Foreign Investment by Countries of the Gulf Cooperation Council

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By

Muhammad Azhar

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Dedicated to
the Memory of My Father
the Late Dr Mohammad Rafi Ahmad
Who Spent All of His Life in
Service of Humanity

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PREFACE

The emergence of the member countries of the Gulf Cooperation Council (GCC) as significant suppliers of finance to the global market has been a unique phenomenon. The large volume of oil revenues at the disposal of these countries provided them with unprecedented financial clout in the global economy. The revenues at the disposal of these countries were so enormous that, in addition to their deployment in the domestic economy, they had to be invested in foreign countries. The investible surplus of GCC countries was not generated out of their production structure but by the extraction and sale of an exhaustive natural resource. This phenomenon started in these countries with the beginning of oil exports but it acquired its zenith after the massive inflow of revenues as a consequence of the severe rise in oil prices during the early and late 1970s. The phenomenon slowed down with the decline in global oil prices and consequent lower inflow of oil revenues to these countries. But this is expected to last as long as GCC countries remain significant sources of the supply of oil to the global market. Further, with the passage of time, foreign investment strategy has become one of the important tools of diversification. The importance of the GCC investment policy could be gauged from the fact that income from foreign investments was, for a few years, in a GCC member country, higher than oil revenues inflow.

One of the important aspects of development in GCC countries has been the threat of a future without oil. There is no doubt that all the prosperity, wealth and economic development that these countries do enjoy is due to their oil wealth. So, what happens after the oil reserves are exhausted? The concern for the post-oil era, that of a future without oil wealth, has been utmost in the thoughts of anybody and everybody who matters little in these countries. This issue has been central to all the discourses and policies of these countries. Not only this, the GCC countries consider this wealth not as the monopoly of the present generation but something to which future generations also have a due share. The strategy to spend and invest oil revenues is drawn into consideration with the above objectives. For example, in pursuance of this policy, Kuwait created the Reserves Fund for Future Generations (RFFG). Ten percent of annual revenues are set aside for the RFFG, and this account is inviolate. A substantial portion of

Kuwait's foreign investment comes from the funds set aside for the RFFG. For GCC countries, foreign investment has been one of the various strategic options for preserving and expanding the oil wealth for the future. The GCC foreign investment programme did attract a lot of global attention. And, therefore, it was necessary for an in-depth study of the GCC foreign investment to be undertaken.

This book is a completely restructured and revised version of my thesis, which I submitted for my PhD degree at Jawahar Lal Nehru University, New Delhi, in June 1991. Since then, many significant changes have taken place. Among these, one has been the reconstruction of Kuwait, which was liberated from the illegal occupation of Iraqi forces in March 1991. Although Iraq invaded and occupied Kuwait, they were not successful in acquiring the Kuwaiti foreign investments, which remained protected abroad. This money was crucial in financing the liberation of Kuwait and its subsequent reconstruction. The liberation and reconstruction of Kuwait were at a very high cost. The size of Kuwait's foreign investment declined sizeably. Other GCC countries also had to incur a significant amount of expenditure in the Gulf War. This resulted in a substantial decline in GCC foreign investment. The comparatively smaller size of oil revenues inflow in the first half of the 1990s also added to the decline in the GCC foreign investment profile. However, the latter half of the 1990s saw a surge in oil revenue inflow to GCC countries, on account of improved oil prices. This resulted in a substantial current account surplus within GCC countries. The fiasco of Kuwaiti investment in Spain, revealed immediately after the liberation of Kuwait, was an event which shook the entire GCC foreign investment programme. However, a rise in oil revenues inflow and the continuous current account surplus in the latter half of the 1990s, again, revived the profile of GCC foreign investment. Further, in 2003, Gulf War II occurred, after prolonged years of UN sanctions against Iraq. It resulted in the dislodging of Saddam Hussein from power in Iraq. Away from these developments, a very significant event that changed the global economic and financial management was the establishment of the World Trade Organisation (WTO), in 1995. Economic and financial reforms all over the world had already started in the late eighties or early nineties. However, the establishment of the WTO has been a unique phenomenon in global trade and financial management. Gradually, the whole world is now becoming investment-friendly and eager to attract foreign investment. Rules and regulations regarding investments are being liberalised and reformed, and foreign investment is not only welcome but solicited. And this provides the GCC investors with a vast level of options on the canvass of foreign

investment opportunities. These developments tempted me to restructure and revise my thesis, and factorise these events in the previous study.

