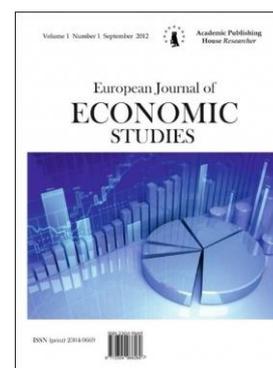


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Impact of OPEC Policies over the Global Economy: Case of USA

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Abstract

This article is focused on how OPEC policies have historically shaped global economic outlook; with a case example of United States of America (USA). The main aim of this study is to reflect the role of USA in strengthening of global economy using OPEC's policies as the frontline mechanism and demonstrate an understanding of the key challenges confronted by world economies (especially emerging countries) by OPEC policies influenced by the super-power USA. This also mentions how USA has made efforts in reducing its overdependence on OPEC for oil, and how it aims to preserve and enhance national resources so as to gain oil independence. The study is directed using mixed methodologies to examine how the consequences of OPEC policies are helping shape world economies, especially of the USA since it does not have very good relations with the OPEC member states in particular.

Keywords: OPEC, oil dependence, economy, economic development, sustainability.

1. Introduction

In this decade, the world has faced a new big crisis since 2014. This ends the super cycle of commodity prices which was 105 dollars per barrel during four years of comparative stability before 2014. So, in terms of microeconomics, the factors on the oil price decline will be discussed. This decline in the oil prices is important; however, research indicates there were valid reasons behind this trend. Over the past three decades, oil prices fell in other episodes by more than 30 %. The recent oil price decline has several features that can also be compared with the situations faced during 1985-1986 followed by strong expansion of oil supply from producers not belonging to OPEC and is the result of OPEC's decision to increase production. Other incidents included weakening global oil supply and demand that happened during the US recession of the 1990s, the recession of 2000, the Asian crisis in 1997, and the global financial crisis in 2008. All these incidents were eloquent of the fact that without a well-placed policy-relevant structure and framework, oil price declines would not be largely controllable. Apart from the production of unconventional oil, there are many reasons cited for oil price decline; one of the main reasons out of this was changes in OPEC policies which the global economies could not follow. Currency appreciation of the US dollar and weakening global oil demands were also noteworthy factors behind this situation. The world, in recent years, is witnessing a new trend that has perhaps, weakened the powers and authority of the OPEC; this translates into the development of non-

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OPEC economic institutions supplying oil which are not bothered by the OPEC policies, rather they devise their own plans and policies, and act by it.

However, the mission of OPEC takes on various little steps to ensure where it wants to go; the first measure being its commitment towards preventing decrements in the prices of oil, at a high level. OPEC's member nations realize 40 % of world oil production with almost half their share in exportation of oil reserves across the globe. In the year 2007, around 338 billion dollars was generated from eleven member states from oil exportation which constitutes an increment of around 13 % since the year 2003. A major point in perspective here is the influence of changes in US currency (i.e. dollar) which impacts on OPEC's policies since international trade in oil is done in this currency. As a supposition, if the dollar decreases in its value (currency depreciation), the purchasing power of OPEC states would decrease as well, due to which export ratio would be decreased by these states to be able to increase the real prices of oil. On a bi-annual basis, the OPEC member states conduct meetings within themselves to assess and study policy developments while examining economic trends that might alter the performances of international oil markets. Various decisions are taken in these meetings regarding actions to stabilize the market. Transparency and accountability in these meetings is very important as major policies with regards to changes in oil production and its world-wide distribution takes place therein.

2. Discussion

Global economy

How OPEC evolved into a global one, and how the different events in past affected its influence over world economies. In times where increased oil dependence of non-oil producing countries including US and widely-condemned manipulations of the cartel organization has been matters of hot debate, the actual extent of efficiency of the organization is indeed, debatable. In the light of given research along with the learning obtained from data collected for this research, OPEC countries does not hold responsibility for world oil shortages despite their control of oil production and supply (Greene, 2010). It also confirms to the belief that the cartel is definitely not an intergovernmental organization for manipulating prices of oil commodities for its own interest; rather the main purpose of it has always been related with global economic development and sustenance. Some issues related to OPEC's internal working environment suggested that indeed, there are fallacies with the global organization that need immediate rectification, especially those in relation with monitoring mechanisms and regulatory revisions. However, on the same hand, this research lent support to the idea that oil supplies are still better regulated and managed with the presence of this organization. It has also been discussed as the main frame of debate in this project that the US government is very concerned and is visibly aware of the economic consequences its dependence on oil, that is forwarded to it via OPEC member states (Drezner, 2014). Also, OPEC's dominant price-setting influence can be internationally noticed where surging oil dependence on OPEC members have made consuming countries and regions realize that this dependence cannot be controlled without the support and collaboration of every nation-state in maintaining fair oil distribution and supply system in the world (Reboredo and Rivera-Castro, 2013; Baumeister Peersman, 2013).

