

The Norwegian Oil Experience of Economic Diversification: A Comparative Study with Gulf Oil

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Abstract:

Norway is often regarded as a model example of how to manage the natural resources such as oil and gas. As an oil-rich country, Norway has proven its success in oil industry by taking its advantages for establishing and preserving a strong infrastructure and thus promotes and develops its economy. The aim of this study is to indicate how valuable the Norway experience in the Gulf countries by identifying the reasons of success, principles and policies adopted by Norway and to what extent the Gulf countries would benefit from it and what are the steps that should be taken by these countries to switch their concentration from only producing the oil to diversifying the economy. The author of this paper used the historical, descriptive and deductive methodology.

Keywords: Norwegian experience, economic diversification, gulf oil

1. Introduction

The developing countries are in fact facing problems in terms of oil industry, which brought the attention of many researchers. These problems are getting worse in the presence of excessive oil if this excessive amount utilized slowly and wisely. A strategic decision could be taken in terms of development particularly with the presence of Norwegian experiment as a successful example.

The Gulf Countries economy has its problems; however, oil and gas revenues are flowing for many years. The thing that attracts the attention of any concerned researchers in oil issues and make them search for the reasons of these problems and raise a question of how could the gulf countries benefit from successful experience of some oil-producing countries such as Norway? Norway earned the blessing of oil and worked to avoid its curse, benefited from the oil and built a strong economic which wasn't affected by the rise or fall of oil prices through rational wisely and slowly utilizing of the oil wealth in the establishment of infrastructure to diversify its economy. To achieve such goal Norway has adopted, applied and committed to certain policies, strategies and principles in relation to the oil industry and allowed the people's representatives to involve and discuss the potential consequences of oil industry, whereas the Gulf Countries rushed to exploit oil revenues in consumption without searching the diversification of their economics which resulted in numerous economic and social problems that require significant efforts to treat them.

Therefore this review intended to highlight the Norwegian oil experience as a comparative study with the Gulf oil experience in an attempt to treat the problems of oil industry.

2. The Norwegian Experience

Oil has discovered in Norway since 1965. The Norwegian government cared about the newly discovered oil that may adversely affect the economic and social aspects in Norway in terms of that the state is not ready for such a huge wealth. As oil and gas resources are subject to depletion and that the income from such sources may not be stable and subject to swing of the oil markets. The Norway encouraged the national companies to produce the oil and after the availability of oil, the state turned to adopt the policy of 'deliberately' take time and slowly deal with the oil pending the country to be socially, economically and politically ready to absorb the newly discovered natural source, therefore the state would a achieve the blessing of the oil and avoid its curse.

2.1 Principles of Oil Industry

The Energy Committee in the Norwegian Parliament announced in 1970 important principles underpinning the oil industry, the principles emphasized on:

- a) National control on the decisions related to the oil operations,
- b) Providing the country with the necessary needs of energy,
- c) Creating new opportunities for oil-based investment,
- d) Protecting the environment and contemporary industries from any negative effect that may occur as a result of oil industry,
- e) Preventing burning natural gas,
- f) The state should observe the balance between national and international goals in terms of oil industry,
- g) Establishing national governmental company to undertake state's commercial interests and operational tasks in the oil sector,
- h) Enhancing Norwegian activities at international level to introduce the Norway approach in the oil sector,
- i) Also stressed the need to develop a solid foundation for decision-making in relation to franchising policy and how to use the revenue of the oil,
- j) The state alerted that escalating the exploration operations may result in negative effects,
- k) Engaging the national industries in various oil operations.

However, it could be argued that deliberate policy in granting new franchises has helped the state to achieve the above mentioned principles because it gave Norwegian industries enough time to get ready for a new era. Consequently Norway succeeded in establishing a modern oil industry in a highly international level.

2.2 The Strategy of Oil Industry

It had been confirmed the necessity of comprehensive strategic planning in this regard, the Norwegian Parliament discussed the potential consequences of oil exploration and confined it as follows:

- a) Transmission of financial and human resources from traditional industries to the oil industries would undermine the traditional ones.
- b) Oil operations and increasing domestic consumption will lead to a greater need for labor which in turn leads to rise in production costs for traditional industries.

