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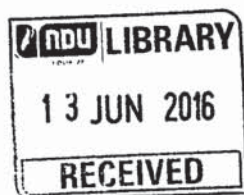
**Faculty of Law and Political Science  
Department of Government and International Affairs**

POLITICAL ECONOMY OF OIL IN THE ARAB WORLD

M.A. Thesis

by

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# Political Economy of Oil in the Arab World

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Submitted to the Faculty of Law and Political Science  
Department of Government and International Relations

In Partial Fulfillment of the Requirements for the  
Degree of Master of Arts in International Affairs and Diplomacy

Notre Dame University-Lebanon  
2016

Approved by: Supervisor: Dr. Akl Kayrouz



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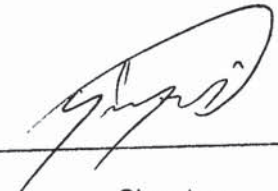
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## ABSTRACT

The focus of this thesis research revolves around two hypotheses in an attempt to find out which is more accurate in today's globalized and industrialized world. The first hypothesis looks at oil as bringing harm to the Arab world, while the second one considers oil as being a blessing and a tool of development. Oil, despite the numerous benefits and blessings that it brought to the Arab world, according to scholars, has also had a negative impact on the political landscape and socioeconomic conditions of several Arab countries. This research intends to highlight the pros and cons related to these hypotheses. It also stresses on the obsession that the West has been having with Middle Eastern oil leading to debatable consequences on certain Arab countries; emphasizing on the benefits and blessings that the West provided for these Arab states.

Whether "oil has been a blessing or a curse" has been much debated. This research aims at shedding light to determine the validity of such a question with a unipolar conclusive answer.

**Keywords:** oil, western intervention, Arab political landscape, Arab socioeconomic conditions.

## INTRODUCTION

According to the Food and Agriculture Organization (FAO) corporate documentary repository<sup>1</sup>, energy is a corner stone of the modern industrial economy. The most crucial services of human activity are possible today partly due to energy. It provides services such as lighting, food production and storage, transportation, industrial production, education, cooking, and mineral extraction to name a few. These services provided by energy are powerful instruments of social and economic development, and it is not possible for any country to develop much without giving its population at least some access to energy services. Throughout the world, every state's ability to access energy resources determines the lifestyle standards of its people. (In other words, in today's industrialized and globalized world, most of developed and even developing countries cannot thrive without oil.)

Oil revenues have clearly impacted the Middle East positively in terms of better living standards, growth rate, decline of death rates, increase in population, and access to better educational facilities. The impact of oil has made a fast and firm contribution towards a better living standard when measured up to any other developing country. Oil has also effectively renovated the Middle Eastern landscape in just a few decades.

Throughout the twentieth and twenty-first century, not just preserving the security of Saudi Arabia but all Persian Gulf states and the healthy flow of the Middle Eastern oil was one of the U.S's primary political-economic concerns. The U.S's pursuit of power in the region has been fraught with peril and has resulted in high costs in terms of both treasure and blood. Oil has always continuously flowed but not without intervention and difficulty. Since the 70s the

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<sup>1</sup> Food and Agriculture Organization of the United Nations, link:  
<http://www.fao.org/docrep/003/x8054e/x8054e04.htm>



oil-rich region has been shook by revolution and constant war. If one is to measure security by the absence of war and conflict, then security in that region has been elusive. Protection and preservation of the Persian Gulf and the oil-rich region has meant a higher, dearer and more direct form of U.S intervention. It is critical to distinguish that the U.S's strategic logic for war is not to capture oil and oil fields and establish major direct control over the oil but rather to protect oil, oil producers and oil flow (Jones, 2012). Aside from the human toll lost through wars, Americans who try to determine the true price of oil in the U.S must consider the financial cost of maintaining such a large military presence in the Gulf region. Roger Stern estimates that "*between 1976 and 2007 the total cost of maintaining the U.S. military in the Persian Gulf was about \$7 trillion, and this does not include the costs accumulated from the 2003 Iraqi War*". The region's dictators have always remained in power. As citizens began to question and challenge the ruling regimes in early 2011 in Saudi Arabia, Bahrain and Oman (three of the U.S's closest allies in the region), it revealed that these governments are well willing to turn their weapons of war (weapons purchased from the U.S) on their people. It is also evident that those regimes are not strong and will always remain vulnerable to regional and domestic shocks, which cause great challenges for U.S foreign and domestic policy (Jones, 2012).

The purpose of this thesis is to investigate the snowball effect of oil towards the Arab world in three areas which are Western interference, political landscape and socioeconomic conditions. The following 6 chapters will shed light on the outbreak of several problems that the Arab world is facing, while comparing it to the many blessings that oil has brought upon the Region. Taking these abovementioned problems and blessings into account, a decision would be made concerning whether the problems outweigh the blessings or vice versa, given

the fact that the Arab world possesses half of the known petroleum reserves (something that is considered as the most valuable and important natural resource in the world<sup>2</sup>).

Several Social Science scholars have tackled the subject matter covered in each section of this thesis, and for the sake of briefness and simplicity, this thesis takes the issue at hand by tackling the favorable/unfavorable outcomes that oil has brought upon the Arab society in three abovementioned areas. Moreover, owing it to the relevance to the hypothesis, and in order to be concise, some major issues are briefly addressed.

Obviously, a country like Egypt that has little oil reserves and a large population is not similar to a country like Kuwait which conversely has large oil reserves and a small population. Thus, this thesis, while capturing the commonality between the selected Arab countries (which will be defined in the following paragraph), will still recognize that differences are evident, but at the same time these countries are sufficiently similar when it comes to the selected variables of this thesis, that valid generalizations can be made with confidence.

In order to unify the readers' perspective on some terms in accordance to the intent of the research, the following section is an outline of the definition of the concepts used:

Based on the World Bank's definition the term "Middle East" includes Algeria, Bahrain, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Malta, Morocco, Oman, Saudi Arabia, Syria, Tunisia, United Arab Emirates and Yemen. The acronym MENA (Middle East and North Africa) is sometimes used as the same reference. Since this analysis is primarily

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<sup>2</sup> Sorkhabi R. (2014), "How Much Oil in the Middle East", *GEOExPro*, 11(1), retrieved from: <http://www.geoexpro.com/articles/2014/02/how-much-oil-in-the-middle-east>

focused on the Arab world, Israel and Malta will be excluded. The Gulf countries (Algeria, Egypt, Iraq, Libya, Syria and Saudi Arabia being by far the most significant) will be the Arab countries most focused on.

Referring to the term “oil producers” includes the six members of the Gulf Cooperation Council (GCC): Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and UAE in addition to Algeria, Iraq, Libya and Iran. Even though Egypt and Syria are considered to be oil exporters, they are not included in this reference because their oil production is much less and thus insignificant for the support of the context of this thesis.

The term “West” in historical context, refers to the United States and Europe. “The West” in economic context however, refers to all industrialized societies, including Asia.

## CHAPTER 1

### METHODOLOGY

A qualitative type of research is applied to this study. The collection of qualitative data was used as a central method. Historical, Analytical, Comparative and Qualitative methods were all used to support and facilitate this research by taking the following methodological steps: (a) formulating general research questions stemming from the essential subject tackled by this research, (b) seeking correlated information from several sources and interpreting them comparatively, (c) placing and writing up findings of each piece of information needed for this study based on the analysis made, and finally (d) summing up with a reasoned conclusion.

This analysis was built in accordance to the following theoretical framework: Oil is the only strictly independent variable in the analysis that has a “direct” impact on three dependent variables: western intervention, the political landscape and socioeconomic conditions. Even though oil has impacted other variables such as culture, national spending and the international system to name a few, as previously mentioned, for the sake of brevity and simplicity only these three variables (western intervention, socioeconomic conditions and political landscape) will be considered in this research.

This thesis takes two opposing hypotheses in an attempt to find out which is more accurate in today’s globalized and industrialized world. The first hypothesis looks at oil as bringing harm to the Arab world while the second hypothesis looks at oil as a blessing and a tool of development.