As we know that whenever OPEC effects the US's economy, this pressure on US directly affects the whole global economy. So that, based on the findings and discussion, it was emphasized that US should pay more attention towards R&D (Research and Development) initiatives that could be beneficial for both private and public sectors while also carrying out strategic planning for domestic oil production that might be less compelling in the shorter-run but will eventually be more fruitful in the long-term. The research suggested that the position of OPEC is unlikely to change in near future and unless substantial reforms are in place to meeting growing demands from reserves within, the situation of US getting affected by OPEC's policies is certainly not changeable. Since oil is an essential commodity for commercial and personal use, OPEC's significance as the world oil regulator and swing producer would not be eliminated unless every emerging and developing economy finds alternative measures to rely on (Van de Graaf, Verbruggen, 2015). Another key aspect of the reforms could mean following the same strategy as Africa and former Soviet Union; keeping production steady.

Higher fuel taxes bring with it political pressures that aggravate the issue of oil dependence for the world economies. Some attention has been paid towards decreasing the usage of crude oil

and other crucial petroleum products in the U.S automobile industry, which also directs these organizations towards findings alternative energy resources. The government of the United States also issued some standard codes of conduct on higher fuel economy for new passenger vehicles in order to limit consumption. As a result, the governmental attention towards eliminating oil dependence is somewhat recognizable. In the coming decades, many more stringent strategies will be needed to encourage automobile and other manufacturing and service sectors to limit their usage of oil through energy-efficient product design and using different green technologies to better reduce carbon emissions while also considering the perspective of the environment (Van de Graaf, Verbruggen, 2015). Fuel prices should be under control of government for domestic use which will not only encourage and compel more people to come with vehicles on the road but is most likely to increase the rate of road accidents which are negative elements attached with the initiative. One of the obvious expectations in the light of observed practices and phenomenon is that OPEC is not going to allow oil-consuming nations not to pay higher prices for consuming increasing amounts of oil (Greene, 2010). Of course, there has to be contingencies planned for, keeping in close consideration that OPEC's policies are at the most, only slightly alterable. Deliberate control of oil supply continues to pose the most penetrating effects on US economy; although, anti-inflationary effects, as a result of timely interventions of OPEC being a price regulator, create long-lasting advantages (Fuinhas et al., 2015).

The research provides an outlook on the ways and means in which US economy is affected by OPEC's role as the world's swing oil producer and oil price regulator. Despite an understanding of the primary functions of the cartel, it has been attributed to give way to more price shocks in the world than there occurred before its evolution. This research contributed to the existing research on the topic but emphasizing the need of research and development towards alternating energy resources that can help the world gain more sustainability than merely depending on oil from OPEC nation-states. The surging oil prices and oil consumption rates across the world, especially in the United States, spark a wave of having more alternative routes to valuable energy resources than through OPEC, only. However, given the possibility that if US's thirst for oil from OPEC is unabated, there will soon be a time when it will have to extract oil from unconventional reserves (Reboredo, Rivera-Castro, 2013).

OPEC as a Cartel

OPEC's objective is to coordinate and unify of member states on oil, ensure price stability on the world markets and prevent sudden fluctuations, and provide sustainable income for oil producing countries and effective supply for oil consumer countries (Kuchyk, 2005). Also, the primary motives and main missions, which are keeping the oil market supplied and stabilizing oil market, behind the formation have not been altered since the day it has been formed. A different number of economic, technological and political changes disrupted the economies of key OPEC members; however, its fundamentals remained as they were, before (Cairns, Calfucura, 2012). With the coordination of the member countries' oil policies start OPEC's objectives which also include ensuring that the prices remain stable in the world's oil market. Furthermore, stability to the nations in terms of consistent revenues from oil-productions and efficient and reliable support to the consuming nation-states remains at the heart of OPEC's preliminary mission. OPEC also attempts to ensure that the investors making substantial investments to the oil industry get a fair return and that their rights are protected by all means. A reaffirmation to the commitments of OPEC's member states took place in the year 2000 where its preliminary initiatives and plans were reassessed (Rowland, Mjelde, 2016). Oil, being OPEC'S main interest has contributed significantly to the world economies over the past two centuries, and due to this significance, has gained the status of a commodity. The analysts agreed to the idea that better exploration of hydrocarbons is necessary as it is the most important energy source for the future years. The World Summit ceremony of OPEC held in Johannesburg ensured that proper energy supply is given to all countries irrespective of their economic status (poor or rich) because of its contribution to their sustainable prosperity and development (Huppmann, Holz, 2012).

