The over dependency of Libya on oil revenue: Economic vulnerability:

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ABSTRACT

Oil-rich countries always have stronger economy but there exist some super powers like USA and Russia who always found to be involved in the conspiracies to have their authority over those resources. So, they use various tactics to overthrow the governments and rule that nation according to their desire. Same is the case with Libya, a country highly dependent on oil resources. 95% of Libya’s economy is dependent on the revenues coming from oil industry while rest of the 5% is earned from non-oil industries. Before Civil war, the country was enjoying a strong economy but as soon as the civil war begun, it ruin their financial system and the country has to face a huge decline in the production of their oil industry which ultimately weaken the overall economic system. It has also been noticed that, Libya’s oil industry has started recovering with great pace but still it requires some time to get back onto its past position. New government after Arab spring has shown some signs for redevelopment and it is expected that they would hopefully achieve their goals.

INTRODUCTION

Energy is an essential contribution for financial growth and social development. Two-thirds of worldwide energy requirements are fulfilled through oil and gas resources. Orthodox perception says that energy consumption per capita is extremely associated with economic and social progress level. Particularly, three non-renewable fossil fuels such as, oil, natural gas, and coal, contains approximately 90% of commercial energy used at global level. The local composition of worldwide energy usage discloses a broad discrepancy in international consumption and accessibility to commercial energy. Even though Africa has around 15% of the world’s population, it uses only 3% of global commercial energy. The contradiction is that the share of Africa in worldwide energy production is almost 12%, and going upwards (African Development Bank, 2009).

During 1970s, a significant increase in oil prices was recorded and analysts termed it as “Oil Booms”, therefore; the industrial countries transferred their money to different oil countries. The best thing, momentary action occurred without causing and civil war between them. Many of the economies predicted that the oil countries would reduce the gap of industry between them and industrial countries. The oil countries believed that they could make sustainable economic development and become reliable countries after a couple of decades. In addition to that, they will be able to solve all the problems occurred due to unemployment. Almost all of the oil countries are completely dependent on oil and gas as main source for their national income, which allow the governments to replace all privat sectors to government sectors. Moreover, they support their people with many discounts as food, fuel, homes, and cars. During the periods of booming price, the governments deal well with all discounts for their nation but, once the price goes down, governments have to face many problems. It creates unemployed problem, cutting in the annual budget, increasing of inflation, and some countries stop the development in many years. There are many reasons behind those problems such as controlling everything by government entities which results in high rates of corruption because oil can compensate all deficits but poor future planning and inappropriate expenditures have given rise to this problem.

Libya is ranked as one of the largest economies around the world with approximately 3.5% of oil reserves. With the proven oil reserves of 46.5 billion barrels, Libya is known as largest oil economy in African region followed by Algeria and Nigeria. According to the latest estimations, Libya’s oil reserves were recorded as 60 billion barrels. The gas reserves were recorded as 1500 billion m3. The production capacity of Libya is between 1.3 and 1.7 million barrels per day which is lower than its productive capacity (Chossudovsky, 2013). The position of Libya as an oil-rich state was beneficial for quick economic development in the mid-late
20th century. Under the centralized communist state of Ghaddafi, the financial system turned out to be greatly reliant on oil revenue, a reliance that would momentarily become a threat to the government. Libya first discovered oil in 1959, which then propelled a bustle of production as well as increased incomes. Libya quickly became one of the leading exporters of crude oil with the increased income of $625 million in 1967 (Shamir, 2013).

According to a research conducted by International Monetary Fund, the post-war economy of Libya remained extremely reliant on incomes from oil. Violations in Libya from the time when war ended in 2011 have destabilized the state's political reorganizations. Rebellious attacks and labor walkouts have affected the state's post-war energy potential. The International Monetary Fund said that Libya's financial system relies almost completely on hydrocarbons for income and 60% of GDP. Despite the fact that economic activity is getting better quickly, the high degree of reliance on unstable hydrocarbon incomes makes financial performance susceptible to oil shocks and obscures macroeconomic administration. IMF also stated that Libya's economy shifted from a financial deficit of 18.7% of GDP in 2011 to a surplus of 24% of GDP in 2012 as oil production got better from warfare. Its financial system, on the other hand, started to rely more on high priced oil throughout recovery. Even though Libya can manage to pay for high levels of recent expenses in a interim period, the higher level of incomes as well as grants and a poor governance structure, may cause an 'entitlement mentality' and weaken the projections for economic sustainability as well as inter-generational equity (UPI Washington, 2013).