The whole book has been arranged into ten chapters. The first chapter of the book has the title "The Emergence of Overseas Investible Surplus Funds in GCC Countries." A detailed discussion of the emergence of investible funds at the disposal of GCC countries and their nature takes place in this chapter. Whereas, in the second chapter, with the title "Issues in GCC Foreign Investment," aspects of foreign investment that concern GCC countries have been taken up. The "Magnitude and Direction of GCC Foreign Investment" is the third chapter. It deals with the pattern of GCC investment in terms of both geographical as well as portfolio structure. "The United States and GCC Foreign Investment" is the fourth chapter of this book. In this chapter, a detailed analysis of GCC investment in the US, its portfolio structure and the contentious issues of GCC investment in the US, is done. The fifth chapter has the title "GCC Investment in the United Kingdom and Other Developed Countries." In this chapter, a detailed discussion of GCC investments, portfolio structure, and contentious issues of GCC investment in the United Kingdom is taken up. Further, it includes discussions on GCC foreign investment in other developed countries like Germany, France and Japan. "Investment in Spain, KIO and Kuwaiti Financial Management" is the sixth chapter. A discussion of Kuwaiti's investment in Spain, its collapse, the closure of the Kuwait Investment Office, and important aspects of Kuwaiti Financial Management has been taken up in detail in this chapter. The seventh chapter has been given the title of "IMF and IBRD as Destinations of GCC Investment." It deals with the GCC investment deployment at the IMF and IBRD. The discussion of GCC's investment in developing countries takes place in chapter eight, which has the title "Developing Countries and the GCC Investment." GCC private investors have also played an important role in its foreign investment programme. They are discussed in chapter nine, which has the title "The GCC Private Investors." Chapter ten has the title "Assessment and Evaluation." As the title suggests, a detailed assessment and critical evaluation of the GCC investment programme is undertaken in this chapter.

During the course of the preparation of this book, I sought and received various kinds of cooperation from many quarters. I am thankful to all of them. But there are some who must be mentioned. At AMU, Aligarh, I am thankful to my colleagues for their encouragement. At Jamia Millia Islamia, New Delhi, I offer my thanks to my former colleagues. At Jawahar Lal Nehru University, New Delhi, I am thankful to Prof. Girijesh Pant, my PhD Supervisor, and other colleagues. In England, Dr B.R. Pridham, of Exeter

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No words of appreciation are sufficient to express my gratitude to my wife, daughter, brother and other family members, who have always provided me with encouragement and invaluable support for my academic endeavours. Gratitude is also due to my students: Dr Atikur Rahman, Dr Saima Farhat and Mr Abdul Moeed. Special thanks to my research scholar, Mr Mohammad Ubaid, for helping me in proofreading, etc. Thanks to Mr Taiyab Hussain for typing the manuscript in a short period of time and I must thank Cambridge Scholars Publishing for bringing out the book in a limited time. I owe special thanks to my friends and well-wishers at Aligarh Muslim University, Aligarh; Jawahar Lal Nehru University, New Delhi; and Jamia Millia Islamia, New Delhi, who are too numerous to be mentioned by name. Not to mention that I am solely responsible for all the limitations, if any, of the study.

Muhammad Azhar

CHAPTER I

THE EMERGENCE OF OVERSEAS INVESTIBLE SURPLUS FUNDS IN GCC COUNTRIES

During the eighth decade of the last century, the countries constituting the membership of the Organisation of Petroleum Exporting Countries (OPEC), as well as the Gulf Cooperation Council (GCC), came into the limelight of global finance. This was their emergence as an important source of international finance.[1] It was estimated that, by the first decade of the oil era (1973–74 to 1983–84), their total foreign investment had reached about $308 billion.[2] The foreign investment of this magnitude from the countries that were exporters of a primary commodity was quite different from the industrial countries. And, thus, it was a unique case of its kind in the recent history of world finance. It received global concern, particularly from the immediate centre of finance, because, in a sense, it suggested a shift away from the domain of the Organisation for Economic Cooperation and Development (OECD) countries.

However, the character of the investible surplus coming from the GCC countries had been quite different from the usual capital formation

1. The Organisation of Petroleum Exporting Countries (OPEC) was established in 1960, with Vienna (Austria) as its headquarters. Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates and Venezuela were its members. Whereas, the Gulf Cooperation Council (GCC) was established in 1981, with headquarters in Riyadh (Saudi Arabia). Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates constitute the GCC members. Thus, Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates were members of both of the above-mentioned organisations.