Chapter 2 which is the literature review tackles among other issues “the western intervention” variable chronologically; while the other chapters respectively focus on “the political landscape” and “socioeconomic conditions”, in a comparative approach that stems from the two opposing hypotheses. Another issue discussed is the obsession that the West has been having with Middle Eastern oil, leading somewhat to a negative impact on Arab states; as well as the benefits and blessings that the West provided for the Arab world.

As with most social science models, this thesis represents an attempt in simplifying a very complex set of interactions that are impractical to isolate by magnitude or in time. This is because when it comes to studying international relations, understanding the historical background is crucial in understanding the position each country assumes in the present. Additionally, when it comes to relationships among states, there are so many elements, issues and underlying agendas that occur on a daily basis, which makes it impossible to mention all in one thesis.

## CHAPTER 2

### LITERATURE REVIEW

There are different perspectives and methods in which scholars have narrated the story of the discovery, exploitation and importance of Middle Eastern oil. To some, oil has been considered to be a weapon that has provided funds for both the pursuit of eccentric social experiments by corrupt governments (Qaddafi in Libya), and the financing of international terror. To some others, oil is considered as having to some extent a negative and harmful impact on its producers (mainly the Arab countries), a perspective that this thesis discusses throughout its chapters. To Owen R.<sup>3</sup> this meant an unhappy form of rentierism that has changed the lives of the people in energy-rich countries, which has made them not only victims of unsatisfactory process of economic development, but also subjects to authoritarian regimes.

The arrival of oil to most of its producers in the Middle East meant the beginning of the creation of the modern state. Consequently, the growth of their oil revenues and the development of these states occurred simultaneously forming a symbiotic relationship that makes it difficult to imagine one without the other. As a result, and especially in the case of smaller Gulf States, domestic politics was made up almost exclusively of allocating oil revenues, and the foreign policy was to use these revenues to purchase foreign protection while avoiding severe commitments to these states' "larger" neighbors.

This brings us to another article by Jaffe A. (2007) titled "United States and the Middle East: Policies and Dilemmas" which further goes into the economic foreign policy of US when it

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<sup>3</sup> Owen R (2008), "One Hundred Years of Middle Eastern Oil", Brandeis University: Crown Center for Middle East Studies, retrieved from: <http://www.brandeis.edu/crown/publications/meb/MEB24.pdf>

comes to Middle Eastern oil and what its impact is domestically and globally. She remarks that the gasoline price that American taxpayers purchase does not truly reflect its real cost. Oil is not as “cheap” as it may appear to be to the Average Jo but rather the cost goes way beyond market value when taking into consideration the cost for depending on foreign oil which includes bills related to the foreign expansion of military operations in addition to the security and diplomatic challenges related to this dependence.

According to Berg K. (2015), in “Democracy, Strategic Interests & U.S. Foreign Policy in the Arab World: A Multiple Case Study of Bahrain, Egypt, Jordan & Saudi Arabia” the U.S foreign policy is heavily interdependent on the cooperation between these states based on what is mutually beneficial both economically and politically.

The U.S’s need for oil can be fully met from countries closer to home such as Mexico, South America, African North Sea and Canada; however, the U.S takes into consideration the best interest of the entire global economic system since a shortfall of oil in the Middle East would certainly collapse the global economic system. Jaffe A. states that at the time of her article, the Persian Gulf represented 25-30% of world oil supply and Saudi Arabia was and (still is) the world’s largest oil producer and controlled the majority of excess production capacity of the world. This has made Saudi Arabia able to control and stabilize the price of oil increase/decreasing production as needed during times of instability, market crisis or boom. Therefore it is a priority for the U.S to make sure no internal groups or hostile state gains control over the Persian Gulf region and uses this control to build up power or blackmail the world.

The Persian Gulf today represents 25-30% of world oil supply. Saudi Arabia is the world's largest oil producer and controls the majority of the world's excess production capacity, which it uses to stabilize and control the price of oil by increasing or decreasing production as needed during times of market crisis or instability. The sudden loss of the Saudi oil network would paralyze the global economy. Thus, the United States has a concrete interest in preventing any hostile state or internal groups from gaining control over the Persian Gulf region and using this control to amass power or blackmail the world community. The US has also counted on these countries' surplus as a cushion against disruptions in other parts of the world. This was evident in August 1990, when Iraq attacked Kuwait resulting in a loss of production of 5 million barrels a day that use to be generated from these 2 countries and this loss was easily compensated by production increase from other Gulf countries.

However this economic and strategic reality is costing the U.S greatly in terms of operations, national security and diplomatic freedom. Having to pay \$20 billion a year on military expenditure that protects the flow of oil, every U.S taxpayer is actually spending a hidden \$4 to \$5 extra per barrel for oil beyond its market price<sup>4</sup>.

Western States such as the U.S have been dependent on Middle Eastern oil since the day they discovered its existence in Arab lands. This has marked the beginning of one of the negative effects that oil has brought upon the Arab world: Western Intervention.

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<sup>4</sup> Jaffe A. (2012), "United States and the Middle East: Policies and Dilemmas", retrieved from: <http://bipartisanpolicy.org/wp-content/uploads/sites/default/files/United%20States%20and%20the%20Middle%20East-%20Policies%20and%20Dilemmas.pdf>



## **2.1 Western Intervention and Oil Exploration**

This section of the literature review looks into the first dependent variable mentioned in chapter 1 “Western interference” due to interest in oil as laying the foundation for the many consequences that the Arabs face to this day. This will be done by giving a chronological timeline of Western interferences.

### **2.1.1 The Beginning: World War I**

The importance of oil was first recognized during the early stages of WWI after Winston Churchill, lord of the Admiralty and therefore in charge of the British Navy, decided to change his war ships to run on oil instead of coal because he believed that oil was a much superior source of fuel. The use for oil was not limited to just fuel in naval ships especially because the automobile was introduced as a new mode of transportation in war, making the diesel and gasoline extracted from oil a necessity. The internal combustion engine running on oil changed every dimension of mobility during warfare and redefined attacks on sea, land and air (Yergin, 1992).

This made access to oil a crucial element in the final outcome and therefore impacted the whole world’s dependency on oil. This in turn reshaped the geopolitical and economic interests toward the Arab region. When Turkey joined the Axis, British oil supply through the Anglo-Persian Petroleum Company was threatened as well as their new interest in Mesopotamia (Today’s Iraq). The British had become concerned at securing the oil fields and fighting off German sabotage in Persia, while having the potential of Mesopotamian oil for military and political planning in mind (Yergin, 1992).

Britain, Russia and France were willing to do whatever it takes to make sure they ultimately succeed, since their survival was at stake and for them to insure survival meant maintaining control over Middle Eastern oil supply. This is where the undisclosed Sykes-Picot agreement between Britain and France in 1916 of dividing and ruling the Arab region was implemented after the war. This agreement contradicted these powers' promise to the Arabs that their cooperation against the Ottoman Empire would give them their freedom and sovereignty. The Arabs did meet their end of the agreement under the leadership of Emir Faisal, a son of Sharif Hussein of Mecca, and British liaison T.E. Lawrence, which is known today as the "Arab Revolt". However in yet another agreement known as the Balfour Declaration of 1917, the British promised a newly emerging Zionist movement (mostly made up of alienated European Jews with a need for a bi-national state for Jewish and Arabs) a homeland in Arab's Palestine because Britain needed their political help in the war. At the end of the war, the Arabs did not get their sovereignty, and had their Palestine occupied by the Jews. With the drastic change in the world after the War, the West was keen on recognizing just how much of a strategic asset oil is.

### **2.1.2 Inter-wars Period: 1920 - 1939**

After WWI, the victorious Western powers saw the need for the creation of the League of Nations. Under the authority of this League, it was determined and advised that nations incapable of self-sustained sovereignty would be under the guidance of more "advanced nations" until they were well equipped for independence- what has come to be known as the Mandate system. The north Arab region (Levant) was divided among the French and British, where Syria and Lebanon fell under the French mandate while Palestine, Jordan and Iraq fell under that of the British. This mandate system was seen by many Arabs as having a strong resemblance to colonialism, denoting that in principle the Ottoman rule

had been abolished only to be replaced by French and British rule in addition to the European Jewish immigration which was once a trickle that has now turned earnest.

