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Essay:- Does energy drive the economy?

Thesis statement

Energy is a driver of economy that can steer the course of our lives in a matter of instants. It is the 'energy' that directly impacts our economy at national and global levels. The energy fall out can destruct our entire global manufacturing, power grid, and transportation system. Hence, energy is a precursor and a driver of the world's economy and development.

Outline:

- (i) Nexus between energy and economy
 - i) good and services input
 - ii) power prices
 - iii) fuels transport
- (ii) Energy as a backbone of world economy
 - i) GDP ratio of leading economies
- (iii) Emerging economies; BRICS of energy
 - i) GDP ratio
- (iv) Economic gains through energy efficiency.

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- (v) social gains through energy efficiency.
 - 'China' as a reference in point
- (vi) Energy crisis and Global Economy
 - (a) Russia-Ukraine conflict
 - (b) Houthi attack in Red Sea
- (vii) Conclusion.

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When I closed my eyes, last night, I heard people jabbering out something about an energy fallout in the country. The complete break down of power supply, no internet, the stoves not burning, the darkness unfurling and thus, leaving the production centres of the country, paralysed. The entire nation seemed to be frozen, yet alive. Suddenly, my mother woke me up to reality and I was grateful that it was all a dream. However, it ^{was} the time, when I realized that energy is a driver that can steer the course of our lives in a matter of instants. It is the "energy" that directly impacts our economy at national and global levels. The energy fall-out can not only paralyse but destruct our entire global manufacturing, power grid and transportation system. Hence, energy is a precursor and a driver of world's economy and development.

The nexus between the energy sources; primarily oil and natural gas, and the world's economic

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growth is evident through a number of instances. Firstly, ^{the energy is} production is an essential input to goods and services as it provides the fuel and electricity to the manufacturing industries. It, further powers the offices, buildings, houses and business centres. The energy source such as Gasoline is predominantly used for the transportation and aviation. Thus, energy is a chief ingredient in all the economic activities of a country that contributes to a global GDP as well. As the US congressman, Mac Thornberry, says: "Energy is necessary for economic growth, for a better quality of life and for human progress."

Energy is a backbone of world economy and oil and gas have been the most important commodity among the major energy resources. The energy to GDP ratio of the leading world economies is a testimony to this fact. As evident from the report of the US Energy Information Administration, in the United States alone, the oil and gas industry accounts for 4.8% of the nation's GDP. Thus, exploration and production make up a large

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portion of the global economy. Furthermore, the US, Saudi Arabia and Russia are leading ^{global} oil producers. The three countries produced approximately 40 million barrels of oil per day in 2022, which is 43% of total world production. The ^{global} economy is thus primarily driven by the oil and gas industry.

Another case study of emerging economies also provides evidence of the major play of the energy sector. The BRICS, countries including Brazil, Russia, India, China and South Africa have their GDP equals to 25.77%, which is comparable to that of all the G7 nations combined. These emerging economies have driven demand for the production of oil and gas, underpinning the importance of energy for global economy.

The economic gains due to the energy sector are yet to be fully realized by all the nations. This relies on the "energy efficiency" measures by these nations. For instance; the European Commission assesses increased targets for the

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EU's 2030 energy efficiency target. In terms of GDP impact, EU has modelled scenarios that would result in positive change and increase ^{EU}GDP upto 2.0%. ~~increase~~ Energy Efficiency targets not only adds up to nation's GDP but also induces job creation. A study assessing the "EU's Ecodesign Directive" projects, indicates that the efficiency measures developed as a part of the directive has lead to 0.8 million additional jobs in 2020, sourced by European Commission. It further employes more than 1 million people globally through Energy Service Companies.

The developing world has seen significant economic growth, alongside poverty reduction since the inception of 21st century. Various social indicators such as life expectancy, enrollment rates in secondary schools, population increase in urban centres, the dramatic increase in the size of middle class with increase in purchasing power has accompanied economic growth. World Bank reports suggests that China has been the largest single contributor to these trends, reflecting more population in developing countries

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are moving out of poverty towards prosperity, accompanied by an increase in energy consumption of oil and gas industries. Thus, the energy being the driver of prosperity among such nations, adding to the economic and social gains as well.

Having said that, the impact of energy crisis could also severely halt the global economy and development. For instance, the Russia-Ukraine conflict had sent massive shock waves to global economy specifically to the energy and food markets. Russia is the primary gas supplier to the Europe. Following the invasion of Ukraine by Russia, the sanctions imposed on Russia's natural gas supply contributed to the massive inflation in global markets. The Europe's energy and food inflation reached to 8.4% in 2022, as per EU ^{Commission} reports. Also, according to OECD reports economic growth of the world slowed down to 3.1% in 2022 and further 2.2% in 2023.

Similarly, the recent attack of Houthis Rebels in the Red Sea halted

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The global supply chains and shipping industries were forced to re-route their vessels. This contributed to another setback to global transportation through Red Sea routes along with the inflationary pressures on global economy. This disruption due to shipping disruptions increases fuel consumption and labour costs, ultimately ticking oil prices higher. Thus the increasing energy prices constricts the global economic system.

The energy particularly the oil and gas are the necessary components for the proper functioning of global production, networking, supply grid and transportation networks. Without the energy supply, the global economic system paralyzes and ultimately leads to the demolition. Therefore, the energy as evident drives the economy and consequently the micro and macro spheres of life of every individual, state and international system.
