

The Riddle of Diversification:

Dilemmas of the MENA Petro-State

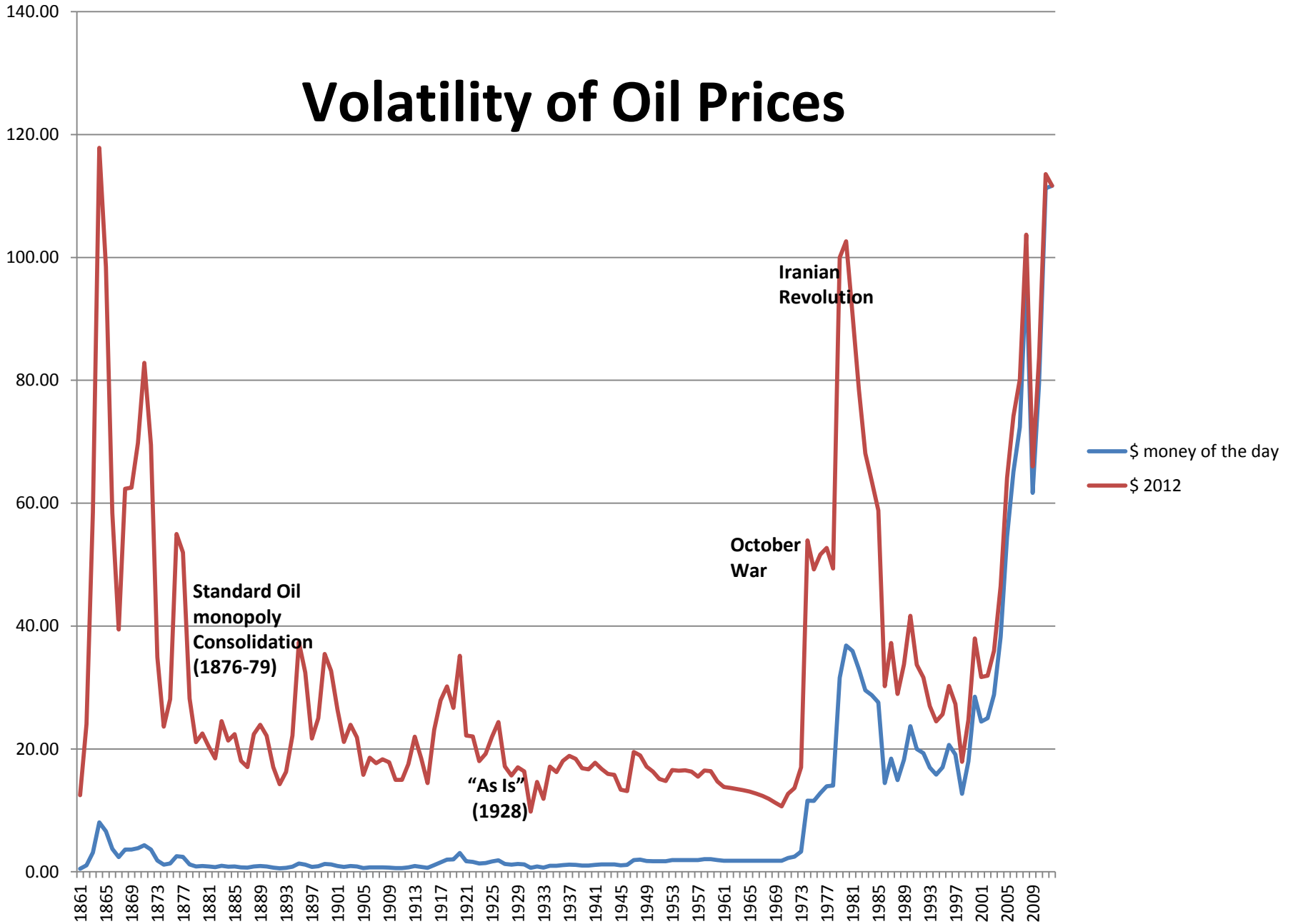
Clement M. Henry
IMF Conference
Kuwait, 30 April 2014

OIL AND GAS REVENUES

per capita	Income	Rents	Rents per	as %GDP	as % gov
	2009	2011	citizen		revenue
Qatar	\$24,940	\$25,652	\$250,000	28.6%	
Kuwait	\$19,500	\$26,407	\$82,000	51.3%	76%
UAE	\$14,100	\$9,448	\$87,000	24.2%	
Oman	\$7,950	\$10,474	\$10,000	28.6%	115%
Saudi Arabia	\$7,800	\$14,137	\$20,000	58.6%	
Libya	\$6,420	n.d.		n.d.	
Bahrain	\$3,720	\$5,151	\$13,000	25.1%	

Oil and Gas	Income	Rents	as %GDP	% state's
Algeria	\$1,930	\$1,371	26.0%	64.0%
Iraq	\$1,780	\$4,464	78.5%	
Iran	\$1,600	n.d.	n.d.	
Syria	\$450	\$503	18.3%	
Egypt	\$260	\$362	12.2%	55.6%
Yemen	\$270	\$314	23.1%	
Sudan	\$260	\$249	14.2%	
Tunisia	\$250	\$229	5.3%	17.0%
Indonesia	\$140	\$131	3.8%	23.2%
Malaysia	\$860	\$949	9.4%	45.0%
Russia	\$2,080	\$2,469	18.6%	59.2%
USA	\$730	\$468	0.9%	5.7%