After the discovery of vast amounts of oil in Baba Gurgur Number I near Kirkuk in Iraqi Kurdistan on October 15, 1927, the French and British saw an opportunity in further exploration of oil on the lands under their “tutelage”. This motivated the West for the creation of the Red Line Agreement that took hegemony over the large quantities of oil. U.S companies at this time became fearful of being left out and so they began exploring the southern two-thirds of the Arabian Peninsula, which were the parts of the Arab region that were not under the British or French mandate. The U.S was able to succeed in Arabia because it had its weapons and technology to offer in return. It was until 1932 that the U.S had significant oil strike in the island of Bahrain (through Standard Oil of California –Socal) confirming suspicion on the remarkable prospective reserves on this region of the Persian/Arabian Gulf. Accordingly, U.S President Franklin Roosevelt helped a tribal chief named Ibn Saud launch his preeminence over most of Arabia and as a result creating the Kingdom of Saudi Arabia. This has been the foundation and facilitation of the strong ties that have existed between Saudi Arabia and the U.S.

In this inter-wars period, the emerging Arab states had very few experience regarding their self-ruling; U.S, French and British oil exploration kept on going until WWII broke out, and oil was internationally recognized as being a strategic necessary commodity that can be used for military and other purposes.

### **2.1.3 World War II**

Even though Hitler was blinded by his racially motivated ideology, he couldn't help his need for energy, starting with the capture of Baku and other Caucasian oil fields until his

invasion of the Soviet Union, aiming at the Russian-controlled energy, since energy was the vibrant commodity of the industrial age back then, which eventually led to his downfall (Yergin, 1992).

#### 2.1.4 The Cold War

After the end of WWII, two superpowers emerged from the opposite sides of the globe, forming a general separation between capitalism of the west, and communism of the east, which along many conflicts and proxy wars, was known by the Cold War. The two superpowers have consumed tremendous amounts of oil in fighting during WWII, and both were in desperate need for further developing their foreign sources of oil in order to maintain their strength, especially when they were forecasting the possibility of another protracted war which could last three to four years. Even though the U.S at the time was flooded by its own vast amount of oil there was a fear of a shortage because the experience of WWII left U.S military professionals extremely cynical about America's ability to "oil" another extended war.

*The assumptions were that a war with the Soviet Union could last three to four years and that the United States did not have enough oil reserves to fight a war lasting more than a year or two. This concern led to the need for "conservation," which meant that for the future the United States would have to develop foreign sources of oil in order to conserve its domestic fields. (Kemp & Harkavy, 1997)*

The United States realized the vital importance of the Middle Eastern oil, therefore its foreign policy, international economic considerations, national security, corporate interests and American military planners stressed out the necessity of the Middle Eastern oil fields for the

successful conduct of such a war. The United States feared that the Soviets might expand into the oil rich Middle East, due to their relatively close proximity to the region and their potential influence on Iran. In the aftermath of the energy crisis of 1946-1947, the United States, leading the Western alliance, took various measures and decisions for preventing and facing any trouble from the Eastern bloc, of which were replacing Britain as the protector of Turkey and Greece [the Truman Doctrine], and introducing the European Recovery Program known as “the Marshall Plan” which enhanced Europe’s shifting from coal to oil. Even though plenty of oil was now available, this increased the dependence on the Middle East and therefore led to the Middle Eastern oil boom.

This era was simultaneous with many clashes that resulted in the formation of Western fear of the Soviets. This was because the Soviets were impending to control the oil resources of the Persian Gulf and this led to many losses which include: the withdrawal of the Americans from Vietnam under the pressure of the communist forces led by the North Vietnamese in 1975, the revolution in Iran and the famous hostage crisis of 1979 (the followers of the Imam's Line took 52 American diplomats after having occupied the American embassy in Tehran and held them hostage for 444 days), and the Soviet invasion of Afghanistan in 1980 (on order from Moscow to replace Hafizullah Amin with the Soviet-endorsed Babrak Karmal as head of the Democratic Republic of Afghanistan, which lasted about 9 years). And if it wasn't for the United States' assistance in the protection of the shipping of Kuwait in the context of the Iraq-Iran war of the mid 1980s, Kuwait would have sought the help of the Russians which would have expanded Russia's influence in the Gulf. The presence of the United States in Kuwait was established a few years later during the invasion of Kuwait by Saddam Hussein, which successfully re-established a Western presence in the Persian/Arabian Gulf.

## 2.2 Western Intervention

European hegemony between 1920 and 1945 over the Arabs started by the Western Colonialism, with the formation of the new Arab states as a creation of the Western colonial powers. After these Arab states became independent, the West kept their control over these states by influencing over rulers in Iraq, Egypt, Syria and Jordan; and somehow controlling the region by using political and economic tools when necessary. Despite the economic growth in many Arab countries, economic instability and political corruption in the Arab world (which will be discussed in the following chapter) was ongoing most of the time.

As mentioned above, the British government saw the potential of a state of European Jews in Palestine and promised support for the establishment of a national homeland for the Jewish in Palestine in the “Balfour Declaration” in 1917. But it wasn’t until 1948 that the state of Israel was officially established and recognized in the United Nations. This creation of the State of Israel in the heart of the Arab world sparked the deterioration in the relationship between the Americans and the Arabs, due to the United States’ recognition and support of Israel in the United Nations. This dwindled the United States’ reputation within the Arab states. However, the U.S.’s need for Middle Eastern oil and The Arabs’ need for U.S arms and technology broke the ideology of “the friend of an enemy is an enemy”.

The US involvement with regard to oil in the Middle East dates back to 1928 with the discovery of a large oil field in Baba Gurur Iraq, which lead to the signing of the Red Line Agreement. This marked the beginning of the US involvement in the oil market in Iraq and opened the door for further involvement in the rest of the Middle East (According to the Office of the Historian: Milestones of 1921-1936).

One of the most significant moments in the American economic involvement in the Middle East came in 1941 with Ibn Saud. Standard Oil of California became the Arabian-American Oil Company after it merged with Texaco and Socony, and the interests of the United States were intertwined with the interests of the Saudi Arabian Monarchy, for the United States needed the oil in order to maintain its power in the world and compete with the Soviet Union during the Cold War, while Saudi Arabia was in desperate need of the technology and expertise of the Americans. The Arabian-American Oil Company “ARAMCO” offered the Saudi Arabians 50% of profits from oil (according to “The Saudi Network”, Saudi Arabia’s trade and business directory), which kept both parties satisfied and was the corner stone of a continuing alliance between the US and Saudi Arabia.

Some scholars believe that Saudis have had mutual interests with Americans over the years by overproducing oil and maintaining a low international price for oil even though this was not beneficial for other Arab oil producers which have suffered in sustaining their economies. An example would be Iraq. Iraq depends on oil for 95% of its budget, which makes it very vulnerable to low oil prices. Low oil prices have made it challenging for Iraq to fight against the Islamic State because they are not generating enough revenues to pay its security forces, buy sufficient military equipment, and rebuild cities that have been damaged by IS fighters (Bezhan, 2016)<sup>5</sup>. This strategy of over production of Saudi oil played a large part in compelling Iraq to invade Kuwait and threaten Saudi Arabia in 1990.

On the other hand, the United States faced an exhausting period of economic instability caused by a series of energy crises between 1967 and 1979, oil’s price manipulation from the

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<sup>5</sup> Bezhan F. (2016), “Crude Reckoning: The Far-Reaching, Unexpected Effects of Falling Oil Prices”, RFE/RL, retrieved from: <http://www.rferl.org/content/falling-oil-prices-impact-russia-saudi-arabia-iran-iraq-islamic-state/27497423.html>

Organization of Arab Petroleum Exporting Countries and the Iranian revolution. One of the foremost foreign policy interests of the US thereafter, was to maintain unimpeded commercial access to critical natural resources like oil and natural gas, stressing the importance of foreign markets and maintaining strong ties with Saudi Arabia (Newsteam Staff, 2016).

