries.

The average contribution of agriculture to GDP in the Arab oil-exporting reached about 3.2% in 1985, then it rose to 4.7% in 1995, at the same time, the average per capita agricultural output, which varies from one region to another based on the number of agricultural population and per capita income, in the oil-producing countries, was about \$ 399 in 1995 compared to \$ 266 in 1985.

The agricultural sector has benefited from the major investment in infrastructure in the Arab countries Exporting Petroleum and from the assistance obtained by the farmers in order to increase agricultural production in these countries. Thus an increase in the average per capita agricultural output is seen in 1995 compared to 1985, and also compared to other Arab countries, it also reflects the evolution of the per capita net agricultural imports and the extent of the development of the productivity of the agriculture sector in these countries where the per capita net imports in the GCC decreased from \$ 386 in 1985 to \$ 287 in 1995; despite the rise in per capita net agricultural imports in these countries compared to other Arab countries, the decline in 1994 compared to 1985 indicates only that a large part of agricultural commodities become covering domestic production which is affected by investments in the infrastructure of this sector to provide financial surpluses from the oil sector.

3- Services Sector: (Tahar, 1997).

The services sector begins to play an increasing role in the economy of the Arab countries, oil and non-oil, especially after the rise in oil prices and then the growing oil wealth in the mid-seventies, where the share of services in GDP is increasing in accordance with the increase in the level of income and then the rates of development. Oil wealth has led to the introduction of the principle of "State Welfare", which in turn reflects the high volume of government spending on services, thus oil surpluses and then development plans, in these countries, have led to a migration of workers' hands from the densely populated Arab countries, which in turn led to a growth in the service sector in the receiving countries for such employment.

Second: the impact of oil surpluses on the non-oil Arab countries

A - The impact of oil revenues on workers' remittances in oil-producing countries:

Especially since the beginning of the seventies, oil has helped on the movement of labor from the Arab countries which do not produce oil such as Jordan, Palestine, Egypt and Sudan to the producing ones, especially in the

Arabian Gulf as Hvidt (2013) said due to the low level of income in countries that are not productive on one hand and the limited population in oil countries and the need for expats on the other hand.

The rise in oil prices in 1973 and the consequent development plans and the increase in the size of spending in oil countries to widespread transmission of Arab labor, thus the number increased from about 679 thousand workers before October 1973, mostly in Saudi Arabia and Kuwait to 1.1 million workers in 1975 and then to 1.7 million workers in 1980, which means that they have doubled more than half during the seventies, The volume of Arab labor in the oil-producing countries reached 4.35 million workers in 1991 and 4.5 million in 1994, Egypt was ranked first among Arab countries exporting labor, followed by Yemen, Jordan and Palestine together and then Sudan. At the same time, Saudi Arabia ranked first among Arab labor-receiving countries.

The workers' Official remittances has significantly contributed to raise the rates of development in their own countries by raising the standard of living and increase the volume of consumption and savings and reducing the rate of unemployment, in addition to providing financial resource of foreign exchange resources, which supports the balance of payments and reduce the deficit in the trade balance.

In spite of the lack of accurate statistics about workers' remittances in the oil-producing countries, there are estimates say that 90% of official transfers in the non-oil Arab countries are from oil countries.

B - The impact of oil revenues on Arab development aid:

Arab development aid, in this study, means the development investments of oil revenues especially those which are made by Arab funds for development. The Arab development aids have been associated with oil export revenues, which depend on the evolution of oil prices and the demand for it. The oil wealth has enabled the Arab countries, especially after 1973, to enter a new era with respect to their development where Arab oil states, especially in the Gulf, have oriented a part of the oil revenues towards the other Arab countries in a form of long-term loans with low interest rates, donations, grants and contributions to financial institutions.