2. Although oil exports and, consequently, oil revenues inflow began a long time ago in these countries, the massive inflow of oil revenues in Kuwait, Qatar, Saudi Arabia, United Arab Emirates, and other oil-exporting countries only took place after the manifold rise in global oil prices in October 1973.

associated with the industrial countries.[3] The massive inflow of oil revenues and generation of capital surplus took place on account of a drastic upward revision in the prices of oil in the international market. The magnitude of the oil revenue inflow and, consequently, the generation of capital surplus were, in no way, under the control of these economies. Therefore, to investigate the investment strategy of the GCC countries, it was considered imperative to study the underlying factors that determined the size and nature of the investible surplus.

The GCC countries in the domain of our study are all extractive economies. Though their per capita income has been the highest in the world and their consumption level is comparable to some of the developed economies, their source of revenue has been derived from the extraction of a commodity: oil. The extraction of this single commodity and the revenue earned from its sales on the international market has been the main source of revenue. None of these countries had a strong industrial base to process the raw materials. And, thus, their wealth has been based on the transformation of depletable natural resources into cash, unlike an industrial economy, where the wealth has been produced by transforming the natural resources into high-value-added items. Thus, the concept of value-added would not be appropriate enough to analyse the nature of these economies.

The extractive nature of these economies has not only been determined by the revenue generation process but its utilization too. Unlike an industrial economy, which does have a higher absorptive capacity, in the case of these economies, due to the rudimentary nature of economic activities, the opportunities for the utilisation of massive oil revenues were also limited. Thus, the capital surplus in GCC countries was generated, which was quite distinct in the nature of its genesis. Therefore, the parameters for the utilisation of such surplus would have to be different. Theoretically, this surplus had to be transitory in nature because it emerged out of the conversion of depletable natural resources to current revenues and limited absorptive capacity. This meant that, even if the absorptive capacity were to remain constant, the natural resources would be exhausted over a period of time because of their being depletable in nature. Moreover, the absorptive capacity also was not likely to remain constant but rather to increase. Because of the expansion in economic activities, new avenues of utilisation were likely to come up over the passage of time.

3. The financial capital of the developed countries has been the stocks accumulated over two centuries, whereas the GCC countries' capital was the stocks piled up in about a decade.

In the case of the GCC countries, however, both of the above-mentioned factors determining the size of overseas investible surplus would have to be analysed with qualification. Estimates were that the depletable oil resources were likely to be with them for, more or less, a hundred years, and their absorptive capacity was constrained by the structural makeup of these economies. Therefore, the surplus was not a purely transitory phenomenon in the case of these countries. This has a bearing on its utilisation process, namely the objective, placement and return on the investment strategy. A study of the investment strategy, therefore, demanded an appraisal of the factors determining the nature and growth of surplus. As has been pointed out, the surplus has been a function of two factors: namely, the oil revenues and the absorptive capacity. The former, in turn, has been influenced by the size and longevity of the oil reserves, the global oil prices, and the market share of these countries.

Table 1.1. World-proven Crude Oil Reserves at the End of 2003

Country/Region	Million Barrels	Share of Total (%)	R/P* Ratio
North America	**27,200.0**	**2.4**	**10.4**
Canada	4,500.0	0.4	8.5
United States	22,700.0	2.0	10.9
Latin America	**116,437.5**	**10.2**	**33.5**
Mexico	16,040.0	1.4	13.1
Venezuela	77,226.2	6.8	80.3
Eastern Europe	**88,290.5**	**7.8**	**24.4**
Former USSR	**86,932.0**	**7.6**	**24.5**
Western Europe	**18,835.9**	**1.6**	**9.0**
Norway	10,447.4	0.9	10.1
United Kingdom	4,665.0	0.4	6.3
Middle East	**735,866.3**	**64.7**	**98.8**
Iran	133,250.0	11.7	97.8
Iraq	115,000.0	10.1	110.1
Kuwait	99,000.0	8.7	129.5
Oman	5,600.0	0.5	20.5
Qatar	15,207.0	1.2	55.6
Saudi Arabia	262,730.0	23.1	85.8
United Arab Emirates	97,800.0	8.6	119.5

Africa	**105,507.2**	**9.3**	**39.9**
Algeria	11,800.0	1.0	34.4
Libya	39,126.0	3.4	75.1
Nigeria	35,254.9	3.1	44.7
Asia and Pacific	**45,862.3**	**4.0**	**17.8**
China	23,700.0	2.1	19.1
Total World	**1,137,549.8**	**100.0**	**46.6**
OPEC	**891,115.9**	**78.3**	**91.2**
GCC	**480,337.0**	**42.2**	**92.9**

* Reserve/Production

Source: Estimated from the data available in the *OPEC Annual Statistical Bulletin 2003.* (Vienna: Organization of Petroleum Exporting Countries, 2004).