Volatility of Oil Prices



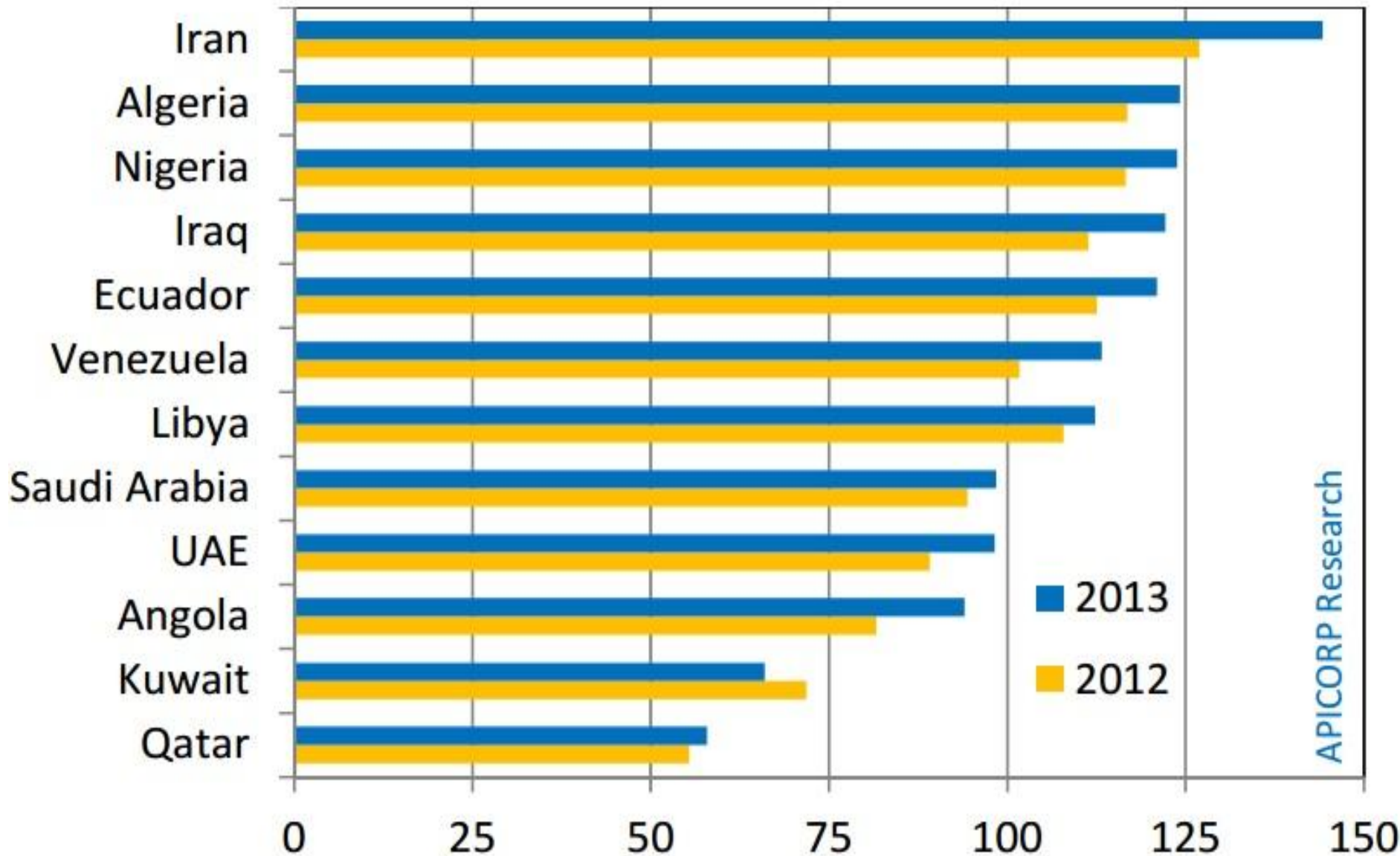
Why else diversify?

- Better long term growth?
- SWFs' dependence on foreign investment climate?
- Environmentalism?
- Employment: youth bulges
- Public sector overgrowth :

for how long can governments

- continue to employ educated youth?
- meet ever increasing patronage demands?
- deepening social differences?