Its energy resources have undoubtedly helped the Arab world in some respects to move more closely together. Most channels are financial in nature, via intra-regional investment and aid flows, primarily from the oil-rich Gulf towards other Arab economies and financed through the inflow of increasing

energy export rents into Arab oil and gas producers. Labor flows have characterized, decreasing in recent years, the relations between some of the Gulf countries and their fellow Arab neighbors, much as a result of a gradual trade flow of human capital in return for oil-based remittances. Much of these flows have not been mutual; North African and Levantine investment flows into the Gulf do not play a significant role until today, nor do labor flows from the Gulf to other Arab countries. (Fattouh & El-Katiri, 2012).

C - The impact of oil revenues on direct Arab investments and joint Arab action :

For investment flows, this kind of resource transfer from the oil economies of some Arab countries to other Arab economies is made through two channels: official investments and private investments. (Al-Moneef, 2006).

The flow of Arab capital, which actually began in the mid-seventies, and has increased with the surplus of oil growing in Gulf countries, reflects the impact of oil revenues on Arab development in general, the volume of Arab private investments in the Arab countries reflected the size of financial flows generated from oil exports from year to year, thus the volume of investments issued by the Gulf Cooperation Council for the Arab Gulf States in 1991 about 777.1 million dollars, or a rate of 84.2% of the total Arab investments.

The inward investment from Kuwait occupied the first place worth 524.3 million dollars, followed by investments in Bahrain and Saudi Arabia, Egypt ranked first in terms of inward investments, which amounted to 651.3 million dollars where the banking and financial sector occupied the first rank with an Arab investments in this sector of about 57.5% from the total investments in 1991, followed by the industrial sector (33.6%) and then trade sector, contracting and services by 4.7%; the lower oil prices and ever-increasing economic hardships faced by the oil-producing countries in the first half of the nineties was reflected on the size of private investment in the Arab countries which dropped to reach 308.1 million dollars in 1993 from which 154.5 million dollars (% 50.2) came from the Gulf Cooperation Council .

Conclusion:

The continued developments during the past two decades in the oil sector in the Arab producing countries, and their repercussions in other Arab countries, have reflected the importance of oil and its role in influencing the

economic structures of these countries. Oil will remain playing a major role in Arab development during the coming two decades, which requires exploitation from these countries to the opportunities offered by the presence of this vital sector by maintaining it and taking advantages of its revenues and diversifying sources of income. while some of the challenges are related to oil sector and the consequents of oil markets stability, in addition to environmental factors, others are related to economic activities of non-producing countries, such as the ability to diversify sources of income and economic reform programs and non-productive such as political stability, in addition to the imbalance in economic structures.

Results:

01- Arab countries live, in the current time, a period of large fiscal surpluses, but there are no guarantees to continuation for a long time.

02- Oil revenues do not represent an income in economic terms.

03- Oil-producing countries are threatened, in the future, by a decline in oil revenues because of the growing use of industrialized nations to alternative energy.

04- The failure of governments in the exploitation of oil resources optimally and constantly employed in development projects at a slow pace hinder the implementation of these projects.

05- The absence of a clear strategy map for optimal utilization of oil revenues until today.

06- The presence of economic and political obstacles encountering the directing oil revenues to support exports.

07- Mounting of expectations about the commercial boom and the regional economic recovery with stability conditions of the region and growth of income levels significantly.

08- The experiences of some Arab countries in development, especially in the Gulf, are divergent, but all of them did not live up to the required level reached by other countries in the same region, so they need to rethink their strategies.

Recommendations

- 01-** Establishment of national oil institutions entrusted with the responsibility of oil management sector.
- 02-** The involvement of these institutions with bodies, institutions and other entities engaged in conducting similar activities.
- 03-** Achieving the goals of the transformation plan in the oil fields.
- 04-** Supporting the national economy through the development and exploitation of oil reserves by an optimal exploitation, management and investment to achieve the best returns.
- 05-** Optimal exploitation of oil resources to ensure maximum benefit from them.
- 06-** Activating the oil revenues funds to reduce the negative effects of rising global energy prices.
- 07-** Use of oil revenues in the non-oil investments.
- 08-** Expanding manufacturing base and projects that contribute to the increase in gross domestic product and manpower development.
- 09-** Exploitation of the grace of high oil revenues and increasing the investment opportunities to eliminate of the existing challenges.

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