Table 1.2. Crude Oil Production (Thousand Barrels per Day)

Year	World Production	OPEC Production	GCC Production	OPEC/ World (%)	GCC/World (%)	GCC/OPEC (%)
1973	58,106.8	31,002.5	12,735.2	53.4	21.9	41.1
1974	58,205.5	30,729.0	13,223.0	52.8	22.7	43.0
1975	55,238.4	27,186.4	11,292.3	49.2	20.4	41.5
1976	57,434.4	30,327.1	13,156.3	52.8	22.9	43.4
1977	59,985.7	30,848.1	13,612.2	51.4	22.7	44.1
1978	60,245.3	29,394.8	12,749.7	48.8	21.2	43.4
1979	62,890.8	30,511.3	14,371.7	48.5	22.9	47.1
1980	60,049.3	26,850.7	13,737.5	44.7	22.9	51.2
1981	56,244.6	22,485.3	12,855.0	40.0	22.9	57.2
1982	53,528.4	18,734.4	8,887.3	35.0	16.6	47.4
1983	52,460.0	16,615.6	7,011.5	31.7	13.4	42.2
1984	52,955.3	15,933.7	6,636.4	30.1	12.5	41.7
1985	52,302.1	14,925.2	5,412.8	28.5	10.3	36.3
1986	55,190.2	17,630.9	7,363.3	31.9	13.3	41.8
1987	54,640.8	16,776.9	6,443.5	30.7	11.8	38.4
1988	56,948.8	18,871.0	7,869.4	33.1	13.8	41.7
1989	57,834.4	20,452.9	8,302.0	35.4	14.4	40.6
1990	59,101.7	22,071.3	9,493.1	37.3	16.1	43.1
1991	58,731.8	22,308.1	10,792.7	38.0	18.4	48.4
1992	59,403.1	23,850.5	12,053.2	40.2	20.3	50.5
1993	59,202.2	24,230.5	12,645.8	40.9	21.4	52.2

1994	59,945.7	24,609.4	12,600.8	41.1	21.0	51.2
1995	60,325.8	24,600.8	12,567.8	40.8	20.8	51.1
1996	61,433.7	24,769.2	12,662.3	40.3	20.6	51.1
1997	62,853.7	25,431.8	12,584.5	40.5	20.0	49.5
1998	65,012.9	27,739.7	13,194.0	42.7	20.3	47.6
1999	63,368.1	26,368.1	12.094.7	41.4	19.1	45.4
2000	65,824.9	27,745.0	12,913.5	42.1	19.6	46.5
2001	65,302.3	26,873.5	12,584	41.2	19.3	46.8
2002	63,933.8	24,322.5	11,308.2	38.0	17.7	46.5
2003	67,090.0	26,855.4	13,441.9	40.0	20.0	50.1

* **GCC Production** includes crude oil produced by Kuwait, Qatar, Saudi Arabia and the United Arab Emirates only.

Source: OPEC, *OPEC Annual Statistical Bulletin* (Vienna: OPEC), various years; *Petroleum Economist* (London), various issues.

GCC Oil Resources

The rich endowment of oil in the region can be observed in Table 1. From the table, it is found that, at the end of 2003, 78.3 % of the global oil reserves were concentrated in OPEC member countries,[4] while GCC member countries that also had membership of OPEC held over 42 % of global oil reserves.[5] Saudi Arabia, a prominent member of GCC as well as OPEC, alone, owned over 23 % of global oil reserves. At the same time, the United Arab Emirates and Kuwait owned 8.6 % and 8.7 % of global oil reserves, respectively. In terms of the longevity period of oil reserves, the GCC countries have been best ranked. The longevity period is reflected in the reserve/production (R/P) ratio.[6] Kuwait and the United Arab Emirates have an R/P ratio of 129 and 119 years, respectively, whereas the R/P ratio for Saudi Arabia is 86 years. Thus, it could be safely concluded that the current oil reserves within GCC countries might well last for about one hundred years. Thus, the region is expected to continue to have the leading share in global oil reserves in future and would have a distinct endowment advantage in the oil market and the bargaining power in the determination of global oil prices.