According to the OPEC website, the Arabs provide a quarter of world oil supplies, moreover, Arab countries hold around seventy percent of the world's oil reserves (see graph below) and produce thirty five percent of the world's traded gas. The US, being the largest oil importer and the fourth largest gas importer (according to the CIA world fact book<sup>6</sup>), is now predestined to become more dependent on them for its energy supplies not less, and for this reason, the US will have to continue to define the region as vitally important.

OPEC proven crude oil reserves, at end of 2014 (billion barrels, OPEC share)

Venezuela	299.95	24.9%	Iraq	143.07	11.9%	Libya	48.36	4.0%	Algeria	12.20	1.0%
Saudi Arabia	266.58	22.1%	Kuwait	101.50	8.4%	Nigeria	37.07	3.1%	Angola	8.42	0.7%
IR Iran	157.53	13.1%	UAE	97.80	8.1%	Qatar	25.24	2.1%	Ecuador	8.27	0.7%

Source: OPEC Annual Statistical Bulletin 2015.

<sup>6</sup> <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2252rank.html>



## **CHAPTER 3**

### **OIL'S NEGATIVE ASPECT ON THE ARAB WORLD**

It wasn't very long ago that the Arab world existed in a small world confined by Islam and by the desert. They were poor, simple, isolated, and remote areas that had nothing to offer to industrialized countries and had little influence from the modern west. Over a millennium, their lifestyle scarcely changed. But the riches from oil quickly thrust them into the center of global economy, overwhelming them with Western culture and giving them great political and economic power. This chapter tackles the negative impact that, according to the scholars mentioned in the following sections of this chapter, oil has had on the political and socioeconomic landscapes of the Arab states.

#### **3.1 The Political Instability Landscape**

It has been argued for Arab oil rich countries that their richness in resources makes them less likely to become democratic than the western hegemons. These hegemons in this case ought to be the resource seekers and consumers in the West. Therefore, the purpose of this section is to discuss the negative effects that the revenues, which oil is accruing to states, are having on the political make-up of the Arab societies; in accordance to different arguments given by several scholars.

##### **3.1.1 Corruption**

Even though it is hard to agree on a unified definition for corruption, there is consensus that it refers to acts committed by powers of public office used for personal gain in a manner that breaches their responsibilities and duties. In other words, it is the activity that

public officials, legislators, politicians and bureaucrats use their delegated power in a manner that furthers their own interests at the expense of the public (Jain, 2001)<sup>7</sup>.

“Cleaning corruption is like cleaning stairs, you must start at the top and work your way down” (Lee Kuan Yew), in accordance to that, corruption at all levels is rampant and it emanates from the top, the government.

There are three major types of corruption in the Arab world. The first is petty corruption, which is referring to every day’s abuse of power by middle or low level public officials in their day to day interaction with citizens, whether in police departments, schools, hospitals or other agencies. Such type of corruption is not concentrated in the Arab world in particular; it is almost existent everywhere in the world. Such kind of behavior would include police men accepting bribery for turning a blind eye.

The second type of corruption in the Arab world is massive economic or financial corruption, which, in addition to the local damage it causes, also plagues the economies of many interactive countries in the process, especially those in the Gulf region. This is more harmful than petty corruption because it can lead to harm towards other citizens.<sup>8</sup>

The third, and most important type of corruption in the Arab world in this section of this chapter, is political corruption, which is hard to pinpoint, but directly affects the economy of

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<sup>7</sup> Jain A. (2001), “Corruption: A Review”, Blackwell Publishers, Journal of Economic Surveys 15(1)

<sup>8</sup> <http://carnegieendowment.org/sada/?fa=21410>

most countries in the Arab world. Political corruption includes, but is not limited to, the misuse of economic deals to pay political allies, which consistently leads to a large deviation of public resources to ineffective domestic activities.

Political corruption in oil producing Arab countries is mostly linked in one way or another to the state's interference and to the lack of accountability and transparency in the procedures that guarantee competition in the government. According to World Audit, some of the most corrupted countries include Iraq, Libya, Yemen and Iran<sup>9</sup>.

Many economists, such as Jens Weidmann, who is a German economist, and his associate scholar Carlos Leite, see corruption as a major hindrance to development. Weidmann and Leite did a study in 1999 on the connection between rentier economies and the degree of corruption<sup>10</sup>. The study resulted in two conclusions: (1) The presence of wealthy natural resources is a key determining factor of corruption and (2) in resource rich economies, corruption decreases the growth. These results enhanced the idea of finding a high level of corruption in Arab oil-producing states' societies and the presence of slow economic growth.

It has also been stated that corruption causes low income, and plays a critical role in producing poverty traps. Scholars with this view, such as Alan Richards, an economics professor, see corruption as "sands" in the wheels of development making political and economic transitions difficult. According to Richards, corruption goes along with the lack of accountability and transparency. As long as the government is neither responsive nor

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<sup>9</sup> <http://www.worldaudit.org/corruption.htm>

<sup>10</sup> <https://www.imf.org/external/pubs/ft/wp/1999/wp9985.pdf>

accountable to its citizens corruption is expected. Oil returns and wealth enable authoritarian regimes to maintain their power, with corruption being a “natural” extension<sup>11</sup>.

On the other hand, there exists an opposing view that argues that corruption actually “greases” the wheels of development and is a tool used for growth. The idea behind this is that corruption enables beneficial trades that would unlikely have taken place. This “grease” promotes efficiency through allowing civilians in the private sector to circumvent or correct pre-existent government failures of several sorts (Aidt, 2009). The example that Aidt uses was one that occurred in the 1960s. Back then, the governments of Brazil and Chile were in charge of enforcing price controls over food products. When an honest agency enforced the price controls, food production stagnated, while in Brazil, when a corrupt agency sabotaged the price control, production increased and consumers were happy.

Other than causing many aspects of corruption in the Arab political landscape, oil has had other negative impacts such as lessening the likelihood of Arab states becoming democratic. There ought to be a positive correlation between oil and authoritative regimes of the Arab world, which will be further elaborated using several mechanisms in the following section.

### 3.1.2 Authoritarian Regimes and the Lack of Democracy

There are many studies concerning the lack of democracy in the Arab world. Some believe that the socioeconomic prerequisites of democracy do not exist, which, economically speaking and as will be explained in the following “section 3.2” could be true. Others emphasize the difficulties shaped by a political culture developed in the Middle Eastern

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<sup>11</sup> Richards A. (1995), “Economic Pressures for Accountable Governance in the Middle East and North Africa”, *Civil Society in the Middle East*, volume 1

climate. Consequently the norms and values required to generate a democratic political structure do not exist.

According to Giacomo Luciani, who is a leading Italian professional on the geopolitics of energy: economic life directly affects the formation of states. This can be crucially applied to the states formation of the Arab world, regarding the impact that oil has on the formation of oil producing Arab countries. The impact includes a high centralized authoritarian regime.

It is a simple economic reality that in the recent years, most Arab countries are being extremely dependent on oil associated returns to fund their governments. And according to Michael L. Ross, who is a professor of political science at University of California Los Angeles and has extensively published on the problems of resource-rich countries, energy politics and democracy: states that collect their government returns largely from oil related rentals tend to be less democratic. In the process of reaching this conclusion, he pointed out three salient mechanisms that help in clarifying and strengthening the correlation between oil producing states and authoritarian rule which are: “the rentier effect”, “the repression effect” and “the modernization effect”.