According to these reasons, the traditional industries may lose its ability to withstand the competition at both national and international aspects, therefore the Parliament advocated that any increase in oil operations must be done gradually, on the basis of well thought out strategic plan.

The Norwegian government also stipulated that international companies must contribute to the development of the domestic industry, and encouraged these companies to contribute to the Norwegian technology in the development of the oil sector.

Regarding oil revenue the Norway strategy included the following:

- a) Collecting and auditing the oil revenue with accurately and honestly in order to protect the public interest.

- b) Make a comprehensive development planning includes economic and social sectors and use some of the oil revenue to create new industries and devolving projects for the next generation.
- c) To consider the establishment of a fund for development planning.
- d) To consider establishment of a fund to finance and protect the national economy from the oil market variations

2.3 The Policies of Oil Industry

a) Consultation policy:

The Norwegian government policy is to coordinate with the parliament where it is agreed that the Ministry of Finance is to make comprehensive economic planning of the country in cooperation with the competent ministries, and with the Oil Ministry with regard to oil, the Ministry of Oil setting oil policy and propose legislation and to develop plans for the oil and franchising consultation with other ministries, especially the Ministry of Finance, while the technical directorates undertake the task of monitoring and surveillance, each according to its competence, and the revenue office in the Ministry of Finance handle the task of collecting and auditing oil revenue. This means that there is a governmental and parliamentarian consensus through discussions and deep deliberations, which lasted for years at the time of the discovery of oil led to reach a political consensus that the country should control the direction and momentum of oil operations, support, encourage the national industry to participate directly in the oil operations, and be careful in granting privileges pending the country to economically and socially be prepared for escalation of oil operations. Also it has been politically agreed to use oil as a means to develop new sustainable industries independent from oil operations.

The requirement to display the oil field plans to parliament for approval before proceeding with implementation helped to support the principle of national control, the Ministry of Finance act as overall economic and integrated planning of the country helped to avoid damage to other industries before they occur. After lengthy discussions and deliberations it has been agreed on how to invest the oil and benefit from it. The Norwegian government also appointed a special committee included the finest economists and politicians in the country to discuss the momentum of oil operations and its impact on the national economy and social life in general. In its report in 1983 the Commission recommended that it was possible to increase the oil operations moderately without adversely affecting contemporary industries until the national economy at that time becomes ready to receipt and accept such operations. The Committee also recommended establishing a fund from the oil revenue and separates the oil revenue from domestic consumption at the same time protect the country's economy from the fluctuation in oil prices.

Accordingly in 1990 the supporting fund had been established and took over the task of managing and investing the oil revenue, what is sent to the supporting fund is the total surplus of general budget (including oil and gas revenues) but not more than 4% in an attempt to preserve the oil revenue and benefits for the next generations.

The Fund is a private oil-authorization is an integral part of the budget. What prevents the Fund is the because of the great diversification of revenue in the economy, and therefore the majority of the oil profits go to the balance of the upcoming generations.

Norway also focused on the need for accuracy and honesty in the collection and verification of oil revenues and employed adequate efforts at the Finance Ministry for that purpose, and based its policy on use of oil revenues. Norway also benefited from the experiences of many countries in this area.

b) Protection Policy

Protecting the new industry was only a temporary arrangement to compensate long-term social gain from its closer social costs which will requires increasing the national income beyond what it should have been if the new industry wouldn't have protected. Protection policy has led in a short period to the establishment of a huge market for goods and services related to the oil market.

c) Knowledge Policy:

The general conception about the oil industry in the state was to negotiate the oil operations from early exploration stage to development, extraction and refining field including geological, technical and financing activities and the best way to achieve that is through effective participation in all aspects of oil activities, accordingly the government stipulated that the country must participate in negotiations with international oil companies and established national company (shatat oil) to become a negotiating partner for major international oil companies.

The Norwegian license conditions policy regard oil industry is to obligate the international oil companies to provide the Norwegian engineers training courses to gain skills and competences while working for foreign companies when they return back to Norway they could replace the foreign engineers. Norway also obligate foreign companies to convey competencies and cooperate to develop new technologies, encouraged partnership between domestic and foreign companies, and made researches mandatory, accordingly, Norwegian competencies and developments in oil industry rapidly grown up in a quite short period of time thus it enhanced the Norway negotiable position in the international oil industry.

d) Diversification Policy

Norway always adopted diversification policy in order to reduce dependency on the oil revenue and protect the country from the risk caused by variations in the oil and natural gas market.