Correspondingly, the GCC countries have been dominant oil producers, as suggested in Table 1.2, which provides data about the oil production levels. From the above table, it is found that up to 1981, the GCC Countries have been producing more than one-fifth of the total world oil production. During 1981, GCC countries produced over 57 % of the total OPEC production.[7] Being such an important oil-producing region, it helps these countries, especially Saudi Arabia, to acquire a significant bargaining space in the world oil market, in general, and within OPEC, in particular. Saudi Arabia, in fact, has utilised this advantage in endowment

4. The OPEC consisted of eleven oil producing and exporting countries and has the primary responsibility of dealing with oil production levels, prices and quotas for the member countries.

5. The GCC consists of six countries. However, Bahrain and Oman are not members of OPEC. If Omani and Bahraini oil reserves are taken into account, the percentage share of GCC countries in global oil reserves would further increase and so would oil production, exports and oil revenues.

6. Reserves/production (R/P) ratio is estimated by dividing oil reserves remaining at the end of any year (R) with the production in that year (P).

7. Among the GCC states, Oman is also an important producer of oil. Oman's oil production levels have usually been higher than neighbouring Qatar. As has been described, the study could not include Oman in our analysis because, being a non-OPEC member, not much statistical information could be available.

and production capacity to act as a swing producer many a time.[8] It has been noticed that Saudi Arabia has acted in both capacities, either to hike the oil prices or to stabilise the oil prices.[9] The share of GCC countries in global oil production, however, has declined from 21.9 %, in 1973, to 10.3 %, in 1985. Since then, the GCC's share in global oil production has generally been on the rise, and, during 2003, GCC oil production constituted 20.0 % of the total global oil production and over 50 % of the OPEC's total oil production. A similar trend has been observed for the OPEC's production of oil during the above period.

The intensity of the above trend in oil production could be better judged from the oil production index in Table 1.3. The lowest position in the OPEC's, as well as the GCC's, oil production index is indicated in 1985. With varying performance from the base year, 1973, both the OPEC and GCC were producing only 48.1 % and 42.5 %, respectively, of their base level production in 1985. Incidentally, in 1985, total world oil production dipped to the lowest level. In comparison, the non-OPEC production index stood at 137.9 in 1985. Thus, the lowest level of global oil production, as well as a higher level of non-OPEC production, was reflected in the lowest level of production by the OPEC, as well as the GCC, during 1985. This would further reflect itself in the contraction of the level of their oil exports. The decline in production levels of the OPEC and GCC could be explained by the combined effect of different factors, the important of which are listed:[10]

(a) Overall decline in the energy demand;
(b) Substitution of other forms of energy for oil;
(c) Rise in the supply of non-OPEC oil; and
(d) Reintroduction of OECD oil inventories into the consumption channels.

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8. Being a swing producer implies the utilisation of production capacity, by an oil-producing country, to manoeuver global oil supply in order to influence the oil prices.

9. Robert Mabro, "OPEC After the Oil Revolution," in *OPEC and the World Oil Market*, ed. Robert Mabro (London, 1986), 24–26. Also see Ali Jaidah, "Oil Market Stability: Time for Action," in *OPEC and the World Oil Market*, ed. Robert Mabro (London, 1986), 127. Further, see "Kingdom Clarifies Oil Policy," *Saudi Economic Survey* 20, no. 955 (February 1986): 1 and 4.

10. Abbas Al-Nasrawi, "OPEC and the Changing Structure of the World Oil Market," in *Cooperation and Development in the Energy Sector*, ed. Atif A. Kubrusi and Thomas Naylor (London: Taylor and Francis, 1985), 28.

