

The Middle East and Oil: Economic Modernisation and Political Stagnation

Written by Anastasija Malachova

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ANASTASIJA MALACHOVA, OCT 29 2012

The early 20th century has become a crucial point for the development of the Middle East region. "Prior to 1950, the countries of the Middle East exhibited some of the lowest levels of socioeconomic <as well as political> development in the world." [1] However, with the discovery of the vast oil reserves, and their further utilization and active exportation, the Middle East region has experienced considerable changes in economic, political as well as social spheres. "The region's large oil reserves (<around> 66 per cent of the world's supply) have resulted in the rapid creation of wealth for some states" [2], mostly, oil-rich, as well as having altered the political and economic processes not only in the oil-exporting countries but also in the region as a whole. There is a common perception that the vast oil reserves have, on the one hand, led to economic modernization and prosperity, whereas, on the other hand, "created weak states that are autonomous from societal demands, <...> political accountability <and> transparency." [3] In this essay I would like to discuss the statement mentioned above and analyze whether the vast oil reserves in the region have indeed encouraged the economic modernization but led to political stagnation.

Economics

The discovery of oil and its further utilization has had a considerable effect on the economic development of the Middle East region in general and oil-rich countries, in particular. Of course, the oil-poor countries have also been affected by oil, but in my essay I would like to focus solely on oil-rich countries and analyze the effect of oil on the development of these states as well as the region as a whole. Prior to the discovery of oil, Middle East was a poor region, "forbidding ecologically and deprived economically, with very limited agricultural and pastoral economies and a small but locally important caravan trade." [4] However, once the oil was discovered and it started to be extracted as well as utilized in the first half of the 20th century, the situation has changed dramatically. "Royalties from oil exploration concessions and then from the sales of oil <have> provided a steady (and steadily increasing) source of revenue to the rulers of Kuwait, Bahrain, Qatar, Saudi Arabia, and Abu Dhabi, Dubai and Sharja (in what would become the UAE) from the 1930s <...> <up to nowadays>. By the 1950s, oil was the major factor in the most of these states' economies." [5] That is to say, the states' economies have transformed from agricultural to rentier economies. To be more precise,

Rentier states derive most or a substantial part of their revenues from the outside world and the functioning of their political <as well as economic> system depends to a large degree on accruing external revenues that can be classified as rents. Rentier states rely on allocation and redistribution (allocation states) and hence show a remarkable different political dynamic than other states (production states). Rents have been defined as 'the income derived from the gift of nature' and are usually understood to be income accrued from the export of natural resources, especially oil and gas. [6]

Indeed, the major share of revenues in the oil rich Middle East countries has been derived from oil utilization and export. Since the mid-20th century such oil-rich countries as Oman, Saudi Arabia, Qatar, UAE, Bahrain, Kuwait, etc. have experienced a considerable growth of the oil revenues and, as a result, the GDP of these states has been increasing dramatically, reaching a peak in the beginning-mid 1980s. Moreover, along with the GDP, the government expenditure has been growing promptly as well. [7] This is the period when the economic modernization in the oil-rich

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countries, as well as Middle East in general, started. "The 1960s witnessed massive public investments in infrastructure, health and education as well as state-owned enterprises in protected industries in the Middle East. These efforts helped to utilize underused capacities and also provided a boost to industrialization. As a result, the economic growth performance of the Middle East in the 1960s was the highest in the world at 6.0 percent per worker per year. Large oil revenues sustained the boom in the 1970s." [8] Such a rapid economic growth has led to the economic modernization in terms of the development of the infrastructure, construction of new buildings, hospitals, schools, universities, etc, the improvement of citizens housing conditions and the development of tourism. Moreover,

The rapid economic growth was accompanied by dramatic gains in a number of social indicators. With the massive expansion in public sector employment and migration opportunities abroad, open unemployment was low and hardly different in nature from what was observed in the advanced industrial economies. By the late 1980s, the Middle East region witnessed dramatic reductions in infant mortality, increases in life expectancy, school enrollment levels approaching 100 percent and literacy levels that increased from an average of some 40 percent of the adult population to almost 60 percent. [9]

Oil-rich states have retained the high revenues and, thus, high GDP up to nowadays, with, UAE, for example, having higher GDP than UK since 1981. [10] It could be said, that the discovery of oil and its further export and utilization has promoted the economic modernization in the Middle East and, of course, in the oil possessing countries; the infrastructure, social and living conditions as well as health care have improved. Moreover, Middle East countries have become more attractive for business and for tourism; more and more companies enter the Middle East markets and develop their business in the region. As for the tourism, UAE, for example, have become a popular tourist destination and Dubai emirate has gained the name of luxury holiday resort, having the only 7-star hotel in the world and many other unique attractions.