Figure 2: Fiscal Break-even Prices for 2012 and 2013

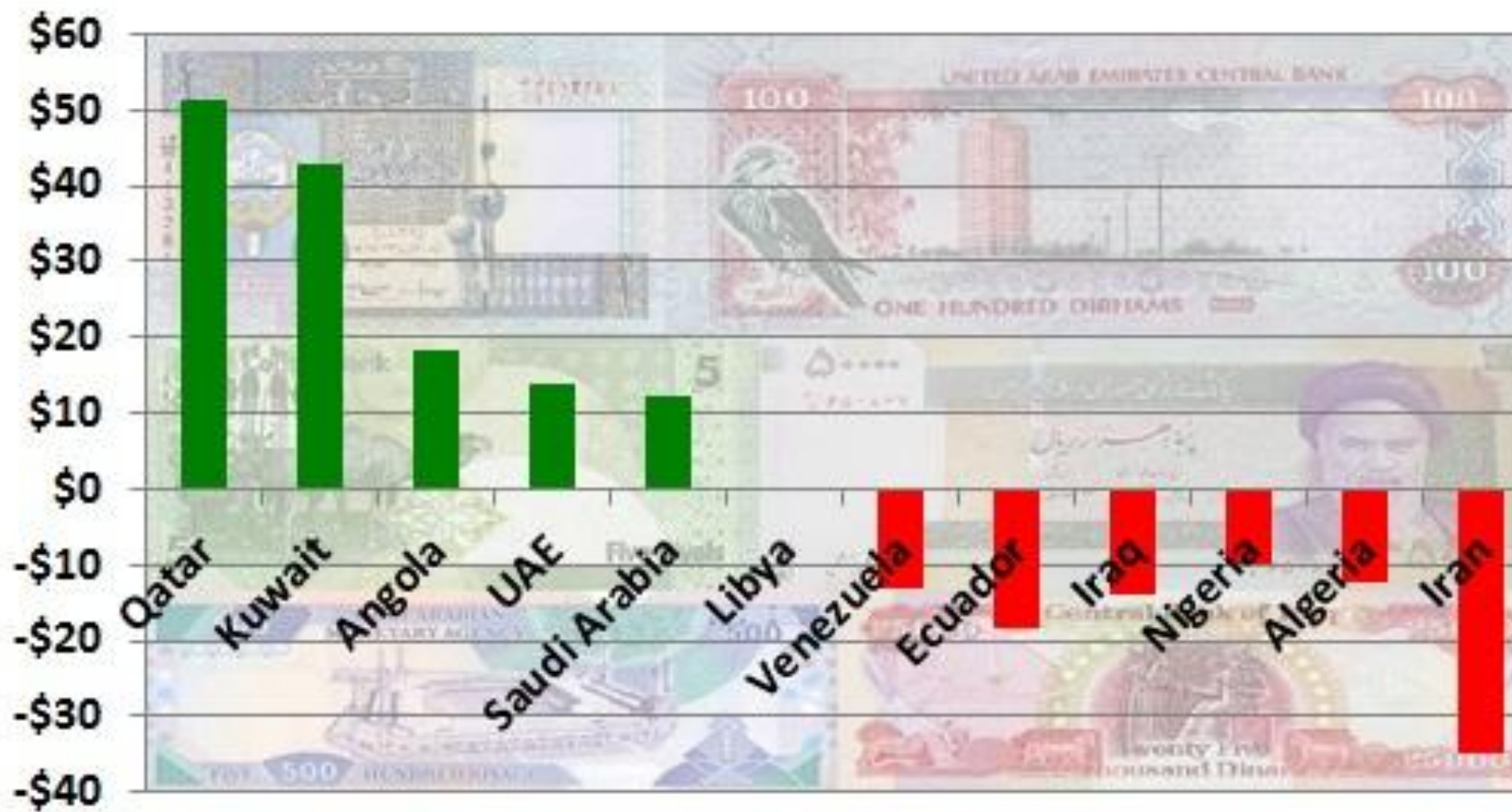


OPEC break even oil price increases 7% in 2013

	APIC break-even oil prices		OPEC crude exports 2012 kb/d	Share of total OPEC exports	Contribution to average oil price	
	2013	2012			2013	2012
Qatar	\$58	\$55	588	2.3%	\$1.35	\$1.28
Kuwait	\$66	\$72	2,070	8.2%	\$5.40	\$5.90
Angola	\$94	\$82	1,663	6.6%	\$6.18	\$5.39
UAE	\$98	\$89	2,657	10.5%	\$10.30	\$9.35
Saudi Arabia	\$98	\$95	7,557	29.9%	\$29.29	\$28.25
Libya	\$112	\$108	962	3.8%	\$4.26	\$4.11
Venezuela	\$113	\$102	1,725	6.8%	\$7.71	\$6.93
Ecuador	\$121	\$112	358	1.4%	\$1.71	\$1.59
Iraq	\$122	\$111	2,423	9.6%	\$11.69	\$10.64
Nigeria	\$124	\$117	2,368	9.4%	\$11.57	\$10.96
Algeria	\$124	\$117	809	3.2%	\$3.97	\$3.74
Iran	\$144	\$127	2,102	8.3%	\$11.97	\$10.56
			Total 25,282	Averages	\$105.41	\$98.69