An important factor to take into notice here is that OPEC's policies do not bind according to the circumstances of its members nor are time-bound, as well. Its policies are instead of a relatively permanent nature, and bind around the roles played by the organization towards energy industry progressions with the help of petroleum (Eichengreen et. al., 1995). This way, the organization

involves close coordination amongst member states and their cooperation towards taking its policies on the international economic stage. While different researches centre on the role of OPEC not being just a cartel, majority of the people insist on calling it by this term. A sovereign organization with permanent and realistic goals of progression with a mission to serve its member states in terms of petroleum supply and consumption is what OPEC is all about.

OPEC Policies and Economic Development

OPEC's policy frameworks have created quite a number of benefits and advantages for world economies and their national economic subsystems. Some of these benefits include creating enormous wealth for oil producing nations and consumers, while controlling and stabilizing prices for growing number of customer countries, and ensuring oil security across the world. It also guarantees the stability of oil resources to the suppliers and plays a central role in controlling the demand and supply schedules (Sovacool, 2013; Greene, 2010). The strategic position and geopolitical stance of member countries gives OPEC an edge over non-OPEC countries in playing its part for greater economic development (Mensi et al., 2014). These member countries can allocate a portion of their revenues in helping other neighbouring countries which would be a big step towards harmonizing the region and ensuring sustained oil supply. Enhancement in regional development would ensure that the political and economic cooperation between neighbouring countries is sustained which would be a lesson to the entire world (Greene, Liu, 2015). Iran, Kuwait, Saudi Arabia and Iraq are strategically located in the region where they can be a source of regional investments to Arab states while Libya, Algeria and Nigeria can contribute towards African development. While Venezuela is located to contribute towards the development of Latin America and Brazil, Indonesia can provide monetary resources for Southeast Asia. In this manner, every member country can should perform its obligatory part to enhance the world economic progress and stability on the global scale. In general sense, OPEC countries are transforming oil revenues into sustained projects for long-term investments that guarantee more economic progress than other initiatives (Balcilar et al., 2015).

Macroeconomic impact of OPEC policies

The recent eras have witnessed widespread criticism directed at the policies and frameworks of OPEC nation-states, which has sparked huge debates around its efficacy and influence in the global oil marketplace (O'Brien, Williams, 2013). There is still a need to analyse the impact of OPEC's policies on the world (especially on the United States) while assessing if the organization has actually succeeded in maintaining its power and influenced in the international petroleum sector. Strong speculations revealed that OPEC has lost considerable power in the world economy owing to its declining influence and because of the emergence of non-OPEC countries on world oil regulatory platforms. The unearthing of oil reserves in the North sea along with those in Mexico, Alaska and the Gulf have further aggravated OPEC's miseries, while contributing towards the market modernization (Huppmann, Holz, 2012).