According to the United States Energy Information Administration, the energy consumption needs of Libya are met mainly through its oil industry. Almost 72% of its demand for energy is fulfilled through oil resources, and rest of the 28% is met through natural gas. The EIA point out that, the demand for electricity was at its peak in 2009, which needed the pre-conflict Gaddafi government to capitalize more into increasing the natural gas industry, which, on or after 2010, maintained 40% of produced electricity. Oil consumption was projected to be 270,000 bbl/d in 2010 whereas the natural gas was estimated as 212 billion cubic feet (bc) in 2009 (Stankovska & Lavender, 2011).

On the word of the Reuters, the major challenge for Libya's oil industry is not the recommencement of oil production, but guaranteeing safety for the workers and organizations. During the course of the conflict, Gaddafi militaries endangered the safety of oil processing plants as well as employees by establishing pits around oil processing plants. According to the Seattle Times, approximately 40,000 anti-personnel and anti-tank excavations were found in Brega alone. Luckily, in Brega not more than 10 percent of oil refineries were damaged mostly due to the efforts by native engineers and employees to keep and maintain oil facilities (Stankovska & Lavender, 2011).

This research paper is driven by strong methodology and registered online databases, trustworthy information along with facts and figures of Libya's oil industry and their dependence on oil reserves. The research work scrutinizes the current infrastructure consisting of oil and gas assets, market environment and investment opportunities for other countries. This research paper is based on secondary research done by various economic analysts and government reports, news reports and different books of economic development. The research extent has been kept limited to research reports and online resources as these are the most reliable sources to gather information about a country’s economy and their industrial growth. The information used in this research study is based on authentic resources mostly available on the internet so, their authenticity can also be verified through internet.

**Discussion:**

Libya is exceptionally well gifted with the resources of hydrocarbons. Independently, Libya with its 47.1 billion barrel verified reserves of crude oil for approximately 38 percent of the state’s confirmed oil reserves. Libya not merely has considerable reserves at African level, but also on a worldwide basis. Libya has twelve oil fields with reserves of more than 1 billion barrels each whereas the two other oil fields have the reserves of between 0.5 to 1 billion barrels. From this perspective, it is of no wonder that the economy of Libya is one of those countries which are highly dependent on the hydrocarbons around the world. In actual fact, the industry of oil and gas make up approximately 70 percent of GDP, 90 percent of financial revenues, and almost 97 percent of earnings from export. Decline in oil production to zero was an aftermath of civil war of August 2011, however, the Libyan oil industry made a quick retrieval. Certainly, facts from OPEC indicate that Libya produced 1.51 million bpd of crude oil in October 2012, which is to some extent lower than the level recorded before this crisis which was approximately 1.55 million – 1.6 million bpd (KPMG, 2013).

To put up with the production at higher levels, Libya needs to create opportunities for foreign employees; though, it will require a peaceful environment and improved security in the country. Furthermore, as political risk is still higher, waves of conflict could cause walkouts periodically, which may cause reduction in oil output.
On account of Libya’s extreme dependence on the incomes from oil industry, the general level of the Libya’s economy is narrowly associated with the condition of the petrochemical industry. Regardless of huge investment in farming and non-petroleum industry, the GDP ratio of Libya is derived from oil has rather stayed perpetual since 1970s, changing between fifty and sixty percent till 1982, when a decline in income from oil industry caused it to fall lower than fifty percent. When Qadhafi came into power, his main objective was to control the dependence of Libya on oil resources and they made it one of the main objectives of their government. But, unluckily, this objective could not be achieved because of unwise and hasty decisions along with a lot of impediments to economic diversification in a country which has poor infrastructure and water resources (Metz, 1987). Making tens of billions of dollars available for the country may help in bringing about short term reformation in the country but this is not possible to bring a stable economy in the country without well-established oil industry upon which democracy can thrive. The oil industry of Libya, thus, considered as the key to the triumph of Libya’s new government and the prosperity of its people. Oil makes up a quarter of the state's total economic productivity, and 95% of its earnings from export commodities (Anderson, 2011).