Increase average price 2013 over 2012 7%

OPEC basket price higher/lower than break-even price 2013

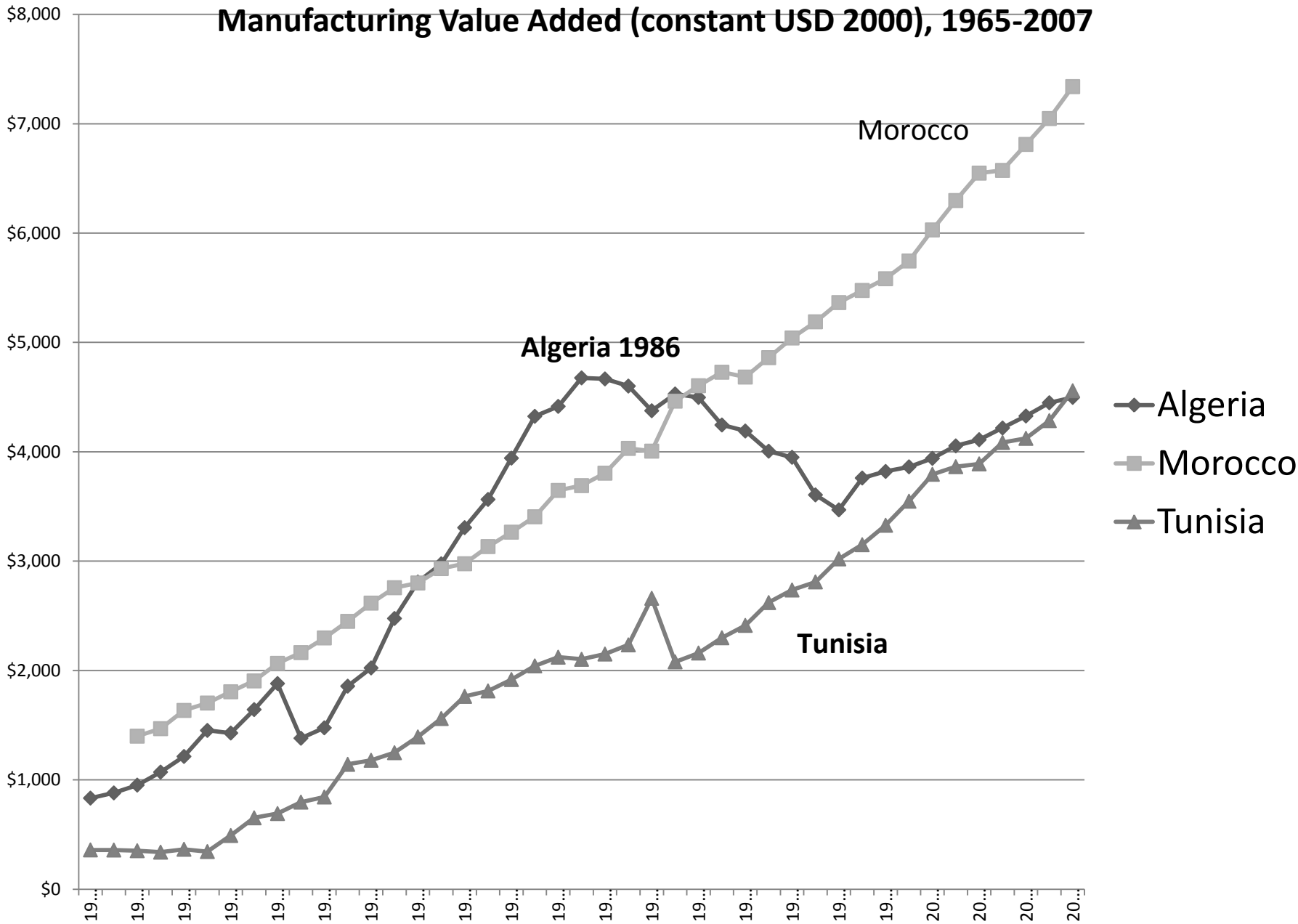


Source: APIC, OPEC ABS 2013

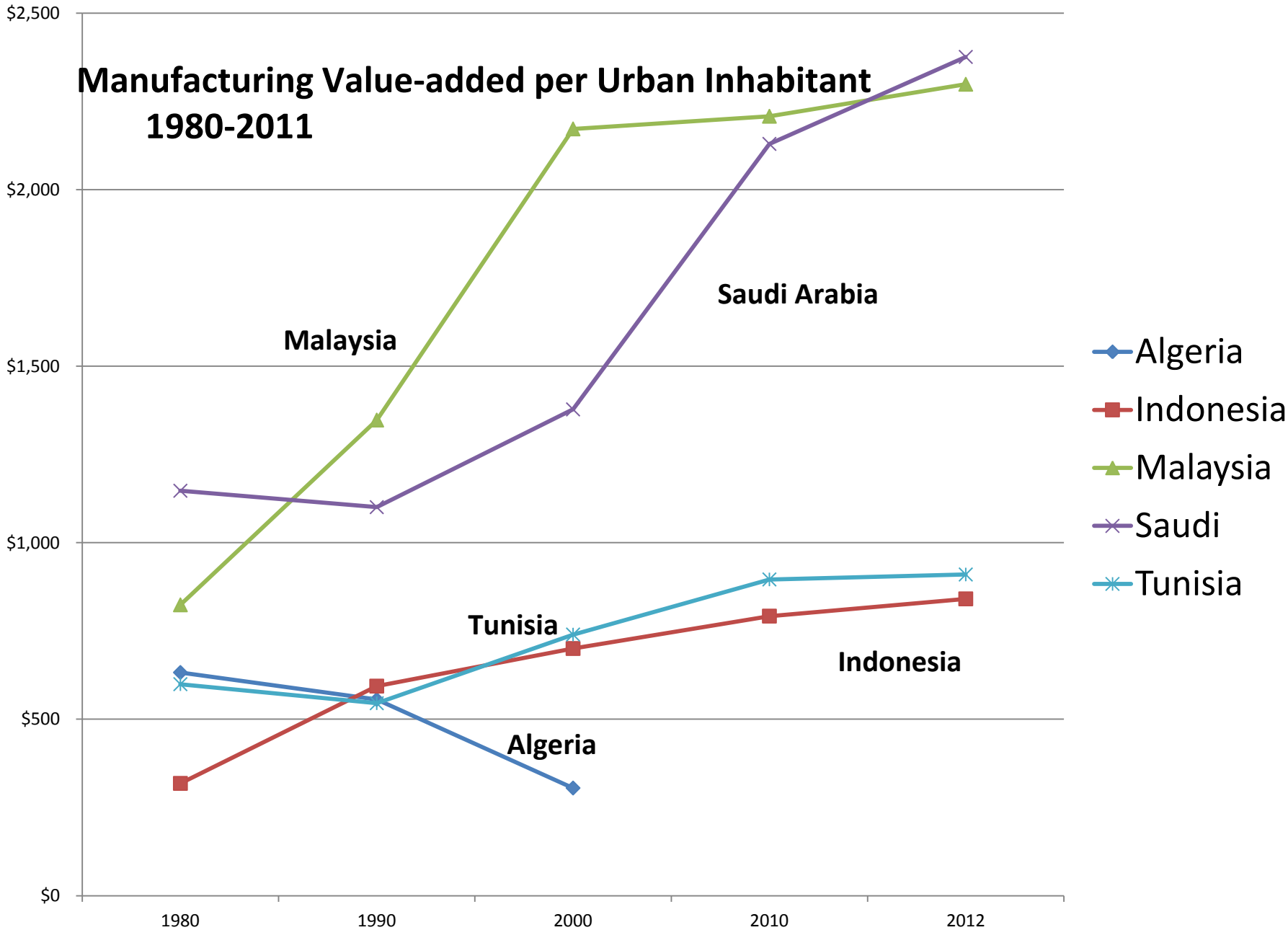
How diversify?

