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978-1-107-14172-8 - Understanding and Avoiding the Oil Curse in Resource-rich Arab Economies

Edited by Ibrahim Elbadawi and Hoda Selim

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## UNDERSTANDING AND AVOIDING THE OIL CURSE IN RESOURCE-RICH ARAB ECONOMIES

For over eighty years the Arab region has derived massive wealth from its natural resources, yet the region's economies remain little diversified, while the oil market is experiencing major structural shifts with the advent of shale gas. Moreover, the resource itself is eventually exhaustible. Under these conditions economic prosperity cannot be sustainable. The critical question is how can the countries of this region escape the "oil curse"?

In this volume, leading economists argue that the curse is not a predestined outcome but a result of weak institutions and bad governance. A variety of analytical perspectives and examination of various international case studies leads to the conclusion that natural resources can only spur economic development when combined with sound political institutions and effective economic governance.

This volume, with its unique focus on the Arab region, will be an important reference for researchers and policy makers alike.

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# Understanding and Avoiding the Oil Curse in Resource-rich Arab Economies

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## Foreword

One of the most distinguishing features of the Arab region is its endowment with tremendous hydrocarbon wealth. The magnitude of resource rents, that is, the difference between revenues and extraction costs, was estimated in 2012 at around US\$892 billion annually, or around a third of the Arab region's GDP. With such resources, the region has the opportunity to invest in the future and join the advanced world. But, as many would argue, this outcome is not inevitable and there is a real fear of the so-called natural resource curse. This volume contributes to this debate with a view to "avoiding the natural resource curse" in natural-resource-rich Arab countries.

The literature dealing with the "resource curse" has evolved over time. The initial interpretation of the curse was derived from economics, arguing that large resource windfalls lead to, among other ills, Dutch Disease, overall macroeconomic volatility and debt overhang. This explanation fell short of explaining the successful economic performance of developed countries like Norway, the world's seventh largest oil exporter and fourteenth largest oil producer and that of Chile, an emerging country, the world's biggest producer and exporter of copper. Capitalizing on its riches, Chile has succeeded in diversifying its economy and reducing poverty levels to a historic minimum. In comparison to the experiences of Chile and Norway, the economic performance of most resource-rich Arab countries has been much less impressive, to say the least. The question is, why? Or rather, what is so different about the Arab region that has prevented it from benefiting from its abundant natural resources?

To address this question, the work in this volume was initiated by the editors as part of a broader research agenda by the Economic Research Forum on different countries in the region. The volume comprises the work of a group of distinguished scholars. Topics include typical economic

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concerns, such as the impact of natural resources on the region's business cycle, Dutch Disease and the impact of real exchange rate adjustment on growth and economic diversification. It also includes discussions of the labor markets in Arab countries, which act as a mechanism for state patronage through the provision of well remunerated public jobs to nationals, particularly in the GCC countries.

Equally important, this volume helps dispel the myth of the resource curse as an economic phenomenon. This volume's most powerful message is that the resource curse in the Arab region, to the extent that it does exist, is rooted in the quality of institutions, both political and economic. In a context where governments do not face significant restraints on their power and enjoy ample access to rents, it is not surprising that some rulers may use the rents to further private ends at the expense of the social good, ultimately leading to a lack of sustainable development.

To be sure, the abundance of natural resources in the region, over the past eighty years or so, has brought about economic growth, improvements in the standards of living, large savings, significant reserves and external surpluses. Thanks to oil money, many governments have also embarked on massive investment programs in basic infrastructure. However, "avoiding the oil curse" and achieving sustainable development remain far from being achieved. I hope this book will allow us to make significant strides toward the achievement of these objectives.

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We would like to warmly acknowledge the hard work of the contributors who give this volume its real value. Although each is credited with their own chapters, we are indebted to all of them for their timely response to our feedback and deadlines and patient work to bring this volume into existence.

Moreover, we would like to thank three anonymous referees who reviewed our proposal submitted to Cambridge University Press (CUP). We truly believe that their excellent comments contributed to improving the overall structure of the volume and final output.

Drafts of the chapters in this volume were presented in a workshop held in Cairo and disseminated in a large policy conference held in Kuwait. The chapters benefited greatly from the comments and suggestions provided by discussants and participants, who generously gave their time and expertise. In particular, we recognize several distinguished individuals whose views were of critical value. They include Rania Al-Mashat, Rabah Arezki, Sambit Bhattacharyya, David Cobham, Mahmoud El-Gamal, Alan Gelb,

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*Ibrahim Elbadawi and Hoda Selim*

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