Table 1.3. Yearly Oil Production Index (1973=100)

Year	World	OPEC	Non-OPEC	GCC
1973	100.0	100.0	100.0	100.0
1974	100.2	99.1	101.4	103.8
1975	95.1	87.7	103.5	88.7
1976	98.8	97.8	100.0	103.3
1977	103.2	99.5	107.5	106.9
1978	103.7	94.8	113.8	100.1
1979	108.2	98.4	119.5	112.9
1980	103.3	86.6	122.5	107.9
1981	96.8	72.5	124.6	100.9
1982	92.1	60.4	136.2	69.8
1983	90.3	53.6	132.2	55.1
1984	91.1	51.4	136.6	52.1
1985	90.0	48.1	137.9	42.5
1986	95.0	56.9	138.6	57.8
1987	94.0	54.1	139.7	50.6
1988	98.0	60.9	140.5	61.8
1989	99.5	66.0	137.9	65.2
1990	101.7	71.2	136.6	74.5
1991	101.1	72.0	134.4	84.7
1992	102.2	77.0	131.2	94.6
1993	101.9	78.2	129.0	99.3
1994	103.2	79.4	130.4	98.9
1995	103.8	79.4	131.8	98.7
1996	105.7	79.9	135.3	99.4
1997	108.2	82.0	138.1	98.8
1998	111.9	89.5	137.5	103.6
1999	109.1	85.1	136.5	95.0
2000	113.3	89.5	140.5	101.4
2001	112.4	86.7	142.0	98.8
2002	110.0	78.5	146.0	88.8
2003	115.5	86.6	148.0	105.5

Source: Estimated from data in the previous table.

However, in the post-1985 period, the oil production situation was retrieved gradually for both OPEC and GCC member countries. The latest index for 2003 indicates the growth of world oil production to 115.5, as compared to the base year of 1973. For the OPEC, the production index in

the same year has been at 86.6 and for the non-OPEC, 148.0. In comparison, the production index for the GCC stood at 105.5 in 2003. Thus, for the GCC oil production index, its position has become a little better than the position in the base year 1973.

A similar kind of trend is observed by examining the oil exports from these countries. The data about the magnitude of oil exports is provided in Table 1.4, where it is observed that the GCC's oil exports were reported at 12.3 million barrels per day, during 1973. Oil exports from GCC countries reached their maximum at 13.2 million barrels per day, in 1979, but, in subsequent years, declined to their lowest, at 3.9 million barrels per day, during 1985. Afterwards, the GCC's oil exports gradually and steadily increased. By 2003, the GCC's oil exports had reached 10.4 million barrels per day. The GCC's oil exports have always constituted a substantial portion of the OPEC's total oil exports. During 2003, the GCC's oil exports were 53.1 % of the total OPEC's oil exports.

Global Oil Price Regime and Oil Revenues

From the discussions in previous sections, the intensity of the dependence of the global oil market on the OPEC and GCC oil supplies is self-evident. The importance of the OPEC and GCC in meeting the global demand from their production is paramount. However, this provides them with a significant manoeuvring space to unsettle the market equilibrium. But a change in equilibrium, to hike oil prices substantially, requires a very high degree of collusion among the cartel members in their production policies.

Table 1.4. GCC Countries: Crude Oil Exports (Thousand Barrels per Day)

	1973	**1974**	**1975**	**1977**	**1979**	**1980**	**1981**	**1982**
Kuwait	2,847.3	2,395.7	1,943.9	1,624.8	2,083.1	1,296.5	813.8	368.8
Qatar	570.3	511.2	428.3	410.3	494.9	465.7	391.0	322.8
Saudi Arabia	7,346.3	8,243.9	6,931.8	8,608.4	78,817.7	9,223.2	9,017.9	5,639.4
UAE	1,522.1	1,689.5	1,661.4	1,990.0	1,805.3	1,697.3	1,439.0	1,167.0
Total GCC	**12,286.0**	**12,840.3**	**10,965.4**	**12,633.5**	**13,201.0**	**12,682.7**	**11,661.7**	**7,498.0**
Total OPEC	**29,324.5**	**28,982.7**	**25,477.5**	**27,322.7**	**26,477.5**	**22,605.3**	**18,319.5**	**14,049.4**
GCC/OPEC	**41.9**	**44.3**	**43.0**	**46.2**	**49.9**	**56.1**	**63.7**	**53.4**
	1983	**1984**	**1985**	**1986**	**1987**	**1988**	**1989**	**1990**
Kuwait	544.4	658.0	475.9	756.0	607.0	698.0	850.0	645.0
Qatar	279.5	386.2	280.0	307.0	254.0	305.0	320.0	347.8
Saudi Arabia	3,920.8	3,186.9	2,150.7	3,265.8	2,416.5	3,030.1	3,335.5	4,499.8
UAE	1,077.3	1,036.7	977.7	1,132.0	1,250.0	1,345.0	1,650.0	1,895.0
Total GCC	**5,822.0**	**5,267.8**	**3,884.3**	**5,460.8**	**4,527.5**	**5,378.1**	**6,155.5**	**7,387.6**
Total OPEC	**12,210.7**	**11,737.1**	**10,569.4**	**12,594.0**	**11,797.6**	**13,032.9**	**14,875.9**	**16,050.9**
GCC/OPEC	**47.7**	**44.9**	**36.8**	**43.4**	**38.4**	**41.3**	**41.4**	**46.0**