- Horizontal versus vertical
- Capital versus labor intensive
- The Algerian experience 1968-1978
 - Industrial, Agrarian, and Cultural revolution 1972
 - Uprooting the vineyards
 - Belaid Abdesselam: Minister of Industry and Energy
 - Redeployed 1977 to be Minister of Light Industry
- Product spaces: where is the comparative advantage?
 - Oil outlier (Hausmann et al, 2010)
 - Algerian disindustrialization but cf. Malaysia, Indonesia
- Conglomerates
 - Turkey: Sabanci Group et al –M sub to X driven g
 - SABIC and joint ventures
 - Security networks and crony capitalists

Manufacturing Value Added (constant USD 2000), 1965-2007



Manufacturing Value-added per Urban Inhabitant 1980-2011



The issue of governance efficacy?

Malaysia>KSA et al

accountability?

but little voice!

corruption?

membership in EITI?

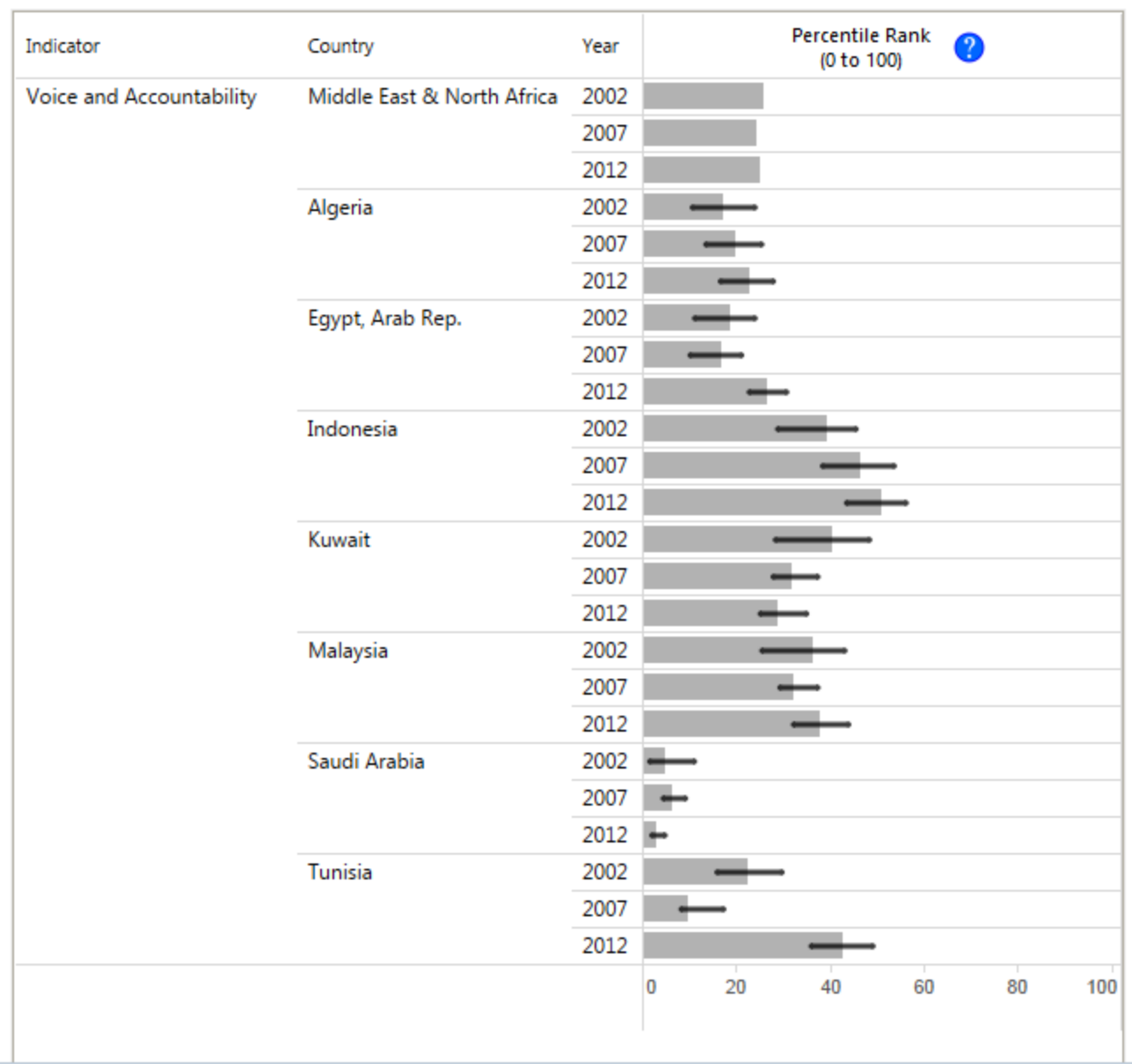
<http://eiti.org/countries>

Iraq

Mauritania

Yemen

no GCC nor other Arab



- Indicator(s)
- (All)
 - Voice and Accountability
 - Political Stability and Absence of Violence
 - Government Effectiveness
 - Regulatory Quality
 - Rule of Law
 - Control of Corruption