In the sixties, the Norway enjoyed a relatively strong economic growth, full current account surplus and average employment therefore there was no need to rush into oil development, unlike most of the developing countries, this stabilized economic situation provided the country with a strong foundation for a strong negotiable position in the international oil industry. The Norway negotiable position improved more when the oil prices shoot up in the seventies.

3. Reasons of Success:

The unhurried position taken by Norway regards oil industry pending adoption of rational policy for the use of oil revenue considered as one of reasons of success, beside the political consensus on two basic principles:

- a) Avoid the increase in domestic consumption that might harm the existing national economy industries.
- b) Sharing oil revenues with future generations.
- c) The pension fund under the auspices of Ministry of Finance has succeeded in separating the oil revenue from domestic consumption consequently protected the national economy from oil curse.
- d) The establishment of various companies working in the oil field creates constructive competitions to obtain new franchising, as well as national contribution in oil operations which balanced the role of national and international companies on one hand and created cooperation between these companies and the government in oil operation management on the other hand.

From theoretical perspective, the author noticed that, Norway has headed a different direction from the rest of the oil-producing countries by taking the decision not to rely on the oil to finance its budget except in small percentage and kept the oil revenue separate and take only 4% annually to support the general budget. Norway government focused in fighting inflation, devolving educational, technical and industrial planning.

The strategies and economics policies adopted and applied by Norway government protected the country's economic from inconstancy of oil prices, controlling inflation, formed large cash reserve in the oil fund, the level of human capacity improved, the industrial sector has improved and a private productive and competitor sector has been formed.

4. Gulf Oil Experience:

4.1 Economic Policy

It's difficult to compare the Norwegian oil economy with the Gulf oil economy. While, in the early decades of oil utilization, the Gulf countries was suffering until the early seventies from poverty and reactionary, Norway enjoyed advanced diversified economy with a ratio of highly educated population with full employment and a high standard of living. Irrespective of petroleum, Norway had a strong economy based on services and shipbuilding. It is true that the discovery of oil in the Gulf Countries was a chance for a quantum leap particularly in the sectors of education and health, but it cannot be compared to Norway, in which oil revenues was not only a source of the large economic base but also reinforcing the stable economic activities.

Oil industry in the Gulf began with an increase of domestic cost that threatened the domestic employment and the increasing need for diversification for employment through the oil-services and supply industries of oil and gas, the thing that contributed to increasing the skilled expatriate workers. Despite the various kinds of employment in the Gulf countries, some of these countries heavily rely on foreign labor in the handicraft because the domestic national labor requires paying very high salaries, including Saudi Arabia, in which unemployment rates spread particularly among young people and the need for providing more jobs has become urgent; and as much as the domestic oil industry is in a bad need of industry and innovation, and thus to widen its maximum capacity of production.

In the Gulf Countries, the essential goal is the distribution of oil revenues, without regard to the search for diversification of domestic production that resulted in the full reliance on oil revenues and then high economic and social risks. Especially, the population is increasing along with depending on imported goods and services without any attitude to diversify exports, which intensifies the diversity of the income base and employment opportunities without ensuring a broader base of income by the state, thereby the hope for indirectly utilizing the oil revenues is little, and here the growing threat of the gaps lies in economic and social development.

Norway is a monarchy such as the Gulf Countries but in reality it is different as the common role of the state of Norway is the redistribution of money and the imposition of taxes on income, sales and property to be re-allocated by the democratically elected parliament, which in turn established the "oil fund" and indirectly used the oil revenues.

We do not think that the democratic transition in the Western sense of Norway is inevitable in the reform of the Gulf economy. But Islam has a successful experience in governance and management of the economy, through consultation and involvement of societal opinion in the administration of the state and its economy, depending on specialization and division of labor, as well as paying attention to national experts in finding treatments for Gulf economy without taking into account the empty democracy adopted by the West. The tax imposition is not a solution for the treatment of the economy in Islamic countries, but the reconstruction of the land and diversifying the economy of goods and services to cover domestic demand, with the aim of self-reliance, and the provision of domestic goods for export along with oil to limit the impact of fluctuations in the global economy on the one type of commodity-based state, as is the case in Gulf Countries. There's not much difference in the Gulf Countries regarding Norway's practice of power and control over the ownership of the natural resource, and dealing with the strategic and structural issues.

