

ARTS & SCIENCES PROGRAM

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World Financial Crisis & Impact on Oil Producing Nations

Abstract

Like other financial crises, this one begins with a crisis of confidence, where consumers no longer trust the institutions with their money and their assets. The second factor preceded the first, though it didn't seem troublesome until the crisis of confidence took hold: too much credit and too much leverage.

Very smart people who had worked their way up the corporate ladder in the financial systems devised investments which could make huge profits by vastly increasing the amount of leverage—the amount of borrowed capital used. Such opportunities had always existed but in the old and well understood commodities markets. But they would bring even more leverage inside the financial system involving large institutions that served the mortgage industry in the United States.

As for Arabian Gulf oil exports, this will certainly be impacted affecting export earnings for oil exporting nations. However, the good news is that quantities sold to China might not be reduced as much as sales to other nations. China exports a lot of low-end consumer items, which usually do not experience the sales reductions seen for higher-end consumer products, such as those exported from Japan, South Korea and Europe. However, oil is fungible and substitutable all over the world through financial settlement contract sales and market arbitrage between regions and time periods, meaning that what one crude stream experiences is soon transmitted to all the others.

We will look at the outlines of possible future states of the crisis as it affects the Gulf oil and gas industries.

Dr. Dalton Garis is an Associate Professor of Economics at the Petroleum Institute (Abu Dhabi, UAE) where he teaches petroleum market price analysis.

He earned a Bachelor of Science in Industrial Engineering and Operations Research from the University of Massachusetts, a Masters of Science from Texas A & M University, and a Ph.D. in the economics of human capital and spiritual capital formation from the University of Florida.

Dr. Garis has over 36 years experience in Islamic studies and economics, and is a regular contributor to Islamic economics and finance forums. His book on Qur'anic economics, ***Manna From Heaven: The Economics of Divine Speech***, was published last year. He has also authored papers on the economics of Islam and served as a consultant for Islamic banks.



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