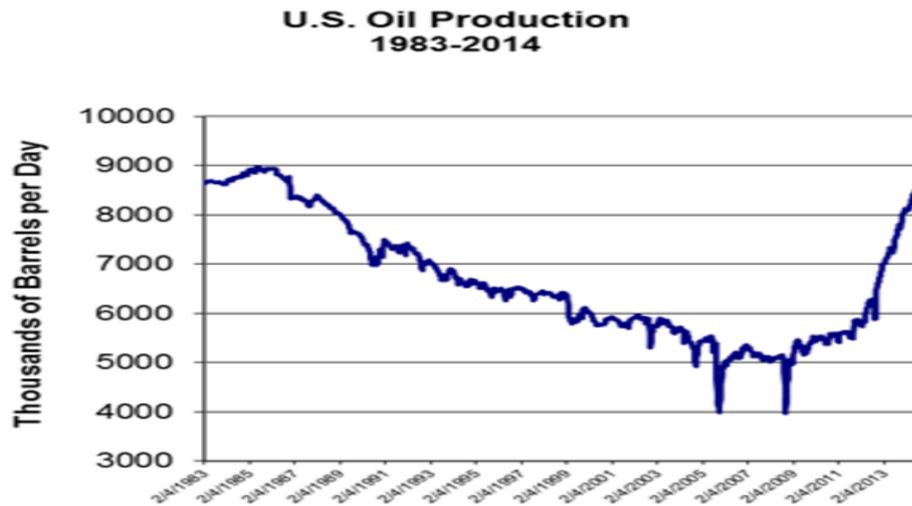
Economic analysts have contested several theories to determine the actual influence of OPEC policies on the macro-economic outlook of the global area; while some theories discussed the efficacy of its independent initiatives and actions, others were more deeply interested to unveil its role as a 'classical cartel' (Ghassan and AlHajhoj, 2016). The inside truth however, still shows that OPEC's member states are not responsible for world oil shortages despite their control of oil production and supply (Nystad, 1988; Brown, Huntington, 2013; Van de Graaf, Verbruggen, 2015). With respect to its macroeconomic impact, the official website of the organization could be quoted whereby the organization strongly affirms its role for the stability and harmonious supply of petroleum to both oil-consuming and producing nation-states. The member to this organization, in an attempt to fulfil these stated obligations, have been known to keep strong checks on the forecasted developments within this sector as well as the fundamental forces that shape and regulates it. Uninvited surges in oil prices could be regulated and out under reasonable control followed by OPEC's increased oil production (Mensi et al., 2014; Greene, Liu, 2015). Producing about 42 % of global crude oil, the organization however, makes it clear through its official web presence that it does not stand as the only controller of world oil marketplace (Dike, 2013). It also maintains that its primary capacity lies in increasing or decreasing the oil production due to which global oil market would automatically be affected (Nystad, 1988; Ravenhill, 2014; Mensi et al.,

2014; Fuinhas et al., 2015; Golub, 1983). Furthermore, OPEC's provision of fair and transparent pricing of oil regulates oil consumption practices while keeping oil sellers under stringent monitoring through coordinated efforts. Voluntary production of less oil and other such initiatives seeks to guarantee oil price stability while also preventing uncertain and swift fluctuations. A key pointer in this regard is OPEC's deliberation that it is not responsible for setting the prices in the global oil markets as movements in three main exchanges - the Singapore International Monetary Exchange, New York Mercantile Exchange and the International Petroleum Exchange in London are responsible to influence it (Greene, Liu, 2015; Mander, 2014). Another research by Akacem, Faulkner and Miller (2015) indicates that market scepticism about OPEC's spare capacity and problems surrounding its influence over pricing has also led several countries including U.S towards disbelief that OPEC would hamper economic growth and stability for them. The world views OPEC as an influential price controller that can decrease its production while increasing the prices so that the member countries could enjoy inflowing revenues from residual demands that have to import oil in any case from the organization.

One of the many profound impacts of OPEC policies had been related with its effects in supporting economic recession through oil price disruptions (Ftiti et al., 2015; Sovacool, 2013). The policies of pricing implementation by OPEC as well as control over its output from the member countries had known to be one of the reasons behind economic recession and its related turmoil. Moreover, policies of resource nationalism had adversely impacted on the Western investment projections through OPEC's output and policy pricing mechanism (Colgan, 2014). Since the productive capacity of the organization has also decreased over time, the production rates at present are still insufficient to fulfil increasing demands.

US dependence on OPEC and its economic impacts

US oil dependency on OPEC countries causes various consequences for national and global security apart from other effects. Oil dependence has long-remained a national threat to energy stabilization, economic development and stability of US. Questions about national security cause threats to economic progress while challenging the national energy policies (Bremmer, Hersh, 2013; Esfahani et al., 2014). During 1980, oil dependence of US reached its peak for almost \$350 billion while in 2008 (Brown, Kennelly, 2013); it reached to about \$500. While this created potential losses in the Gross Domestic Product (GDP) of the nation, it also challenged the national economic systems questioning whether this dependence would ever be reduced or controlled, at least (Greene et al., 1998; Mead, 2013). A direct answer to this miserable situation comes in the form of increasing local and regional oil production while depending lesser on foreign resources. Inflated energy prices, as argued by Brown and Kennelly (2013) are the direct cause why the United States could not, as such, develop policies for its oil independence. Unless the issue is sufficiently addressed, the nation is going to suffer with increasing costs and risks of energy security while having a threatened economic position, as well. The US realizes that in order to stabilize its markets and provide them better safeguards, it has to ensure that oil dependence on OPEC countries are remarkably reduced (Rowland, Mjelde, 2016).