However the reintegration of Libya’s oil industry still has a huge impact. Even though it constitutes slightly more than two percent of total production, Libya has a different kind of oil which is produced and exported to just a few countries including Nigeria and Azerbaijan. MrHuseynov argues that, the crude oil of Libya is of higher quality and there is a huge demand around the world because it is used in automobiles, energy production and manufacturing high value products. Moreover, the arrival of Libyan production in the global oil markets will exert downward stress on the rate of Brent crude, enabling inflationary stress. Certainly, the increased oil price has reinforced a lot of price increases observed in several economies in the past years (Anderson, 2011).

Oil prices are of greater significance for current global economy, provided that the oil is the biggest globally traded product, in terms of both volume and value which helps in creating hydrocarbon economy. Furthermore, the costs of energy-intensive products and services are associated with the prices of energy, of which oil produces the single most important share. Ultimately, the oil prices are connected to some extent to the prices of other petroleum goods. Thus, unforeseen changes in the pi-ice of oil have extensive implications for both oil producing and oil consuming states. The severe drop in world’s oil prices since 1997 indeed qualify as a sudden and momentous change.

Libya remained extremely reliant on hydrocarbon industry, which comprises more than 60% of Gross Domestic Product and 95% of income. Though economic activity is getting its strength back quickly, the higher degree of dependence on unstable income for hydrocarbon industry makes financial performance susceptible to oil shocks and thwarts macroeconomic management. In the course of conflict, the structure of government outlay turned out to be slanted towards contemporary expenditure because of increases in the income bill and grants. Even though the total balance moved from a budget discrepancy of 18.7% of Gross Domestic Product in 2011 to a surplus of 24.0% of GDP in 2012 with the reinstatement of hydrocarbon productivity, the economic breakeven oil price increased from $67 per barrel in 2010 to $74 in 2012. Furthermore, the non-hydrocarbon budget discrepancy, an additional proper measure of the economic policy standpoint, extended from 139.6% of non-hydrocarbon Gross Domestic Product in 2010 to 191.0% in 2012. While Libya can manage to pay for higher levels of current expenses in a provisional period, the higher level of incomes and grants, and a fragile governance agenda, may result in an “entitlement mentality” as well as weaken the prospects for economic sustainability and intergenerational equity (IMF, 2013).

Libya will keep on depending on hydrocarbon industry and as a result private sector jobs will become uncommon for the predictable future. The production of hydrocarbons must reach pre-conflict levels in 2013, whereas reformation expenses and private demand must allow a development in the non-hydrocarbon economic sectors. The growth of non-hydrocarbons will remain stronger, be close to approximately 15.3% throughout 2013–18, and non-hydrocarbon productivity will touch the pre-conflict level in 2015. However, a momentous decline in redundancy, which is mainly operational, will not transpire because of reappearance to the pre-conflict status quo. Until Libya is competent to produce job opportunities in the private region it will carry on to be unsuccessful to address an important fundamental reason of the revolution (IMF, 2013).

The quick repossession and relative constancy in the oil and gas production of Libya has flabbergasted various countries, and is one of most imperative post-conflict victories of Libya. However there remains vast underlying potential for more growth of hydrocarbon reserves in Libya. Much of this potential originates from the comparatively low base-line from which Libya is evolving. More precisely, the detrimental maladministration of the region by Gaddafi and the destructive impact of various endorsements, indicates that there is now a chance for utilitarian policy formulation in order to expose this potential.

Conclusion:

To sum up, though Libya has been up to mount up significant surpluses and grow a substantial reserve cushion, its non-oil sector has declined considerably, refereeing from the value and arrangement of its public expenses, which have gone primarily to afford public sector salaries and grants, and not in evolving divergence of the economic base. Considering the entire situation, Libya requires being competent, along with
understanding the international and oil specific subtleties which will affect its exclusive source of revenue, to also have a complete domestic strategy to handle its existing pool of resources which can have a countless impact on its current and upcoming situation as a viable nation. It is crucial for the future growth Libya that efficient policy making channels of Libya uses hydrocarbon resources in order to enable the reformation of Libya’s economy further than hydrocarbon dependency, and headed for a more stable economy with an extremely well-organized and rule bound private economic domain.

REFERENCES