

THE MIDDLE EAST IS THE WORLD'S GEOGRAPHIC "CENTRE OF GRAVITY" FOR THE OIL SECTOR: A GEOGRAPHICAL ANALYSIS

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Abstract

Oil is crucial to the foreign and domestic policies of practically every country in the region, both oil importers and exporters. The discovery and subsequent use of oil has had a considerable impact on the economic development of the Middle East region in general, as well as oil-rich countries in particular. Prior to the discovery of oil, the Middle East was an impoverished region that was "forbidding ecologically and deprived economically, with very limited agricultural and pastoral economies and a small but locally important caravan trade"¹⁰⁹. The Middle East region has the majority of the world's oil producing countries. Despite being rich in a basic resource, they suffered lesser growth than resource-poor countries. The early twentieth century was a watershed moment in the Middle East's growth. Prior to 1950, the Middle Eastern countries had some of the world's lowest levels of socioeconomic and development (Yusuf T. M. 2004)¹¹⁰. Over the last century, oil has had a major role in defining the Middle East's politics, economy, development, and foreign relations. Because oil powers modern businesses and civilizations around the world, oil in the Middle East has emerged as a critical strategic commodity influencing international affairs and the global economy. However, with the discovery

of massive oil reserves and its subsequent use and active exports, the Middle East region has seen significant economic, political, and social upheavals.

Paper Identification



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INTRODUCTION

However, as oil was discovered and began to be exploited and used in the early half of the twentieth century, the situation altered dramatically. The region's large oil reserves (66% of the world's supply) have resulted in the rapid creation of wealth for some states, mostly oil-rich, as well as changing the political and economic processes not only in the oil-exporting countries but also in the region as a whole. There is a widespread belief that enormous oil deposits, on the one hand, have resulted in economic development and affluence, while, on the other hand, have resulted in weak states that are independent of social demands, political responsibility, and transparency (R. Schwarz

2008)112. It may be said that the discovery of oil, as well as its subsequent sale and use, has accelerated economic modernization in the Middle East and, of course, in the oil-producing countries; infrastructure, social and living circumstances, and health care have all improved. Aside from the steady rise and growth of oil and its production in the Middle East, there has also been international oil politics. Even during the 1930s, when global demand for oil fell to very low levels due to economic depression, the international oil cartel was able to control production and reduce competition in some markets. Moreover, during the Second World War, oil was at a premium due to military necessities, and Oil Company's money notwithstanding price limitations and output losses due to war fears.

MIDDLE EASTERN OIL ASSESSMENT

Saudi Arabia has the most crude petroleum reserves of any Middle Eastern country. It holds over 32% of the market, followed by Iran (16%), Iraq (14%), Kuwait (13%), the United Arab Emirates (12%), and Qatar (3%). These six Arabian Peninsula states account for about 90% of the Middle East region's total crude petroleum reserves. Libya has the biggest reserve share of any North African country, accounting for over 5% of the region's total oil reserves as of today. Algeria (3%), Egypt (1%), and Tunisia (1%). Oman, Bahrain, Turkey, Syria, Israel, Jordan, Yemen, Tunisia, and Morocco share the remaining 1% of the crude reserve).The remaining countries have a minor part of the region's crude reserves.

TRENDS IN CRUDE PETROLEUM RESERVE

If we look at the trend and decadal data of crude reserves, we can see that in Saudi Arabia, the reserve increased significantly between 2000 and 1990 due to the identification of new areas of reserve, but from 2000 to 2009, the amount of reserve decreased due to the increasing production of oil from existing reserves to meet the growing demand in the world market, and