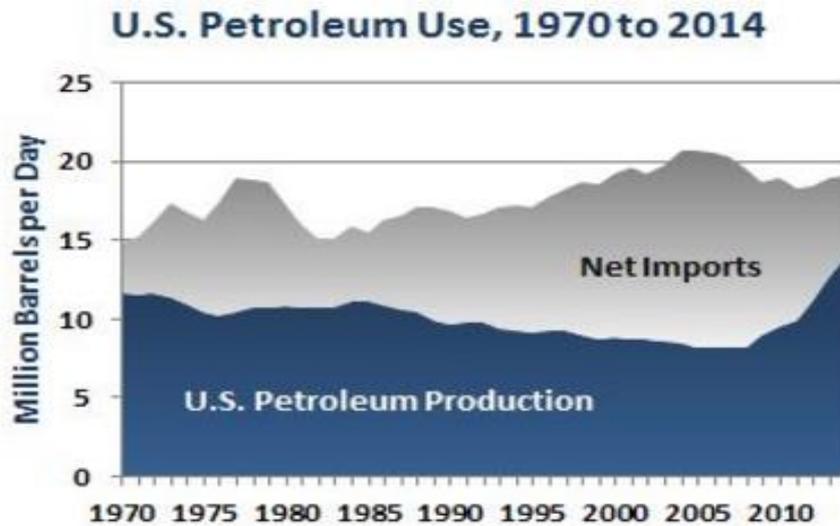


Source: <http://seekingalpha.com/article/3236756-opec-vs-team-usa-oil-shalers-round-one>

Fig. 1. US Oil Production 1983-2014

The rise of American oil dilemmas in the 1970s gave boost to OPEC's influence in world oil markets due to two reasons: firstly, this situation was attributed to the Arab oil embargo that was a source of energy crisis in the same decade. There were extreme shortages observed in commodity goods as US economy was left to suffer. Secondly, the initiative of Carter Administration for promoting conservation through increasing gas prices further added to the issues (Bremmer, Hersh, 2013; Eckes, 2014). Price effects resulted in shrinking supplies throughout the economy whereby oil-price controls delivered as they pleased. As domestic production continued to reduce, OPEC availed the opportunity to enter through the opened doors with its imports and flooded the oil markets. As a result of US embargoing its own oil reserves, a critical share of significance was very easily taken up by OPEC in the international oil markets (Parry, Darmstadter, 2003; Guo, Kliesen, 2005).

Purchase of oil from volatile member nations of OPEC is a matter of severe consequences for US. Since the funding from oil purchase goes to these member states, America is involuntarily funding wars, and is helping these states develop nuclear weaponry. Moreover, US national security is greatly threatened by its unintentional contributions towards establishing weapons and funding terrorism. The ongoing political tensions between different OPEC countries located in the Middle East takes uncertain and incidental decisions that disrupt the entire international oil market by inciting embargoes merely due to political rivalries (Bremmer, Hersh, 2013; Guo, Kliesen, 2005). There is a need to reconsider the extent to which political problems of member countries should be allowed to affect the world oil markets; otherwise, the efficacy of OPEC and the effectiveness of the organization's initiatives would rather appear challengeable. The following Figure 2 illustrates the use of petroleum by US and indicates huge oil dependence.