### ***3.1.2.1 The Rentier Effect***

“Rentierism” will be defined and described at the outset of this section, but its relevance will be prevalent in the following chapters of this analysis. Hazem Al Beblawi, who is an Egyptian politician and economist, refers by “rentier economies” to the states that originate most of their profits by external rents, where the governments of those states are the

principle recipients of this rent, and where economic returns do not result from hard work or risk but are rather subject to chance, since these economic returns stem mostly from natural resources that happened to exist in their territorial landscape. Furthermore, countries where the selling and export of fossil fuels represent the majority of Gross Domestic Product (GDP) will be referred to as being “rentier states”. Four examples of rentier states are Saudi Arabia, United Arab Emirates (UAE), Kuwait and Libya. There are several forms of rent that exist in the Arab world, from which are “foreign aid” and “transit fees” (ex. Suez Canal or pipelines passing overland).

According to Ross, the rentier effect is the use of oil profits as payoffs and other means to minimize public pressures that might lead to demands for democracy and its application. This effect will be further explained by the following three components: taxation, payoffs and group formation.

#### **3.1.2.1.1 Taxation**

Oil producing countries’ governments usually originate satisfactory revenues from the sale of oil, that they are less likely to highly tax their populations or not to tax them at all. Despite the fact that some of these governments are recently changing their laws and starting to tax their citizens as means of economic diversification (which will be later discussed in “Chapter 6: Recommendations”); in accordance to that argument and to Ross, in the absence of taxation the society will be less demanding towards accountability in their governments. Beblawi adds: “*With nearly no taxes, citizens are far less demanding in terms of political participation. The history of democracy owes its beginnings to some financial association (no taxation without representation)*”. (Beblawi 1990, 89).

This will be summed up by reversing the final part of Belbawi's quote, which will lead to "No representation without taxation". Thus, what is conclusively flagrant in the rentier Arab countries is that oil-related returns have mitigated the necessity to tax their people, which on the other hand is somehow good for their citizens (this idea will be discussed further in the succeeding chapter). However, upon further scrutiny, when there are no requirements for the public to supply governmental expenditures with taxes, there is respectively no obligation for the government to fulfill its citizens' political needs<sup>12</sup>. Furthermore, governments have the liberty to redistribute and allocate the state's revenues and wealth however they please without needing the consent of their citizens because the reality is, the citizens have not contributed towards that wealth and income, and therefore they do not have the legitimate power or right to demand for any rights associated with this wealth (especially accountability). It is critical to the point that even during the core of oil recessions, regimes found it unbearable to request from their citizens to pay taxes for the purpose of funding their governments, which is a further indication that marks how insecure these regimes are when it comes to their legitimacy in the eyes of their own citizens.

#### **3.1.2.1.2 Payoffs and Other Corrupt Practices**

By Payoffs, the principal referee here is the "bribery" of local power brokers to protect the regime from rebellions and opposition. Ross emphasizes in this manner that "*oil wealth leads to greater spending on patronage, which in turn diminishes dormant pressure for democratization*" (Ross 2000, 9). This idea of "paying off" their people by tribe chiefs or today's kings and princes to gain and sustain their reign and control over them has always been existent. Instead of using primitive economies, today they opt for every basic subsidy

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<sup>12</sup> Moore M. (2007), "No Representation without Taxation", D+C 34 (2), retrieved from: <http://www2.ids.ac.uk/futurestate/pdfs/D&Carteng.pdf>

until reaching multibillion dollar contracts. Belbawi clearly perceives these cultural “payoffs” as being historical by stating that “...*the rentier nature of the new state is expanded from the tribal origins of these countries. A long tribal tradition of buying loyalty is established by distributing favors and benefits to its people*”. (Beblawi 1990, 89). These “money grants” can be further used for a bigger and foreign influential purpose; one that involves bigger states opening their wallets and “buying support” from other Arab regimes. The following example by Abbas Alnasrawi, a former Professor of Economics at the University of Vermont, would elucidate this argument: “...*the Saudis used their oil income to offer loans and grants to certain Arab regimes for the purpose of influencing their policies in a direction that would go along with Saudi interests and the United States’ foreign policy in the Arab region*”. (Alnasrawi 1991, 111).

Thus, the “Payoffs” are not limited to local actors, but are widely spread throughout many events such as aids donated by Western administrations to some states who will directly or indirectly serve their interests. The main difference between these western aids and that of the Arab rentier states is that, oil rents are given to serve the narrow interests of the ruling elites on a local scale, while Western aid is basically given to secure a wider interest, which is that of an entire country and its foreign policy.

#### **3.1.2.1.3 Group Formation**

In addition to what was mentioned in the two previous subsections that tackled how oil rentier Arab states used “taxation” and “payoffs” to minimize public pressure, oil wealth has also been used to avoid the foundation of social groups. These group formations usually lead to demands for political rights, and for democracy and its application. Such social groups



are independent of the government or the state, and they are known as the “civil society”. Civil society is basically the gathering of non-governmental organizations (NGOs) and other institutions that represent and defend the interests and rights of certain citizens. For example in Saudi Arabia and Libya there is an uneven development of civil society<sup>13</sup>.

In countries that lack the application of democracy, which is the case of most Arab rentiers, it is certainly necessary to have civil society. Civil society is not only central to democracy; it also plays the role of a “democracy substitute”. According to Hawthorne<sup>14</sup>: “*In the Philippines, Eastern European countries, South Africa, Serbia, and most recently Georgia, for example, citizens have used civil society organizations to carve out independent political space, to learn about democracy, to articulate a democratic alternative to the status quo, to spread this idea within society, and to mobilize millions of their fellow citizens against repressive regimes*”. The more effective civil society is in one of these democracy lacking countries, the more it will speed up the transition to democracy. Moreover, Augustus Richard Norton, who is an international relations professor at Boston University, emphasized in his book “Civil Society in the Middle East” that: “*The development of civil society is an essential step towards having a freer and democratic Middle East. A participant political system could not survive very long in the absence of a vibrant civil society.*” (Norton 1995, 8).

With all that being said, the purpose of this subsection is to elucidate how oil revenues in the Arab oil rentier countries of the Middle East is being used by their governments to prevent the formation of social groups. According to Hilal Khashan who is a political science

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<sup>13</sup> Rishmawi M & Morris T (2007), “Overview of Civil Society in the Arab World”, INTRAC 20, retrieved from: <http://www.intrac.org/data/files/resources/421/Praxis-Paper-20-Overview-of-Civil-Society-in-the-Arab-World.pdf>

<sup>14</sup> Hawthorne A. (2004), “Middle Eastern Democracy: Is Civil Society the Answer?”, Carnegie Endowment, Middle East Series NB. 44, retrieved from: <http://carnegieendowment.org/files/CarnegiePaper44.pdf>

professor, there are three main aspects that have hindered the formation of civil society in most of the Arab milieu: authoritarian regimes, weak anonymous identifications, and underdevelopment.

*First, most Arab rulers suppress professional associations and other types of demand groups, or simply manipulate them; the few others ban all forms of special-interest groups. Second, weak anonymous identifications make the concept of a community nebulous to many Arabs. For the most part, Arab societal identifications have not transcended the family sphere, localism, or regionalism. Interest-driven and duty-bound associations that cut across society are little known in the Arab world. Third, the small Arab economies and their lack of versatility do not promote the proliferation of viable interest groups (Khashan 2000, 146).*

In relevance to this part of this thesis, which is focused on how authoritarian Arab governments have suppressed group formation; this research focuses on the first aspect stated by Khashan above by emphasizing on a proclamation made by Kiren Aziz Chaudhry. Chaudhry is a professor at the University of California, Berkeley who has written many articles and book chapters about the political economy of the Middle East and oil exporters. She asserted that in the 1970's, Middle Eastern governments, using their oil returns, developed programs that were "...explicitly designed to depoliticize the population...In all cases, governments deliberately destroyed independent civil institutions while generating others that were designed to facilitate the political aims of the state" (Chaudhry 1994, 19).

In addition to that, there is the problem of government controlled NGOs. Many NGOs are not actually performing as NGOs; they are what scholars are now referring to as "GONGOs", which is the abbreviation of government organized non-governmental organizations. They are financed, supported, and otherwise controlled by governments. The

strategy of the government here would be to control and manage these NGOs as they please, instead of allowing them to inspire any change. Such an example would be Saudi Arabia's International Islamic Relief Organization.