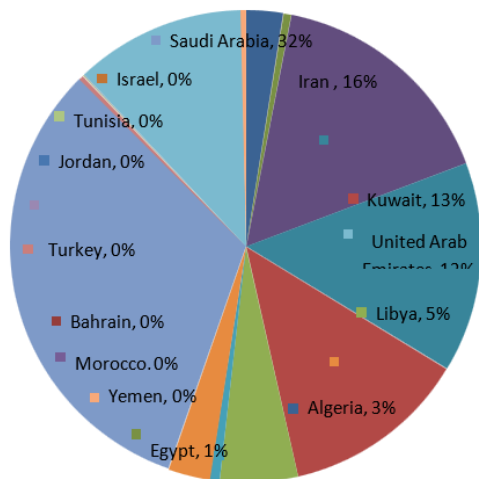
not many new areas of reserve were identified and explored. However, Saudi Arabia has the greatest crude oil reserve, accounting for over 32% of the entire reserve available in the Middle East region. However, Iran's reserve was practically steady between 1990 and 2000, but it increased dramatically in 2009. Their stable leadership, internal tranquilly, and favourable government policies, as well as technological advances, have led them to explore new locations and increase their crude reserves. Following 1990, Iraq's reserves increased as well. It has increased significantly since 1990, however the rates of increase have been quite modest from 2000 to 2009. Following the Gulf War in 1990, the United States and its allied countries established many new companies for oil exploration; even the government wanted a large sum to rebuild the devastation caused by the war, resulting in an aggressive policy of oil exploration and identification of reserve regions by the local Iraqi government.

GOVERNANCE IN THE MIDDLE EAST

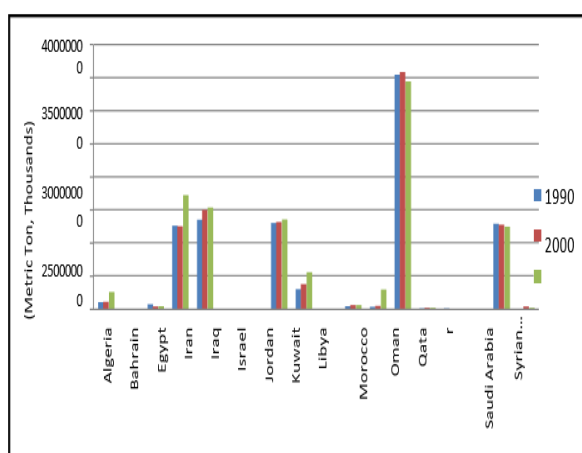
Most countries in the region perform poorly in global governance¹¹³ rankings, and this has been getting worse over the last decade. Corruption is a serious issue: more than half of the Middle Eastern countries perform poorly in terms of corruption control. With the exception of Cyprus, the UAE, Israel, and Qatar, all of which have done well in combating corruption. The situation in the Middle East, for example, demonstrates that countries with functional governments are better able to manage corruption than those with weak governments. Political stability is another key concern on the advent of Middle Eastern government. The graph clearly shows that the majority of countries fail to deliver stable government. Which has ramifications for various measures of Middle Eastern administration. It is also vital to note that these governance metrics are moving in tandem. throughout terms of consistent quality, a similar pattern occurs throughout the Middle

Eastern countries. Bahrain, Cyprus, and Israel, among others, performed well in terms of consistent quality. According to the aforementioned data, Middle Eastern countries rank poorly on governance indices. And there is a strong likelihood of reverse causality from conflict to governance and governance to conflict. Thus, in order to reduce violence in Middle Eastern countries, one should focus on improving governance concerns, which can play a significant role and serve as a main avenue to reducing conflict in the region.

Crude Petroleum Reserve in Middle East (Metric Ton, Thousands) 2009



Crude Petroleum Reserve in Gulf Middle East



Crude Petroleum Reserve in Middle East (1990, 2000 & 2009)

GOVERNANCE IN THE MIDDLE EAST

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Before we get into how these indicators help to analyses the governance condition in the Middle East region, we'll go through the basics of how they work. Control of corruption captures perceptions of the extent to which public power is used for private gain, including both petty and grand corruption, as well as "capture" of the state by elites and private interests, whereas government effectiveness captures perceptions of the quality of public services, the quality of the civil service and its independence from political pressures, the quality of policy formulation and implementation,

and the creed of the government. It assesses people's expectations that the government would be destabilized or toppled through unlawful or violent tactics, such as politically motivated violence and terrorism. The graph below will assist in assessing the governance scenario for all Middle Eastern countries.