Year(s)

(Multiple values)

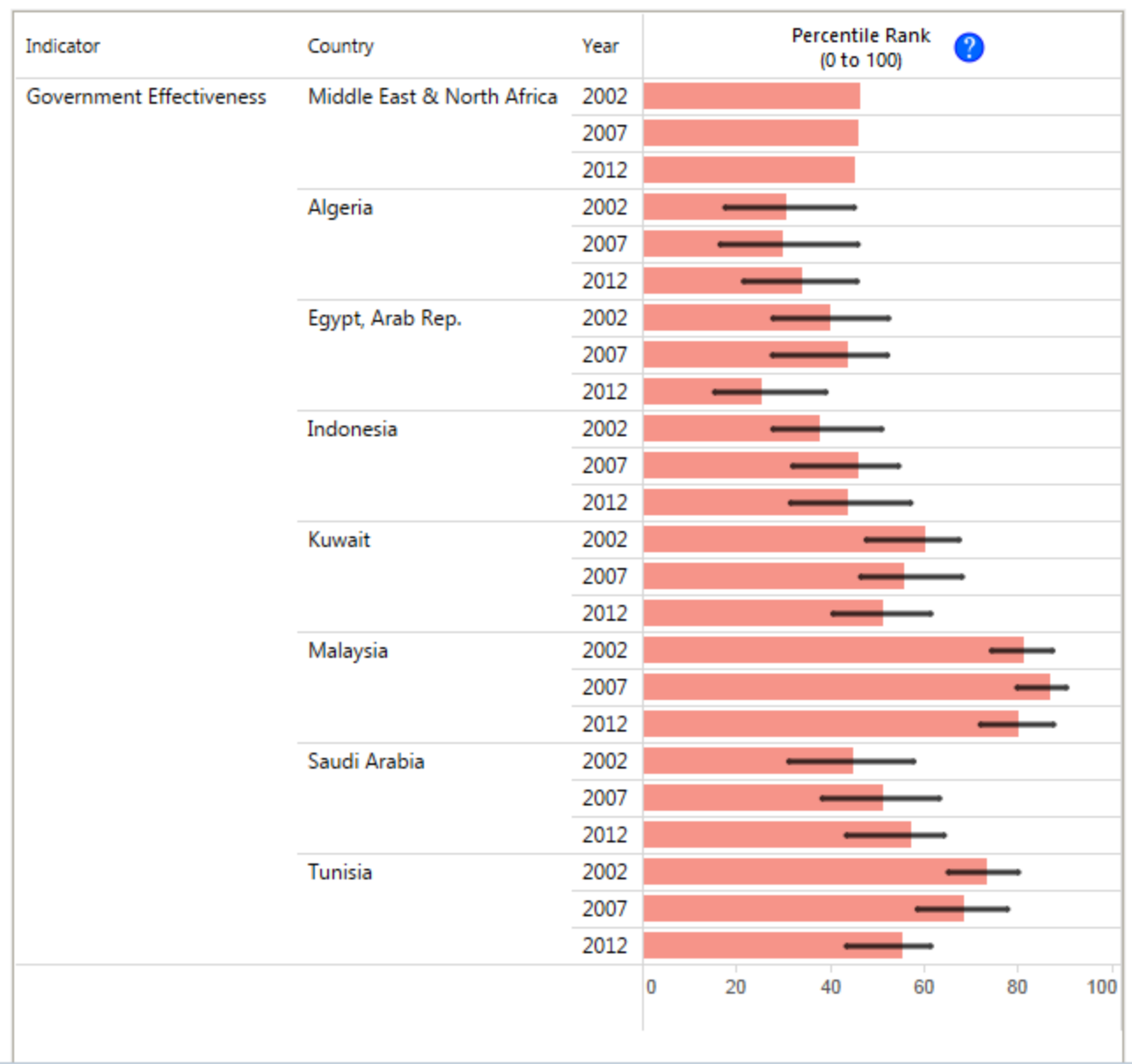
In order:

() Income Group Average

(*) Regional Average

individual Countries

- Hungary
- Iceland
- India
- Indonesia
- Iran, Islamic Rep.
- Iraq
- Ireland
- Israel
- Italy
- Jamaica
- Japan
- Jersey, Channel Islands
- Jordan
- Kazakhstan