In sum, the Arab rentier oil countries' governments have made every attempt to incapacitate social group formation or the establishment of a free "uncontrolled civil society" by employing their oil wealth. In addition to that, such governments also sponsored repression, which is going to be the topic of the following section.

### *3.1.2.2 The Repression Effect*

The disappointments toward Arab leaders by their citizens, measured by the results of social and economic progress, in addition to their political weakness and military powerlessness vis-à-vis Israel and the West all along, "required" the Arab leaders' regimes to use coercive means in order to sustain a calm society, made out of highly displeased masses. Eventually, the ruling elites started to fear the internal resentment and dissent from their own people more than any time before. Numerous ideologies have strived over the decades to "liberate" Arab societies from their authoritarian repressive regimes, but the most recent and successful manifestation of this internal gloominess has arisen under the guise of "The Arab Spring".

There are countless causes and reasons for the blossoming of the events and rebellions that lead to the Arab Spring, but for the sake of brevity and the hypothesis of this thesis some of them will be briefly mentioned, which are the most relevant for this section of this chapter. According to the United Nations Development Program (UNDP), the population in the Arab

states more than doubled between mid-1970s and 2005. Most of the average age in the Arab countries refers to a youth generation, to the extent that in Egypt, two thirds of its population is under the age of thirty. This population of youth, struggling to survive in a country ruled by ageing Arab dictatorships, lacking social and economic progress and filled with unemployment and corruption; rebelled in the form of young activist groups and leaderless revolts. After a long history of struggle for political change and the success of the first revolution in Tunis that has led to the downfall of the Tunisian dictator in January 2011, a “contagion effect” was a big causal factor in the protests that followed in almost every Arab country within a month of the successful demise of the Tunisian dictator. After that, and after the resignation of Hosni Mubarak in Egypt in February 2011, the mass protests of Egypt were publicized on Facebook, which in only few days attracted thousands and thousands of people via social media, which is unrestricted and uncontrolled by the police. The events in Tunisia triggered also other Arabs into protesting against their own government such as Libya. Protests began in Libya on February 15, 2011 after the arrest of a human rights attorney who represented the relatives of thousands of prisoners allegedly massacred by the Abu Salim jail security in Tripoli. A series of peaceful demonstrations soon turned into confrontations against military force. Eventually the protests spread across Libya and anti-Gaddafi forces established the “National Transitional Council” with the goal of overthrowing the Gaddafi regime in Tripoli. These demonstrations ultimately lead to the capture and killing of Gaddafi. Let’s just say that the ruling elites’ incompetence and eagerness towards selfishness and greed facilitated laying the seeds that germinated into rebellions and protests, which have led to their own demise.

Despite the fact that many Arab leaders have historically armed their military extensively for the purpose of fighting Israel or whatever foreign enemy, one of their primary reasons for this

army was their protection against their own people. As such, in most of the Arab revolutions of the Arab Spring, the regime did not fall without prior resistance against its population using the military; and this is still an ongoing case in Syria today. The “repression effect” has at least two dimensions. First, in compliance with the problem of “group formation” discussed in the previous subsection since NGOs are prevented from being involved in big interventions, and here Khashan adds: *“Instead of developing the political structure in a way that forms rapport with the population, the ruling elites developed the military to safeguard their regimes”* (Khashan 2000, 84). Second, the broadcasted perception that any form of insurgency or civil rebellion will very likely be encountered with deadly military force, acts as a preventative restriction to those who opt for democracy. Democracy however, can also be derived from cultural changes as will be explained in the following section.

### ***3.1.2.3 The Modernization Effect***

The modernization effect stems from the perception that the collection of sociocultural changes leads to democracy. Social and cultural changes include, but are not limited to, career specialization, urbanization and upper educational levels. Economic development in turn, is a principal cause to all these changes, since these social changes result largely from economic development and not wealth for instance. Taking these changes into consideration, that will eventually lead to the expansion of capitalism in a society; and sooner or later, citizens will pursue means to improve themselves and start to initiate social groups, based on common interests. However, in the case of the rentier economies of the Arab countries that are based on oil, citizens lack economic development; so the spurs for them to “improve themselves” or to cause an economic change are substantially missing.

Ross came up with the following hypothesis: *“Abnormally low levels of occupational specialization, education, health services, media participation, and urbanization can help explain the death of democracy in the resource rich states.”* He used “education”, “occupational specialization”, “media participation”, “urbanization” and “life expectancy at birth” as variables, and the results were as follows: In resource rich countries like the Arab rentier oil based economies, the modernization and spending effects tend to occur at the same time, and quite few people are drained into the service and industry sectors; but their government can however subsidize health care, education and other services due to its large revenues. Ross also concluded that “occupational specialization” is the only effective causal variable behind “the modernization effect”. He finally summed up his conclusion by stating: *“The result is that the society is politically constrained by two anti-democratic factors: a lack of occupational specialization, and a very generous government”* (Ross, 2000, 28). The modernization effect is therefore the final indicative mechanism that further confirms how poorly Arab rentier economies, ruled by authoritarian elites, are performing on a political and social scale, both facilitated by oil wealth.

As seen so far, oil-related returns strengthen the authoritarian structure of Arab rentiers’ governments. These authoritarian regimes have used all means necessary to suppress all social factors that would challenge them. The ruling elites of these Arab regimes not only do all that they have to do to remain in power, but they also weaken their societies in a way that they won’t be able to advance towards a type of democracy suitable to their culture and beliefs. And as witnessed from what brought along the Arab Spring, even if the dictators fell off, democratic rule would remain a dilemmatic challenge.

### 3.1.3 Financing Terrorist Groups

According to United States Secretary of State claims in 2009 U.S State Department stated that Saudi Arabian donors make up the biggest significant source of funds to Sunni terrorist groups globally. These funding arise through the zakat which is an Islamic practice of charity giving paid directly from the Saudis and amounting to 2.5% of their income at least. Though several of these charities are genuine, others allegedly serve as fronts for terrorist financed operations and money laundering. Although many of these Saudi contributions are donated in good faith and in genuine belief that the money is going towards noble causes, others allegedly know fully well the supposed terrorist agendas to which their contributions will be applied.

Allegations on Qatari support of terrorist groups also rose after several U.S newspapers (such as the New York Times and Washington Times) reported that Qatar was supplying terrorist groups such as Al-Nusra Front, Islamic State in Iraq and Syria (ISIS) and terrorist group leader Abdelhakim Belhadj with weapons and funds. Qatari officials in private and in public meetings deny any support of terrorist groups, and the Qatari government generally continues to pursue a foreign policy centered on openness to engagement with all actors (including armed and violent terrorist groups) and strategic ambiguity. The U.S government (aside from national newspapers) has not publicly nor officially accuse Qatar of providing financial or weapon support to terrorist organizations, but recent U.S government statements claim that there exists individuals based in Qatar and Qatari citizens that do provide such support. The U.S government has identified areas where they believe that controls on financial activities of Qatar could be improved so as to better combat terrorist financing. According to a State Department counterterrorism report in 2013:

*Qatar's monitoring of private individuals' and charitable associations' contributions to foreign entities remained inconsistent. Qatari-based terrorist fundraisers, whether acting as individuals or as representatives of other groups, were a significant terrorist financing risk and may have supported terrorist groups in countries such as Syria. ...The Government of Qatar routinely engages with international interlocutors on terrorist financing and has taken some steps to improve oversight of foreign charities that receive contributions from Qatari institutions and to work with the banking sector to identify suspicious transactions. ...Despite a strong legal framework, judicial enforcement and effective implementation of Qatar's anti-money laundering/counterterrorist the financing of terrorism (AML/CFT) law are lacking. Qatar's lack of outreach and enforcement activities to ensure terrorist financing related transactions are not occurring<sup>15</sup>*