Source: <https://www.fueleconomy.gov/feg/oildep.shtml>

Fig. 2. US Petroleum Use, 1970 to 2014

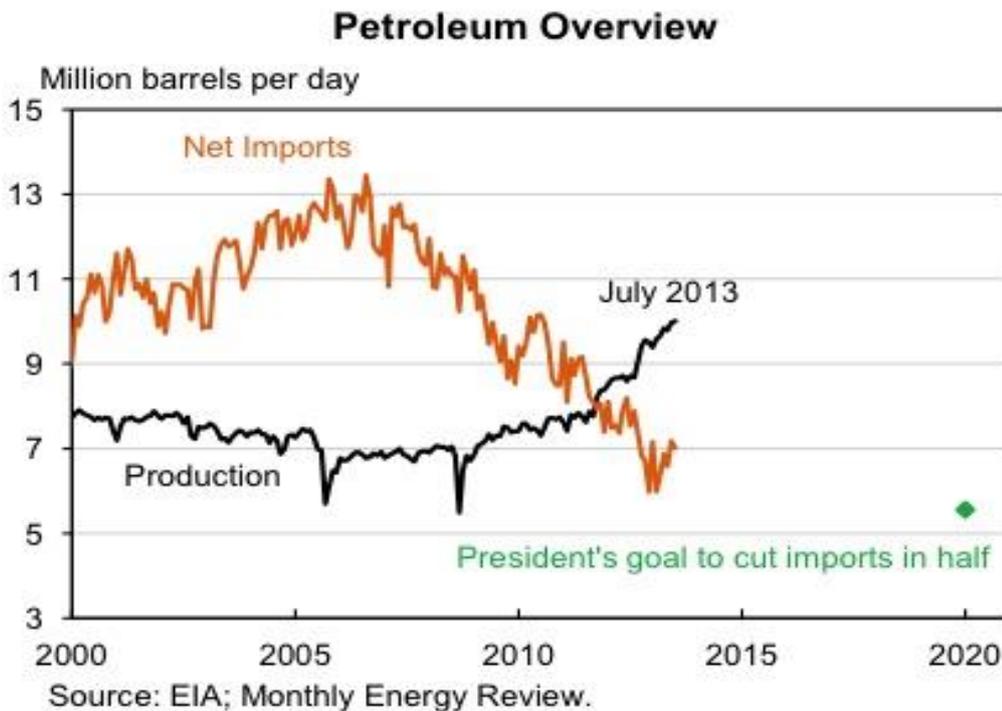


Fig. 3. Petroleum Overview

Reduction in oil dependence is an urgent economic issue for US whose stance on these economic costs of this dependence unveils their tragic economic conditions. Two major issues underlying this dependence comes from oil price shocks of OPEC and their manipulation of pricing mechanisms as indicated by US analysts. Furthermore, another common reason behind this dependence comes from a control on around over 73 % of oil reserves by OPEC which leaves no chance for US to avoid this increased dependence. While research does not depict clear-cut solutions for reduction in oil imports, there are still chances whereby the market control of OPEC

can be somewhat minimized so as to allow US in aiming for sufficiency or at least, in reducing the impacts of price shocks through a minimal petrol use. Researches by Ghassan and AlHajhoj (2016) and Fuinhas, Marques and Quaresma (2015) indicated that the US economic decision-makers and Bureau of Economic Analysis are still unsure whether or not new fuel economy standards would be any useful in decreasing the impacts and allowing for a control over greenhouse gas emissions. Some of the possible solutions to this dependence come in the form of increasing US real-world fuel economy to about 45 mpg which could further enhance the situation. The fuel costs should further be cut down for the customer to more than \$ 1.7 trillion.

Research also indicated that US is destined to reduce its oil dependence on OPEC by 2025 to about 2 million barrels per day which would be 50 % less oil that it imports from OPEC countries at present per day. This also implies the implementation of new technological solutions for the country as it needs to upgrade its vehicle technologies for more energy-efficiency while devising new methods for minimal energy use (Bremmer, Hersh, 2013; Brown, Kennelly, 2013). Moreover, investments in cutting edge technologies are another solution to address the issue. This also manifests in developing alternative energy resources for cost-effective and clean use of petroleum while undertaking substantial research to explore new means of saving it. In this wake, there is a need to devise and execute a substantially-efficient energy policy which must focus on the following aspects of the dependency issue:

- There is a need to avoid and minimize abrupt disruptions in oil supply that causes a very adverse effect on every American's lifestyle;
- Costly conflicts and sudden disruptions in oil supply can lead to various actions that consumes significant financial resources (Fuinhas et al., 2015);
- Subsequent conflicts over oil dependence results in a reduction in military efficiency while compromising on other peacekeeping measures and activities;
- The economic reliance on Middle Eastern and other OPEC countries should be reduced and minimized;
- Oil dependence is mainly intensified due to commercial and transportation uses which should be monitored and controlled to avoid future shortages;
- Conflicts with oil producing nations should be controlled as it lends support to anti-peace movements and inter-regional riots in the region;
- Exploration of alternative carbon fuels is necessary for economic stability while also seeking solutions to environmental hazards (Van de Graaf, Verbruggen, 2015).