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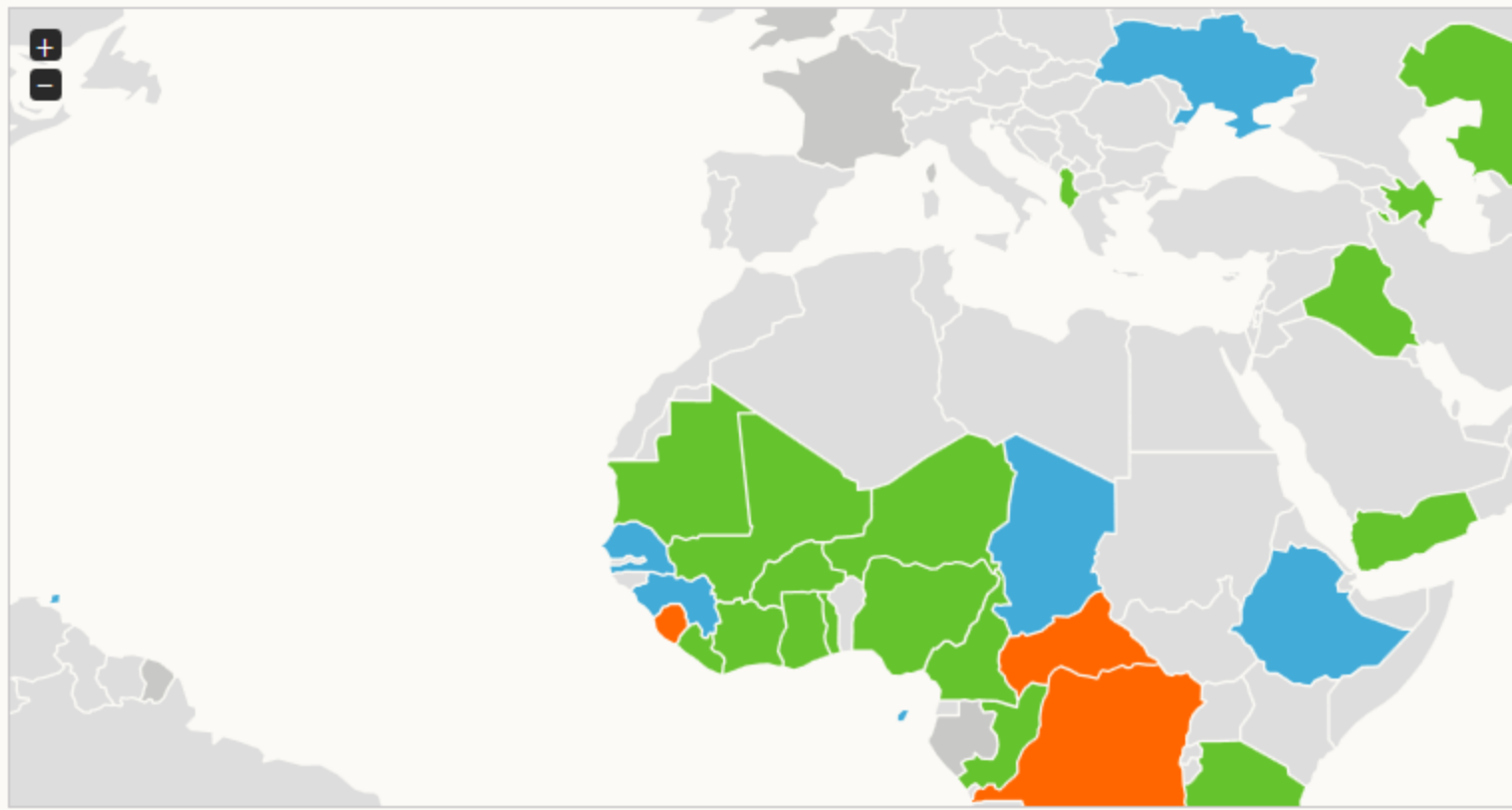
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- Jamaica
- Japan
- Jersey, Channel I
- Jordan
- Kazakhstan

EITI Countries



EITI Candidate Country - implementing EITI, not yet meeting all requirements

EITI Compliant Country - meeting all requirements

Other

Suspended - Compliant/Candidate status is temporary

The problem with education

literacy rates

illiterate mothers

Trends in International Math and Science Study

technical skills to climb up production chains?

diplomatitis

brain drains

foreign consultants

technological dependence

deteriorating human capital

Diversification as portfolio diversification of rents

so continuing unemployment problem

Literacy Rate: Adult Female Population (ages 15 and above)								
	1980	1985	1990	1995	2000	2005	2010	2011
Algeria		35.8				60.1		63.9
Bahrain	58.6		76.9		83.6		91.6	
Egypt, Arab Rep.		31.4		43.6		59.4	63.5	65.8
Indonesia	57.7		75.3			86.8	89.7	90.1
Iraq					64.2			71.2
Kuwait	59.1	68.8		74.1		91.0	91.8	
Malaysia	61.2		77.3		85.4		90.7	
Jordan	52.1					87.0	89.2	93.9
Saudi Arabia			57.3		69.3	76.3		82.2
Syrian Arab Republic	37.1					73.6		77.7
Tunisia		35.8		48.2		65.3	71.1	
Turkey	49.8	64.2	68.5			80.5	88.1	90.3