Moreover, terrorist groups like ISIS need substantial amounts of money to finance their operations that it is not enough to just be financed from individuals. According to General James Clapper, director of U.S national intelligence, the intelligence community estimates that ISIS recruited 31,000 fighters in 2014. Others estimate that ISIS has even more adding up to 80,000 members. ISIS pays these members a salary and also has to pay for weapons, vehicles (spare parts and fuel), and ammunition. This terrorist group also pays for security personnel, schools, some health care and weapons in the areas it controls, and these expenses add up. Although these figures have not been confirmed by public records, it has been reported that ISIS members are paid a salary between \$100 and \$1000 a month. If ISIS has a

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<sup>15</sup> Blanchard C. (2014), "Qatar: Background and U.S Relations", Congressional Research Service report for members of committee and congress, retrieved from:<https://www.fas.org/sgp/crs/mideast/RL31718.pdf>



membership of 80,000 fighters with an average of \$400 a month in salaries, this will sum up to \$384 million on annual wages alone. The U.S government and analysts have circulated a number of estimates concerning where this groups generates its revenues and found that oil and refined oil products are the single most important source of its income. ISIS revenues from selling its oil and refined oil products amounted to \$40 million per month in 2015, which totals to \$480 million per year. ISIS has captured the main oil fields in Syria and holds on minimal oil fields in Iraq. In the past ten years, total Syrian production of oil ran between 400,000 and 500,000 barrels per day and ISIS has been able to take control of producing 300,000 barrels per day. However due to the lack of technical knowhow and the overall chaos in Syria, ISIS members have not been able to maintain production at previous levels<sup>16</sup>.

### **3.2 Socioeconomic and Cultural Drawbacks**

The first step in answering the first hypothesis, which looks at oil as bringing harm to the Arab states in “Section 3.1: The Political Instability Landscape”, was by stating how oil negatively impacted the political landscape of the Arab countries. Moreover, this section examines the influence that oil has negatively had on socioeconomic and cultural conditions in the Arab world. Since economics goes simultaneously with social norms, and since oil affected both at the same time; these terms will be combined by referring to them as “socioeconomic conditions”. According to some scholars, oil has been one major causal factor in hindering these societies from making social and economic progress; and that will be further explained as also contributing to a “traditional” Arab society.

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<sup>16</sup> Crane K. (2015), “The Role of Oil in ISIL Finances”, RAND Corporation, retrieved from: [http://www.rand.org/content/dam/rand/pubs/testimonies/CT400/CT448/RAND\\_CT448.pdf](http://www.rand.org/content/dam/rand/pubs/testimonies/CT400/CT448/RAND_CT448.pdf)

“Progress”, or as referred to it by the United Nations Development Program (UNDP) as “human development”, is measured by factors such as health, poverty and education. But the heart of defining progress and its application in the society goes hand in hand with “*human choices and capability: the ability to seek health care, occupational opportunities, political choice or tutoring as one desires*” (Doraid, 2000, 32). By political choice in this definition, the will and rights of citizens is emphasized, to take part in political activities and, for political representation. Based on these criteria, the Arab states have made very little “progress”, since their formation as sovereign states.

### **3.2.1 Social Cultural Factors**

Before proceeding with this section, which mostly revolves around the investment, wealth and economic management challenges among Arab societies, the first part of this section will address few important cultural and social consequences that were caused by their economic and governmental policies, which have in return affected these societies. Among these issues the subordination of women and the problem of religious extremism will be mostly focused on.

#### ***3.2.1.1 The Subordination of Women***

Interpretations here are narrowed into two specific ideas. First, the “freedom” of women is a stepping stone in economic progress and two, “women equality” positively affects the psychological well-being of males in a certain society (which in return is also affected by economic progress). Øystein Gullvåg Holter, who is a Norwegian sociologist and proficient on men's studies, made a broad investigation of many database of statistics

collected from several equality indexes, and concluded that a high degree of gender equality has positive benefits not only on women; but also on men.

A report called “Women, Work and the Economy” published by the International Monetary Fund (IMF) in 2013, emphasizes how inequality between men and women in the work force harms economic growth. The report concludes that promoting gender equality in the labor market has increased the Growth Domestic Production (GDP) in the U.S by 5.0 %, in the United Arab Emirates (UAE) by 12 %, and finally in Egypt by 34 %. By the same token, another report known as “Investing in Women’s Employment” also published in 2013 by the International Finance Corporation (IFC), highlights that, the better the employment opportunities are for women in society, the higher profitability and productivity will be in the private sector. With all that being said, one can comfortably conclude that not only gender equality can benefit the whole society (not just men), it can also boost economic growth.

### **3.2.2 Challenges Hindering Economic Progress**

The immense wealth generated from oil has led oil-rich countries to provide many free or extremely low cost products/services for its citizens. This practice changes the real value of services, products and work. When a state provides education, electricity, medical care and food for free or at very low cost to its people (both rich and poor), it creates an artificial system of values and costs where citizens do not know how to appreciate the value in what they are given. Consequently the entire population turns into dependents that have become entangled in an artificial economy where services and goods do not represent their true value/costs. These distortions misrepresent the incentives and foundations of both the public and private institutions and leave citizens totally dependent on their government and

inexperience in self-sustainability. Unfortunately, this bubble economy has basically plagued Middle Eastern states in multiple degrees for at least the last sixty years<sup>17</sup>.

Even those Middle Eastern countries that do not possess large reserves of oil (or any at all) such as Yemen, Syria and Egypt, have succumbed to this “bubble economy” through oil imports at low costs, remittances, aid and grants from their own citizens that are working in the nearby oil-rich states (Al Ghwel, 2015)<sup>18</sup>.

As the world is moving closer towards alternative energy dependence and climate change concerns (due to heavy dependence on non-renewable energy), the consequent dramatic change to the need for oil will reduce the ability of Middle Eastern countries to carry on in their complete and blind dependence on the revenues they make (Al Ghwel, 2015). The detrimental dependency on a singular commodity is not very healthy for successful long term prosperity and economic development. The reason for this, according to (Malachova, 2012) is that extreme dependence on oil revenues and its generated wealth has made Arab economies “rentier” economies with severe imbalance between consumption and production. The extraction and selling of oil are not adequate indicators of having a productive economy. Even though oil is easily transferrable to cash, it however is a finite, non-renewable and non-sustainable natural resource. This indicates how vulnerable oil-rich states can be if their oil is no longer in high demand and substitutable by other renewable energy resources. The share of OPEC in world oil production fell to 41% down from 55% in 1970 which has reduced the

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<sup>17</sup> El-Gamal M & Jaffee A (2010), “Oil, Dollars, Debt and Crisis: The Global Curse of Black Gold”, Cambridge University Press

<sup>18</sup> Al Ghwell H. (2015), “Changing Oil from a Curse into a Blessing for the Arab World”, MENASource, retrieved from: <http://www.atlanticcouncil.org/blogs/menasource/changing-oil-from-a-curse-into-a-blessing-for-the-arab-world>

influence of OPEC on the oil market. If this influence is still important, it is not decisive. This applies to all member countries of OPEC, most notably, Saudi Arabia<sup>19</sup>.

An economy that is almost entirely based on oil exports is vulnerable from external shocks and fluctuating oil prices. Precisely, it is very unlikely to be confident about what oil sale revenues will generate in any particular year since oil prices are dependent on many factors which include: world inflation, overall situation in the world, natural disasters and other force majeure scenarios. Due to their dependence on such factors, oil revenues are never stable and are certainly not predictable (Malachova, 2012).