	1991	1992	1993	1994	1995	1996	1997
Kuwait	85.0	695.6	1,440.0	1,263.5	1,186.4	1,224.2	1,134.2
Qatar	336.6	362.3	340.6	322.6	333.0	367.0	465.0
Saudi Arabia	6,526.3	6,581.9	6,292.9	6,233.6	6,290.8	6,109.3	6,184.5
UAE	2,195.0	2,060.0	1,970.0	1,955.0	1,925.0	1,943.2	1,949.0
Total GCC	9,142.9	9,699.8	10,042.9	9,774.7	9,735.2	9,643.7	9,732.7
Total OPEC	16,956.7	17,413.9	17,899.6	18,017.9	18,101.6	18,372.0	19,331.1
GCC/OPEC	53.9	55.7	56.1	54.2	53.8	52.5	5.03
	1998	**1999**	**2000**	**2001**	**2002**	**2003**	
Kuwait	1,190.2	948.2	1,244.7	1,214.1	1,138.0	1,242.9	
Qatar	572.4	580.5	617.6	605.5	580.8	540.7	
Saudi Arabia	6,390.4	5,719.7	6,253.1	6,035.9	5,284.6	6,522.9	
UAE	2,039.0	1,919.0	1,814.9	1,786.7	1,614.0	2,048.0	
Total GCC	10,192.0	9,167.4	9,930.3	9,642.2	8,617.4	10,354.5	
Total OPEC	20,586.9	19,405.5	20,496.8	19,619.4	17,735.6	19,495.7	
GCC/OPEC	49.5	47.2	48.4	49.1	48.6	53.1	

Source: "OPEC Annual Statistical Bulletin," various issues.

Another point to be taken into account is that the global oil demand function is not inelastic in the long run.[11] Rather, with a substantial increase in the price of oil, the demand curve becomes increasingly more elastic.[12] Therefore, a very steep hike in oil prices, with this kind of demand function, might result not only in the loss of market share but total oil revenue inflow also. Therefore, for OPEC members to engineer any disequilibrium, for the substantial price hike, it would require sacrifices in terms of market share and even revenues. The market behaviour in the seventies and eighties could be explained through this framework. The unprecedented rise in prices during 1973 and again during 1979-80, steady loss of the OPEC and GCC's global market share afterwards, undercutting of prices by OPEC members, and the 1986 oil price collapse could easily fit into the above scheme of analysis.[13]

The global oil market, in 1973–74, faced serious disequilibrium for the first time. A new price regime emerged in the seventies. The oil industry was divided into sellers and buyers of oil. The sellers, represented by the OPEC, inherited, from the companies, the role of price administrator. And, for the first time, the oil-producing countries, in October 1973, were collectively able to set their prices on world markets.[14] This unprecedented move resulted in oil prices being quadrupled within a few months.[15] With this, the massive inflow of oil revenues to the oil-exporting countries started, with a substantial proportion of this flowing to the GCC countries and, thus, began the era of petrodollars.

The second "crisis" in the oil industry erupted in 1979 due to the political upheavals in Iran.[16] The oil exports from Iran ceased for about sixty-nine

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11. Ibrahim M. Oweiss, "Petrodollar Surpluses: Trends and Impacts," *Journal of Energy and Development* (Spring 1984): 177–202.
12. Ibid.
13. John Roberts, "The Effects of Oil Price Collapse on the GCC Economies," *The Journal of Energy and Development* XII, no. 1 (Autumn 1986): 13–105.
14. Abdul Aziz Alsowayegh, *Arab Petro Politics* (London: Croom Helm, 1984): 133–36.
15. See "Official Crude Prices," *BP Statistical Review of World Energy* (July 1989): 14.
16. The analysts from Western countries have been terming these events as “crises.” Whereas the oil exporters have contested this and termed it as a revolution, for only through this revolution, could they get the real price for their oil exports, which were underpriced for decades, and they also obtained self-rule in the management and pricing systems of raw materials. See Fadhil Alchalabi, "A Second Oil Crisis? A Producer's View of Oil Developments of 1979," in *After the*