4.2 Education and Training, and Knowledge Transfer

Knowledge and know-how are missing source in the Gulf oil industry, unlike Norway, which reflected on the details of the operations from exploration to development of oil fields, extraction, refining and necessary geological, technical and funding activities that reflected on the licensing negotiations with foreign oil companies, especially with regard to the transfer of skills and competencies to the Gulf national companies through holding of training courses by major oil companies to provide a national alternative for engineers. The situation would have been better, if competencies had been transferred to the Gulf citizens as it had happened in Norway.

The growth of knowledge-based industrial sectors is weak because there is no a phased strategy for the advancement of education and the development of technology and lack of expansion of scientific research towards the development of oil alternative economic sectors, and thus failed to be an export along with oil to become new sources of exports, to be a platform for the development of new exporting sectors away from oil.

4.3 Economic Diversification

The Gulf Countries hadn't a clear vision to diversify the economy in the early stages of utilizing the oil and thus they completely relied on oil revenues, so these countries faced the risk resulting from fluctuations in the oil market and natural gas for long and sequential periods. Gulf Countries did not achieve any plans for the desired economic diversification; there have not been infrastructures of an economic sector along with oil sector, whether this sector was agricultural, industrial or serving, despite of the growth in the service sector in last years. Oil revenues were not separated from the domestic consumption resulting in high economic inflation. Even there was no little protection of the national economy from the oil curse. Therefore, the budgets of these countries have become vulnerable to economic shocks resulting from dramatic instability of oil prices.

The consuming extravagance caused by the Dutch disease for the economy of the Gulf weakened the ability of Gulf Countries to preserve a large cash reserve that can support export development through the expansion of infrastructures and improving the level of human resources, and the development of the industrial, agricultural and service sector, and building a globally competitive productive private sector.

4.4 Gulf Economic Treatment and Challenges

The knowledge policy adopted by Norway is one of the most urgent needs for the Gulf Countries. Technical and geological challenges in the Gulf Arab Countries are less great in spite of a requirement for technical improving, at least in the field of reservoir management to improve extraction rates, and on the other hand there is a dire need to strengthen efforts in research and development relating to oil in the Gulf Countries, but must focus on selected targets and the need for new oil technology was entirely developed less than the need to improve aspects of technology currently in use. Gulf Countries need more emphasis on technical training and education and this meets the domestic aspirations for the development of a knowledge-based economy.

Building an economy based on knowledge, technology and innovation reinforces sustainable economic growth and development indicators, this is considered a major Gulf challenge to diversify the economic base and strengthen the competitiveness of the national economy, export potential, and the sustainability of development. To meet this challenge, the strategy includes many of the goals, policies and programs that should be involved in an elaborate strategic plan in a phased and gradual method, which adopted and followed in subsequent plans because the strategic response to this challenge must be comprehensive and multi-faceted for being related to the construction of the national workforce.

One of the economic challenges facing the Countries of the Gulf: the continuation of relatively high rates of population growth, and the aspirations of population to enjoy high standards of living, as well as a continued growth in job applicants in search of appropriate job opportunities in the presence of relative unemployment. As well as the rising use of in rates of scarce economic resources, especially water resources. The competition faced by the national products is increasing in the domestic market and foreign markets, especially after the involvement of some Gulf Countries into World Trade Organization (WTO), which requires great efforts to adopt the best production methods that reduce the cost of production and increase the quality of Gulf product.

The Gulf economy needs radical solutions that can be summarized as follows:

1. Accelerating the qualitative development of the Gulf labor force, to acquire them the skills and knowledge that will enable them to keep in line with scientific and technical successive developments, and simultaneously contribute effectively to enhancing the productivity and competitiveness of the national economy and accelerate transforming it into a knowledge-based economy.
2. Giving radical solutions for the process of procrastination for the implementation of government projects as a result of the emergence of regulatory, technical, and procedural barriers, including the lack of well-qualified domestic contractors, and the technical capabilities of the competent authorities are insufficient. This can be done by conducting studies, designs and supervision of the implementation of governmental projects. In addition, finding solutions related to accelerating the provision of suitable locations and sites for some of the project, and the emergence of disputes over the ownership of these sites.