ASSESSMENT OF HUMAN DEVELOPMENT: MIDDLE EAST

ME countries have succeeded rather well in terms of human development when compared to other developing countries, but their experiences have been as variable as their financial levels. Low-income ME countries' HDI has increased faster than any other area, and faster than their GDP per capita index. In 2011, the high-income group had the second highest income index (0.80), after North America (0.87), but the highest HDI (0.78). The middle-income category had a lower HDI (0.52) in 1990 than Latin America (0.62) with comparable average income, but had closed the gap by 2005. This group maintained a relatively good level of health throughout the period and swiftly grew its education index after beginning at a low level. In 2011, the average life expectancy in ME countries was over 73 years, which was close to the average for non-ME middle-income countries. However, like wealth, life expectancy varied greatly across the region. The United Nations created a framework to quantify and rank countries' levels of social and economic development based on four criteria: birth age, mean years of schooling, expected years of schooling, and gross national income per capita. Every year, the United Nations records changes in development levels over time and compares them across countries. Human development index is classified into four categories: very high (more than or equal to 0.905), high (between 0.758 and 0.905), medium (between 0.640 and 0.758), and low (between 0.466 and 0.640).

MIDDLE EAST DEVELOPMENT AND CONFLICT: A REVIEW

Major battles have occurred in the Middle East over the previous few decades. The presence of vast oil deposits, the rise of Islamism, and the war between Israel and its neighbours have all contributed to the conflicts. Approximately two-thirds of the world's known oil reserves are located in the Middle East, and these assets have been a significant source of riches for Saudi Arabia, Iran, Iraq, Kuwait, and other countries. Oil income enabled Middle Eastern governments to modernise their countries, promoting industry, economic development, and social development. However, oil has also been a source of violence since some governments have used oil revenues to build up their military, preserve power, and threaten neighbours, and oil wealth has fostered internal conflicts inside countries, communities, and so on. The Middle East conflict is a recurring theme in international politics, academic research, and current news coverage. The fifty-five-year-old Israeli-Palestinian conflict is one of the most enduring conflicts anywhere, but the region has also hosted two of the wars with the most international participants (Iraq in 1991 and 2003), as well as the bloodiest interstate war of that period between Iran and Iraq, 1980-1988 (Sorli M.E. et al. 2005)¹¹⁵. In addition, several Middle Eastern countries have endured wars, economic sanctions, insurgency, and the threat of civil war in recent decades. Since the first oil crisis in 1973, massive infusions of oil money have radically altered the Middle East's social and economic landscape. Looking back over the last three decades, there have been many military conflicts and political upheavals in this region, and many lives and economic wealth brought in by the oil boom have been lost as a result of the Iran-Iraq war in 1980-88, Iraqi invasion of Kuwait in 1990, Iraq war in 2003, and numerous terrorist attacks in Arab countries.

Another group of researchers argued that both groups were wrong. According to a similar study, trade, particularly American commerce, is being exploited as a new means to influence developing countries and offer security. They say that the US is pursuing trade agreements in Asian countries for security concerns rather than trade. As a result, while increased trade can be viewed as a weapon for peace, some say that it is being utilised for regional influence (Dieter Heribert et al. 2007). Another study discovered that military treaties boosted trade (Long 2003). According to the most recent research, there is an inverse association between trade and conflict. International trade and the resulting interdependence reduces the expenditure of resources on military adventure.