days, from December 1978.[17] However, oil production in Iran resumed subsequently but at a lower level, and, in spite of Saudi Arabia increasing its oil production, uncertainty plagued the oil market and resulted in panic purchases by the importing countries. Thus, the second serious breach in oil market equilibrium left both spot market and administered prices escalating. The official price of Arab marker crude[18] rose from $12.70 per barrel, in December 1978, to $24.00 per barrel, in December 1979.[19] The prices charged by other OPEC members varied above that level, and spot prices soared to more than $30.00 per barrel.[20] And, for the second time, within a decade, oil-exporting countries experienced another phase of massive oil revenue inflow.

Second Oil Crisis, ed. Wilfrid L. Kohl (Lexington: Cambridge University Press, 1982), 11–22.

17. Wilfrid L. Kohl, "Introduction: The Second Oil Crisis and the Western Energy Problem," in *After the Second Oil Crisis*, ed. Wilfrid L. Kohl (Lexington: Cambridge University Press, 1982), 1–7

18. Saudi Arabian light crude oil of 34% AP gravity is used as the benchmark for Persian Gulf crude because it is the largest single type of crude oil produced there and represents a good average between higher-priced low-sulphur crude and lower-priced heavier oil.

19. *OPEC Annual Statistical Bulletin* (Vienna: OPEC, various years).

20. Ibid.

Table 1.5. GCC Member Countries Values of Petroleum Exports (Million Dollar)

	1973	**1974**	**1975**	**1976**	**1977**	**1978**	**1979**	**1980**
Kuwait	3,574	10,568	8,594	9,090	8,918	9,557	17,294	18,935
Qatar	600	1,979	1,757	2,137	2,055	2,305	3,693	5,372
Saudi Arabia	8,956	35,476	29,473	38,157	43,308	40,332	62,855	108,175
UAE	1,867	6,948	6,762	8,383	9,258	8,661	12,862	19,390
Total GCC	**14,997**	**48,023**	**46,586**	**57,767**	**63,539**	**60,855**	**96,704**	**151,872**
Total OPEC	**36,959**	**119,997**	**107,427**	**128,448**	**141,623**	**134,823**	**200,086**	**282,625**
	1981	**1982**	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
Kuwait	14,229	9,066	10,069	10,996	9,451	6,378	7,523	6,840
Qatar	5,496	4,214	2,993	4,386	3,068	1,720	1,829	1,709
Saudi Arabia	118,998	78,119	44,830	36,285	25,937	18,061	20,427	20,205
UAE	18,761	15,956	13,016	12,037	10,896	6,865	7,900	7,627
Total GCC	**157,484**	**107,355**	**70,908**	**63,704**	**49,352**	**33,024**	**37,679**	**36,381**
Total OPEC	**259,629**	**203,826**	**158,348**	**147,863**	**128,869**	**76,640**	**91,578**	**85,375**
	1989	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**
Kuwait	10,432	6,385	874	6,221	9,711	10,459	12,054	14,132
Qatar	1,955	3,273	2,828	2,870	2,811	2,623	2,987	3,801
Saudi Arabia	24,095	40,130	43,701	46,527	38,621	38,139	43,547	54,272
UAE	10,215	14,846	14,356	14,251	12,118	11,683	12,822	14,980
Total GCC	**46,697**	**63,634**	**60,959**	**69,869**	**63,261**	**62,904**	**71,410**	**87,185**
Total OPEC	**106,809**	**145,983**	**126,869**	**132,343**	**118,461**	**119,742**	**133,486**	**168,102**

	1997	1998	1999	2000	2001	2002	2003
Kuwait	13,468	8,472	10,998	19,200	14,980	14,060	18,780
Qatar	4,655	3,357	4,775	7,834	6,964	6,885	8,814
Saudi Arabia	53,344	32,570	44,934	74,585	59,788	63,814	84,908
UAE	15,269	11,131	15,021	26,148	22,414	21,768	25,153
Total GCC	**86,736**	**55,530**	**75,728**	**127,767**	**104,146**	**106,527**	**137,655**
Total OPEC	**163,599**	**107,352**	**154,717**	**254,100**	**210,294**	**207,796**	**255,047**

Source: *OPEC Annual Statistical Bulletin* (Vienna: OPEC, various issues).