However, this economic modernization in the Middle East, in my opinion, is the short term and does not guarantee the successful and stable economic development of oil rich states and the region as a whole in the long term. Middle East, despite its vast reserves of oil, is still considered as a Third World region due to the high reliance on oil revenues and rather weak production sector of the economy as well as due to some political factors such as lack of democracy, corruption, cronyism, reluctance to the reforms and other issues, which I will discuss later in my essay while discussing the political development in the region. Returning back to the economics, I believe that the "the detrimental dependency on a single commodity" [11] serves as an obstacle for the successful long term economic development and prosperity. This is because the "excessive dependence on oil revenues and the dollar value <has> altered Arab economies to 'rentier' economies with serious imbalance between production and consumption. Extracting and selling oil are not sufficient indications of a productive economy. While oil is easily transferrable to cash, it is also a finite, non-sustainable, non-renewable natural resource. Income or wealth not invested to produce equal or higher value is used up." [12] That is to say, first of all, the economy which is almost solely based on oil exports is highly dependent on fluctuating oil prices and external shocks. To be more precise, it is not possible to be 100 per cent certain about what will the oil sales revenue be in a particular year as oil prices depend on many factors: overall situation in the world, world inflation, natural disasters and other *force majeure* situations; thus, the revenues also depend on the factors mentioned earlier and, as a result, are not stable or certainly predictable. Moreover, "during the early 1980s, the international oil market has changed from a sellers' to a buyers' market, that is, from one where the producers-exporters largely determined the price for that volume of exports which the market was willing (and eager) to buy, to one in which the importers-consumers have been able to press the price downwards." [13] This means that the budget plan (or spending plan) once approved by the government may either be altered, or lead to a fiscal deficit in case of the price of oil being smaller than expected in the time of plan's approval. Such a situation, in turn, may lead to the redistribution of the lower than expected amount of money and cut of the government spending, leading to lower government investments in business development, health care, innovations, infrastructure and other projects. As a result, the economic development is unstable and 'fluctuating' which implies that the country heavily depending on oil revenues cannot ensure its successful economic development in the long run as it cannot be certain about the actual amount of oil income it will receive in the future. I tend to believe that more confidence in future revenues and thus in the long term economic modernization and development could be achieved by investing in and developing the production industry which will reduce the reliance on foreign goods and services imports, secure stable source of revenue for the country (as compared to oil that is not stable due to fluctuating prices

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and non-renewability) and, finally, reduce the dependency on oil. What is more, the investment in the production industry will secure more job positions and thus reduce the rate of unemployment, which is always beneficial for the long term successful economic development. New job positions will require new knowledge which, in turn, will not only result in an improvement of the educational system and level of education in the country, but also attract new 'brains'. All of these, by no doubt, will have a positive effect on the economy and will contribute towards further economic modernization as well as effective long run economic development.

Politics

Similar to the economic development, the discovery of oil is also thought to have an impact on the political development and processes in the Middle East. Many political scientists and experts tend to believe that the vast oil reserves as well as profits derived from oil utilization and exports have led to the political stagnation in the region. In this section I would like to analyze whether huge oil reserves have indeed led to the political stagnation in the oil-rich countries as well as in the Middle East region in general. In order to start my analysis, I believe it is important to analyze what is meant by 'political stagnation' and whether the Middle East region indeed experiences the political stagnation. Is it referred to the lack of democracy and authoritarian regimes that are prevalent in the Middle East or is it about the reluctance to the political reforms? Could 'political stagnation' be determined by gender inequality or the old political traditions of cronyism and patronage that are present in the region? And, finally, is this 'political stagnation' mainly due to the vast oil reserves and considerable oil profits or are there any other causes leading to the lack of political development in the Middle East? I will try to answer at least some of these questions later in my analysis.