3. Providing of national highly qualified and skilled manpower is a necessary condition for achieving sustainable development, the fact that the human being is the goal and tool of development, and the main component upon which the modern competitive economies are based, only through wide interest in the strategic resource, whether on the level of education, training, health care or continuing review to the requirements of accelerated development, which always leads to the growing gap between supply and demand for labor in many fields, and thus escalate the need to bring in expatriate workers to meet this the demand. Saudization of jobs that is occupied by the foreign labor is the main challenge facing the development process in the Gulf Countries. There should be harmonization between the educational outcomes and training on the one hand and between the requirements of the labor market on the other hand in order curb the phenomenon of structural unemployment among citizens, and acquiring the national human resources the skills that meet the requirements of the labor market, as well as dealing with organizational imbalances that hinder replacing the national employment with expatriate workers.
4. Giving the national economy and its exports a competitive advantage is one of the major challenges and strategic issues that require intensive efforts, owing to their multiple economic and social dimensions. As indicated by international experiences, building a competitive advantage requires providing elaborate base for science and technology, highly qualified human resources, as well as physical and institutional modern facilities and equipment, and identifying areas of excellence and the goals set for them, as well as a clear strategy and integrated plan to achieve those goals.
5. Governmental efforts should be reinforced to widen the training and rehabilitation programs, development and increase skills, in addition to improving the administration and organizing methods, and expanding the use of Information and Communication Technology (ICT) in all sectors, and encouraging scientific research, development and innovation, and active participation with the private sector in the development of their capabilities, in the field of technical inventions, innovations, research and development programs by providing basic infrastructure and appropriate support.
6. Gulf Countries enjoy many catalysts for investors, including an open economy and high purchasing power for the population, low rates of taxes, and the foreign investor has the right to own projects, and complete freedom for the capital and transfers of income and profits, stable exchange rate, stable political system that reinforces investment and development and economically active population. These national human resources can develop the national economy through developing of their capabilities and honing their skills to become a valuable asset to build competitive advantages for strengthening the Gulf Countries.
7. Raising the efficiency level of government agencies and institutions in order to contribute to raising the competitiveness of the national economy, with an emphasis on manpower development and diversification of the economic base, improve the productivity of the national economy, increase the contribution of the private sector to the economic and social development under appropriate competitive environment, in addition to continuing to develop the science and technology system and informatics and support scientific research and technological development to enhance the competitiveness of the national economy. By so doing, institutional and administrative development will be strengthened, and a business environment created, thereby contributing to the improvement of the investment environment, and raising the efficiency of the performance of government agencies, and upholding the trend towards knowledge-based economy.
8. Targeted-growth rates take into account the goal of diversifying the production base and sources of national income, by deepening the technical knowledge dimension of the economy. Therefore, priority should be given to sectors that contribute more to the diversification of the economic base, and its activities characterized with broad use of modern technologies.
9. Oil is depleted even though long it takes; the Gulf Countries must develop a program for sustainable development by allocating oil revenues to the development of renewable resources, the treatment of environmental pollution caused by the oil and petrochemical products industry, and some reserves of oil money must be allocated for future generations.

Conclusion

The present study concludes that the success of Norwegian experience lies in the slow deliberate policy of oil exploitation, and principles, policies and strategies that have been developed to exploit the oil. There are some conditions that contributed to the success of the Norwegian experience including the external circumstances represented in OPEC power in the seventies of the last century, the dramatic rise of oil prices at that time; but the internal conditions are that Norway has been economically stable with basic infrastructures and human skills that cannot be compared with the Gulf Countries. Norwegian experience has its special circumstances, which had a significant impact on its success.

The Gulf oil experience was lacking, until now, a lot of factors that contributed to the success of the Norwegian experience, leading to its delayed success, entirely relying on oil, and its inability to change attitudes, but it can take from the experience of Norway significant tips and lessons with respect to programs and policies of knowledge development and transfer of technology and the diversification of the economy, protection and control of inflation, and tackling the unemployment, control of the extravagant consumption of oil revenues, and allocating fund for programs to diversify the economy and achieve sustainable development. GCC should preserve this depleted resource making use of its revenues to find and support other exports to care for future generations.

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