3. Conclusion

US's growing dependence on foreign oil is a matter of interrelated elements that carries substantial economic, political, and security challenges for the country, to say the least. This research was one of the works on the exploration of these challenges especially those belonging to the economic side. Based on an examination of how OPEC affects the economy of the country through its policies and procedures, it is also indicative of the fact that few nations are able to exercise their price monopoly over super powers only due to their association and affiliation with OPEC. These small nations are responsible for the supply of oil and they have driven world oil demands towards their own discretion. The article explored how different, widely-criticized elements amongst OPEC policies have aggravated the problems of surging oil prices and price shocks, and how these have been a source of significant worry to the region under study. The recent shock of higher oil prices is eloquent of the US vulnerability that it will never be able to forecast in future given its nature and unexpectedly high magnitude. In this wake, volume of oil imported and consumed should be reduced by all means; something that evolves as the only emergent solution to all US problems. Based on the research conducted in this study, it can also be stated that OPEC, by all means, has a neutral policy towards oil supply and global economic sustenance issues, and does not deliberately lend a malicious hand to the political actors for running their show. Despite being more of a political than economic nature, the relationship between US and OPEC is indeed, progressive and needs to be only better channelized. This article looked into the ways in which different practices and policy ramifications over time resulted in US's oil dependence being a more problematic issue than ever before. Situations such as economic downturn and sluggish economies

have been frequently-noticeable in history, providing a background to sudden price shocks as well as giving world regions a hard time coping with it.

In addition, the article discussed how member states in OPEC held their responsibility in promoting opportunities of local investment projects while also reaching out for greater economic sustenance. Sectors such as agriculture, healthcare, education, telecommunications etc. can work with OPEC within different regions and territories on topics of common interest. One of the similarities related with working in partnership or collaboration of OPEC is economic gains which is every region's agenda. In addition to this, since OPEC countries are part to a larger ecosystem, their presence is indeed influential and they can use this influence in a rational manner to help each country pursue and accomplish its objectives rather than working on it individually. Therefore, this is one of the main aims of the organization to work for progress in the region and to engage other nations in a combined pursuit of economic development and harmony within. Sufficient oil-producing experience is another facet to OPEC's strengths that would benefit countries lacking needed skills in oil marketing or distribution specifically owing to scanty knowledge about it. It is worth understanding that the position of OPEC has always been an international one; as discussed earlier on; it is due to this position that there lies greater responsibility on OPEC being an international cartel to engage countries together regardless of political contention, and pursue economic stability with joined hands.

This article looked into some of the allegations on OPEC as an international swing producer of oil against transfers of large income from domestic oil users by price manipulation. This had been looked into with the help of literature works to determine how communication and interpersonal relationship between the cartel, world regions and their communities could be improved. This can also be concluded with the determination that future should witness OPEC having more commitment towards furthering the interests of communities outside its immediate territories and that individual country's interest should not be preferred over collective interests, in any case. There is a need for globally integrated Middle East that could smoothen or strengthen the relationships between different world regions, as far as their economic progress is concerned. Unfortunately, that has not been apparently achieved despite having much research available for addressing this issue. While, on the other hand, the biggest unresolved mystery for the United States over these years had been only a single question: how to reduce oil dependence? With an orientation towards steady production and need for exploration of oil reserves within its region, there is much more to do for the US than is currently being planned.

With an aim to evaluate, assess and speculate the effects of OPEC policies on world economies, taking US as the study case, it can be concluded that OPEC still has to go a long road before its relationships with the global world could be strengthened. Without an exploration of common solutions to grave political contentions between them, world's regions cannot prosper; let alone the Middle Eastern members. This research was a contribution towards unveiling how a relationship between different countries is affected by OPEC, and how different OPEC-related accusations have had a greater global aftermath. Cutting demands through alternative measures has been found as the only intervening policy action that can facilitate US in reducing the dependence on oil-exporting OPEC. With a resolution towards cutting global demands while giving more consideration towards economic and environmental effects, this article aimed to establish that undue power and influence over oil resources would naturally be harmful for all economies, be it developing, non-developing or developed nations across the world. Emphasis on oil production at home while operating in low-tax conditions should lie at the heart of US policies, which also have to be mindful of its responsibilities in delivering trickle down effects to other nations in conditions of acute economic pressures and recession.

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