To begin with, I would like to discuss the problem of the lack of government accountability in many Middle East countries, especially oil-rich ones. "It is a historical fact that demands for democratic representation and government accountability rose out of the attempt of the ruler to impose new taxes. The rentier state paradigm has become most popular through the reversal of the well-known saying 'no taxation without representation' into its mirror image: 'no representation without taxation'." [14] As the oil-exporting countries in the Middle East are regarded as rentier states, the principle of 'no representation without taxation' [15] perfectly applies to them. To be more precise, "when governments derive sufficient revenues from the sales of oil, they are likely to tax their populations less heavily or not at all, and the public in turn will be less likely to demand accountability from- and representation in -their government." [16] This is exactly what happens in the oil-rich countries of the region. Governments tend to exempt citizens from the tax burden in exchange for no demand for the representation and, what is important, accountability. That is to say, governments can allocate and redistribute the state's revenues however they like and they do not need to get the consent of the citizens because, in practice, citizens do not contribute towards the state's income, thus, formally, they do not have a legitimate right to demand the accountability from the government. Moreover, "governments are providing their populations with the wide range of genuine public goods and services: defense, national security, education, health, social security, employment, an impressive network of infrastructure, etc. The level and quality of these public goods and services are usually adequate, sometimes excellent." [17] Moreover, "the government not only distributes benefits and favours to its population, but it is <usually> also the major and ultimate employer in the economy." [18] Thus, citizens value these economic and social conditions provided by the government and are satisfied with them, so they tend to become politically passive even if they do not share the political views and policies of the governments, or are not satisfied with their unaccountability and lack of the representation. To my firm belief, this is a logical fact as when people are satisfied with the welfare provision (i.e. if they get enough welfare benefits to meet their needs), they do not have an incentive to rebel against the government and seek political changes. That is to say, once they are satisfied with the welfare provision, they tolerate the political situation in the country as well as the government that provides them with those benefits. Simply speaking, it is not worthwhile to go against the government regime as such a rebel may lead to the loss of welfare benefits and, as a result, the wellbeing of people and their families may suffer. Moreover, "the intention <of the government> is to provide benefits with the aim of gaining political loyalty or being able to deny such benefits (through deportation or deprivation of citizenship) to those who oppose the government." [19] Thus, the rentier nature of the economy makes it possible for the ruling elites to 'manipulate' the citizens and keep them away from politics by simply using the provision of welfare benefits as a leverage mechanism. Therefore, it could be said that to some degree the vast reserves of oil in the Middle East have led to the political stagnation in the region.

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However, I think that the lack of political development, i.e. the political backwardness, in the Middle East is not only because of the rentierism, but also due to the intrinsic political culture which is based on the personal relations and ties. That is to say, the cronyism, patronage and personal contacts which are prevalent in the Middle East serve as an obstacle for the political processes and decision making within the country as well as for the successful political development in general. It could be said that "rather than labor, personal capacity or merit, it is the personal contact to political decision-makers which determines and facilitates how resources are allocated and thus how the material well-being of the individual, the family, the clan, etc. is secured." [20] Another point to mention is the religion. Can the Islam and its principles rather than high reliance on oil revenues be one of the main causes of the political stagnation in the Middle East? The states in the region to great extent live in accordance with the "Islamic political philosophy" [21] and are not willing to accept modernity and Western political views and principles; "results are as we see today the closed character of Muslim societies and their backwardness in almost every sphere of modern life." [22]

Nevertheless, it should be thoroughly considered whether the shift towards the political practices that are common and usual for the Western political regimes will work and be successful in the Middle East. Moreover, I tend to believe that it is not an obvious fact whether there is a true political stagnation in the Middle East, as there is no clear cut definition of the 'political stagnation'. Of course, to certain extent, it can be said that countries in Middle East are politically underdeveloped due to the high reliance on oil and the rentier nature of the economy. However, this political underdevelopment, in my opinion, can be also attributed to the political traditions and religion in a sense that the countries in the region rely on patronage and kin ties as well as it can also be attributed to the presence of authoritarianism, significant respect and even fear of a leader (usually sheikh). The political system based on patronage and kin ties is not a surprise as it is stipulated by the religion- Islam; Islam claims that family is very important and kin ties are almost "sacred". That is why, I believe it is almost impossible to alter the political system in the Middle East; that is to say, even if some Western political practices and values will take roots in the region, they will still be subject to Islamic traditions and precepts. All in all, if the discovery of oil and the further reliance on profits from oil exports has influenced the political processes in the Middle East, it solely has, clearly, not lead to the political stagnation in the region. In my opinion, this stagnation, or better to say, lack of political development has been, to the greater extent, caused by the Islamic norms and political traditions prevailing in the Middle East for the long period of time, rather than the by vast reserves of oil.