EMPIRICAL INVESTIGATION: SETTING THE CONTEXT

Military spending and economic growth have been intensively studied in recent years. Defence spending has both economic costs and advantages. Defence expenditures are primarily underlined as opportunity costs since they imply reductions in public and private spending and investment. Defence investment, on the other hand, may offer growth-promoting potential benefits: Increased defence spending may lead to increased aggregate demand, production, and employment. Defence spending may have a stimulating effect in countries where unemployment is high (Yildirim J. Based on the studies reviewed above, the general consensus is that there is a relationship between conflict and development in the Middle East region. Depicts the Middle East countries' military spending as a percentage of their GDP and GDP per capita. As a measure of war, the vertical axis displays Military Expenditure (% of GDP). Real GDP per capita is plotted on the horizontal axis. The graph displays a mixed bag of results. The data shows that most Middle Eastern countries (excluding Tunisia, Egypt, and Cyprus) spend more than 2% of their GDP on military

spending. It is also worth noting that countries with relatively low military spending spend more than 4% of their GDP on defence. It demonstrates an inverse link between per capita income and military spending. This shows that violence is more prevalent in poorer sections of countries. This graphical analysis is simply suggestive; we cannot draw a causal relationship from it. In the following portion of the panel framework, we studied the link between Oil, Conflict, and Development using data from 20 Middle Eastern nations from 1990 to 2009. The findings support the negative association between GDP and military spending in the Middle East.

DATA AND EMPIRICAL STRATEGY

Although Middle Eastern countries spend a large proportion of their GDP on defence, there are few studies on the subject. This chapter investigates experimentally the effects of military spending on economic growth in Middle Eastern nations from 1990 to 2009. For this analysis, we developed panel data sets for 20 important nations to explore the association between war and development metrics. Ideally, we need statistics on terrorist killings that have been normalised by the society as an indicator of conflict. Due to data constraints, we utilised the proportion of military spending to GDP as a proxy for conflict. We used Gross Domestic Product (GDP), Export, Import, Oil Rent, and other indicators of progress. The fixed effect panel data technique is used to explore the relationship between military spending and economic growth.

CONCLUSION

Military spending is government spending that has an impact beyond the resources it consumes, particularly when it leads to or promotes conflict. While countries require some level of security to deal with internal and foreign dangers, this comes with opportunity costs because it prevents resources from being employed for other objectives that could accelerate growth. The

primary goal of this analysis is to examine the causal relationship between government spending and economic development in the Middle East region, where governments play important roles in economies and considerable amounts of military spending go to the military. For reasonably long time series, panel data approaches provide a deeper insight than simple cross-sections on averages. The study discovers evidence of a link between conflict and development in the Middle East region as a whole, indicating a definite negative association between GDP and military spending. The majority of prior studies imply that the relationship between development and conflict will not be uniform across areas and countries in today's world. To test this theory, we divided oil exporting countries into three groups: those with above-average oil exports, those with below-average oil exports, and those with no exports. For the whole model outlined above, we found no significant relationship between military expenditure and development variables in countries whose average oil export is greater than the average Middle East export. It means that conflict is not decreasing with development; this indicates that oil exporting countries incurred more total defence spending; statistically, we conclude that this analysis hints that conflict is not explained by these results and that other factors may be responsible.

Theoretically, their rationale might be that they are all significant oil exporting nations with large income-producing oil export sectors. We discovered no meaningful link between military expenditure and development factors in nations whose average oil export is greater than the average Middle East export for the entire model described above. It signifies that conflict does not decrease with development; this shows that oil-producing countries incurred more total defence spending; statistically, we conclude that this analysis hints that conflict is not explained by these results and that other causes may be at work. In theory, their reasoning may be that they are all important oil

exporting countries with large income-producing oil export sectors. And countries whose average oil export is less than that of the Middle East. It is apparent that military spending (as a proportion of GDP) has been dropping over time. Even after accounting for exports as a percentage of GDP and oil rents in the model, the outcome remains consistent. The outcome differs from all previous models in terms of pattern. We did not detect a meaningful time variable in this case. We discover negative and substantial GDP coefficients, as well as positive and significant Oil Rent coefficients. This clearly shows that there is an inverse link between growth and conflict, implying that as we progress, our conflict decreases. Finally, for those countries that do not export, clearly mention that military expenditure (as a percentage of GDP)

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