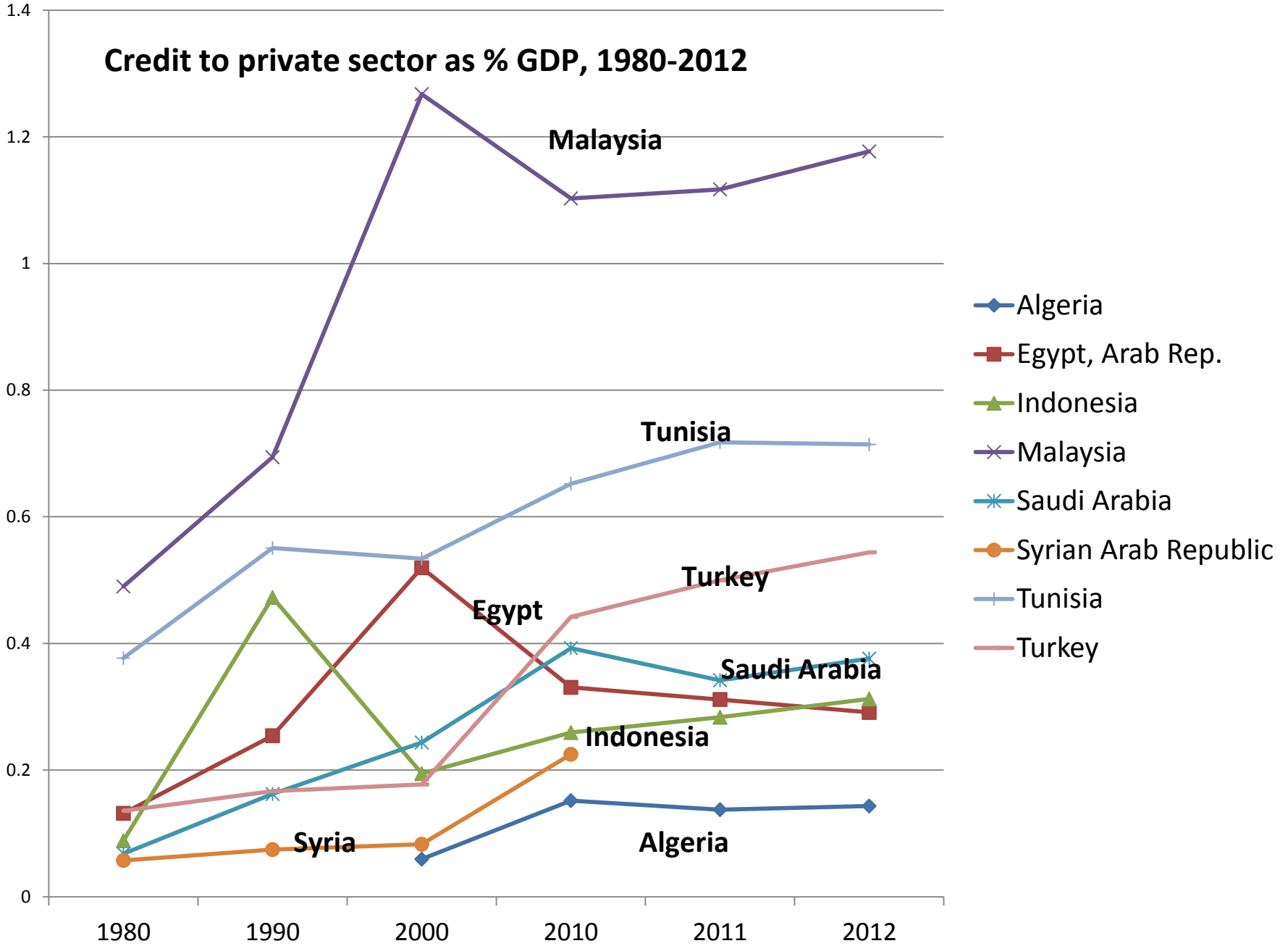
Any “solutions” to the riddle?

- The curse of late late development requires thinking out of the box
- Competitive advantages?
- New markets?
- Financial reform
 - Credit to the private sector: conglomerates?
 - From informal to formal? Money outside the banking system: reflection of poor governance

Private Sector Credit Per Capita, 1980-2012

	1980	1990	2000	2010	2011	2012
Algeria			\$148	\$478	\$436	\$460
Egypt, Arab Rep.		\$224	\$592	\$513	\$483	\$454
Indonesia	\$49	\$397	\$211	\$407	\$468	\$541
Malaysia	\$1,136	\$2,184	\$6,161	\$6,968	\$7,295	\$7,987
Saudi Arabia	\$1,461	\$1,981	\$3,129	\$6,281	\$5,829	\$6,617
Syrian Arab Republic		\$83	\$115			
Tunisia	\$679	\$1,103	\$1,449	\$2,483	\$2,647	\$2,702
Turkey	\$503	\$836	\$1,086	\$3,463	\$4,204	\$4,620

Credit to private sector as % GDP, 1980-2012



Thinking out of the box?

- Motivation: back to primary education
- and pre-primary
- Children's stories and work-service ethic
- educated mothers.
- Smart toys and poetry
- Virtual worlds for employment seekers?
- Science and development
- Value technicians, yes plumbers, too!
- Replace the expats, be they Anglo-Americans or Chinese workers?
- From hajj to other forms of tourism?

Literacy rate: Female Youth (ages 15-24)

	1980	1985	1990	1995	2000	2005	2010	2011
Algeria ..		62.2..	..		86.1	89.1..	..	
Bahrain	82.1..		96.6..		97.3..		97.6..	
Egypt, Arab Rep.	38.1	54.0..		66.9..		78.9	84.3	86.1
Indonesia	81.6..		95.1..	..		98.5	99.4	98.8
Iraq ..	..	..	..	..	80.5..	..		80.5
Kuwait	76.0	84.1..		90.2..		99.8	98.7..	
Malaysia	86.5..		95.2..		97.3..		98.5..	
Jordan	84.8..	..	..	..		99.0	98.8	99.3
Saudi Arabia ..	..		81.1..		93.7	94.7..		97.0
Syrian Arab Republic	59.0..	..	..		93.0	90.2..		94.1
Tunisia ..		62.5..		75.1..		92.2	96.1..	
Turkey	75.2	86.0	88.4..	..		94.0	97.2	97.9