Taking everything into consideration, it can be concluded that the revenues from oil and its exports have only short term effect on the economy of the Middle East countries. Those countries that have discovered oil in the early 20th century have indeed experienced an economic modernization: cities have become modern and are not worse than Western ones in terms of architecture, infrastructure as well popular attractions and resorts. However, the opportunities for the long term economic development remain rather weak if the Middle East countries (especially oil-rich) continue to rely considerably on oil profits without developing the production industry and considering other sources of income.

What concerns politics, I think that the perception of Middle East political development should be revised. This is due to the fact that, to my firm belief, the evolution of the political system in the region would never exactly follow the Western pattern, i.e. the pattern that is common and acceptable for the West. The discussion and evidence provided above suggest that such a distinct political development in the Middle East is shaped and influenced not only by the rentier nature of the economy, but also by the religious issues and deeply rooted political as well as social traditions (cronyism, kin ties, patronage, etc.) Thus, I believe that what is seen in the political arena in the Middle East nowadays- is not stagnation; it could be rather called a political backwardness.

[1] T M. Yousef, 'Development, Growth and Policy Reform in the Middle East and North Africa since 1950', in *Journal of Economic Perspectives*, Vol. 18, No 3 (Summer 2004), pp 91-116: at p 91

[2] B Milton-Edwards, *Contemporary politics in the Middle East* (Cambridge : Polity, 2006): p 73

[3] R Schwarz, 'The political economy of state-formation in the Arab Middle East: Rentier states, economic reform, and democratization' in *Review of International Political Economy* Vol. 15, No 4(October 2008), pp. 599-621: at p

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[4] F. Gregory Gause III, *Oil Monarchies: Domestic and Security Challenges in the Arab Gulf States* (New York : Council on Foreign Relations Press, 1994): p 44

[5] *Ibid.* p 45

[6] R Schwarz, 'The political economy of state-formation in the Arab Middle East: Rentier states, economic reform, and democratization' in *Review of International Political Economy* Vol. 15, No 4(October 2008), pp. 599–621: at p 604

[7] F. Gregory Gause III, *Oil Monarchies: Domestic and Security Challenges in the Arab Gulf States* (New York : Council on Foreign Relations Press, 1994): pp 46-51 (tables)

[8] T M. Yousef, 'Development, Growth and Policy Reform in the Middle East and North Africa since 1950', in *Journal of Economic Perspectives*, Vol. 18, No 3 (Summer 2004), pp 91–116: at p 96

[9] *Ibid.*

[10] The World Bank Data. Retrieved from <http://data.worldbank.org/indicator/NY.GDP.PCAP.CD/countries?page=5&display=default> on 15th of January, 2012.

[11] J E Jreisat, 'The Arab World : Reform or Stalemate', in *Journal of Asian and African Studies* Vol. 41, No 5/6 (2006), pp 411–437: at p 415

[12] *Ibid.* pp 415-416

[13] Y A Sayigh, 'Arab Economic Strategy in a Changing World Oil Market', in *Third World Quarterly*, Vol. 6, No 1 (1984), pp 43-58: at p 43

[14] G Luciani, 'Oil and political economy in the international relations of the Middle East' , pp 81-103: at p 93. Retrieved from <http://www.princeton.edu/~gluciani/pdfs/Chapter%20in%20Fawcett.pdf> on 17th December, 2011

[15] *Ibid.*

[16] M L Ross, 'Does Oil Hinder Democracy?', in *World Politics*, Vol. 53, No. 3 (April, 2001), pp. 325-361: at p 332

[17] H Beblawi, 'The rentier state in the Arab world', in G Luciani (ed), *The Arab State* (London : Routledge, 1990), pp 85-98: at p 90

[18] *Ibid.* p 91

[19] F. Gregory Gause III, *Oil Monarchies: Domestic and Security Challenges in the Arab Gulf States* (New York : Council on Foreign Relations Press, 1994): p 43

[20] R Schwarz, 'The political economy of state-formation in the Arab Middle East: Rentier states, economic reform, and democratization', in *Review of International Political Economy*, Vol.15, No 4 (2008), pp 599-621: at p 610

[21] M Mozaffari, 'RESHAPING THE MIDDLE EAST: Why and How?' (2004), pp 1-51: at p 28. Retrieved from http://www.fscpo.unict.it/europa/Reshaping%20the%20MiddleEast_pdf.pdf on 17th December, 2011

[22] *Ibid.*

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