The recent decline in oil prices will surely affect the countries whose public finances depend on oil such as the Middle East, North Africa, Russia and Venezuela. Oil revenues allowed these countries to finance their infrastructure and to buy social peace by playing the role of the welfare state to their citizens. The decrease in oil income will involve structural adjustments to the economies of these countries and new painful and heavy spending reduction measures. As the population of these countries is large, the more the socio-economic impact will be significant. Budgetary austerity policies settled in these countries and a sharp reduction in subsidies and social spending. Taking the case of Saudi Arabia, the fall of oil prices, that is likely irreversible, will have economic, social and geopolitical consequences. However, the fall in oil prices is largely due to the refusal of Saudi Arabia to cut production which has caused a surplus on the market. Saudi Arabia's choice is linked to the will of the country to preserve its market share, even if it means seeing its revenue

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<sup>19</sup> Labaki G. (2016), "The Impact of the Fall of the Price of Oil on Middle Eastern Countries: Durable crisis or cyclical?", translated from French *L'impact De La Chute Du Prix Du Pétrole Sur Les Pays Du Moyen-Orient: Crise Durable Ou Conjoncturelle?*, Lebanese National Defense, issue 97

decline. The fall in oil prices has strongly affected Saudi Arabia, which derives 90% of its budget from oil revenues. A barrel of oil has fallen from 106 to \$ 37 in the span of 18 months, and government revenues have been strongly affected. Although the debt of Saudi Arabia is nonexistent, there is a huge public deficit. The decline in oil prices has deprived Saudi Arabia of substantial financial inflows: net foreign assets declined by about \$ 87 billion in 2015, and the 2016 budget voted December 28 projects a deficit of \$ 87 billion is nearly 20 of GDP while some analysts expect a deficit of \$ 130 billion. Under these conditions, the price of water, electricity, and fuel oil-based - heavily subsidized in the Kingdom have been revised upwards. These grants are enormous. In fact, \$ 61 billion was spent in 2015 by Saudi Arabia to the energy sector subsidies, half for gasoline and diesel. Unleaded gasoline has increased by 50% to 16 cents per liter to 24 cents. The decrease in oil income in 2016 will result in a reduction of public spending and subsidies (Labaki, 2016).

According to the International Monetary Fund<sup>20</sup>, oil-rich countries face two challenges when it comes to the economics of the wealth generated from oil and they are: investment challenges and challenge of wealth and economic management.

### ***3.2.2.1 Investment Challenges***

The capital intensity of the gas and oil sector has meant that this sector is in dire need of regular injections of investment capital geared towards exploration, maintenance (to replace the oil already produced and protect the integrity of the wells), and further production. The Middle Eastern countries are mostly meeting these investments internally

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<sup>20</sup> Okogu B. (2003), "The Middle East and North Africa in a Changing Oil Market", International Monetary Fund, retrieved from: <https://www.imf.org/external/pubs/ft/med/2003/eng/okogu/okogu.htm>

from resources of national oil companies. Another means of meeting these investments are by tapping the international capital market (an example of that would be the Qatar Liquefied Natural Gas-LNG projects, the world's first LNG plant capable of producing 7.8 million tons of LNG per train per year). Additionally oil-rich states could rely on foreign direct investment, a method used by countries such as Sudan. Most oil-rich Arab states prohibit foreign equity participation in upstream oil sectors; however some states such as Qatar allow production sharing arrangements.

### *3.2.2.2 Challenge of Wealth and Economic Management*

The most important challenge that the Middle Eastern oil-producing states face is how to optimize management of their oil wealth, a natural resource they are dependent on and is depleting. Because of that, these states are in need of fiscal policies that ensure preserving the value of the wealth of oil. One way that this could be achieved according to the IMF is to limit the state's consumption from the permanent income generated by oil. However, the size of the wealth generated by oil (and therefore the size of the permanent income) cannot be assessed with confidence because of the many critical values such as cost of production, future prices of oil and size of reserves that are by their nature unpredictable. Being able to estimate the size of the hydrocarbon wealth and designing the suitable policies that optimize the capital in a way that both present and future generations benefit from it is the encapsulated nature of the challenge that economies dependent on Middle Eastern oil are currently facing. Assuming risk-aversion behavior, having to make decisions under uncertainty requires the oil-rich government be more conservative oriented in its fiscal policy.

There is a high possibility of alternative fuels that substitute the use of oil, which will force oil-rich governments to be even more fiscally responsible. Obsolescence in such a case would not be that the usage of oil would be obsolete, but that if technology is able to make an alternative fuels that can compete against the energy market, the price of these alternatives can be so low that it would no longer be cost-efficient to use and produce oil for the same purpose we do now. In that case the challenge of managing the wealth would be more overwhelming if these oil-rich countries intend on maintaining their wealth per capita (given the fact that the population growth rates in the region is rapidly growing). If consumers can shift from oil to alternative energy sources, this would diminish the economic impact that oil-rich countries have on the economy. New technology can also diminish oil-rich country centrality. For example technologies that facilitate oil detection and drilling or decrease production costs would erode the price advantage that is held by Persian Gulf producers and OPEC (particularly Saudi Arabia). New technologies can also facilitate exploiting areas that are usually off-limits for reason such as economic unfeasibility and remoteness (Yizraeli, 2000)<sup>21</sup>.

Lebanese, Egyptian, Syrian, Sudanese and Jordanian engineers and architects helped build the Gulf cities (ones of the most modern cities in the world) meanwhile the deteriorating infrastructure back home is in dire need of modernization and renovation. Agronomists of these non-oil producing Arab states created farming and irrigation in the deserts of Gulf States but they never had an opportunity make a difference back home (because of corruption in their home countries). Many Arab technical experts who are working in the West excel at

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<sup>21</sup> Yizraeli S. (2000), "How Important is Saudi Oil", Middle East Quarterly, 7(1): 57-64, retrieved from: <http://www.meforum.org/42/how-important-is-saudi-oil>



their jobs but never could find adequate work in their respective hometowns and resort to working in states such as Canada, the U.S and UK.

## CHAPTER 4

### OIL: A BLESSING AND A TOOL OF DEVELOPMENT FOR THE ARAB WORLD

After stating the negative effects that oil has had on the political formation of some Arab states; comparatively, and in accordance to the second hypothesis which looks at oil as being a blessing, this chapter will demonstrate how these authoritarian regimes and political consequences can be seen as a way of stabilizing and fortifying the Arab world. Therefore, the positive influence that oil has brought upon the cultural, religious and economic status of certain Arab states will be stated and elaborated.

#### 4.1 The Political Stability Landscape

This section will counter argue “section 3.1: The Political Instability Landscape” in many aspects; starting by arguing that oil is not only excluded from the causal factors of authoritative regimes of the Arab world, but it will also emphasize on a new opposing idea which is that oil can be a causal factor in the development of democracy and stability in oil-rich countries. In addition to that, this section will substitute oil by theocracy as being one causal factor of promoting authoritarian regimes in the relevant Arab countries.

##### 4.1.1 Democracy and Oil

Ross’s statement about rentier states in the previous chapter raised the question on whether wealth generated from natural resources promotes authoritarianism. On the surface, the causal relationship between inanimate objects lying underneath the surface of the earth

(such as hydrocarbon, diamonds, kimberlite, copper deposits fossil fuels or hydrocarbon) and patterns among nations in terms of political regimes might seem peculiar (in the sense that inanimate objects affect political regimes).

However, as seen in “section 3.1.2.1.3: Group Formation”, many political science scholars believe that resources as such, can extend or even foster authoritarian rule. Nevertheless, this correlation is contradicted by the fact that Canada and the United States, resource rich countries, do not lead to an authoritarian regime. International Relations scholars who look into these two countries would see that Canadian politics functions within a framework of parliamentary democracy (and a federal system with strong democratic traditions), and the United States politics not only revolves around democracy but their foreign policy is also founded on promoting democracy.

#### ***4.1.1.1 The Case of Canada and the United States***

According to the Central Intelligence Agency (CIA) world factbook, Canada and the U.S are considered to be major players in energy production and export. Canada produces 3,890,000 barrels of crude oil per day (ranking 5th after Russia, Saudi Arabia, the U.S and China) and 1,894,000 barrels of refined petroleum products per day (ranking 11th after the U.S, EU, China, Russia, India, Japan, South Korea, Brazil, Germany and Saudi Arabia), while exports 2,900,000 barrels of crude oil per day (ranking 3rd after Saudi Arabia and Russia) and 515,600 barrels of refined petroleum products per day. Meanwhile the United States produces 8,653,000 barrels of crude oil per day (ranking 3rd) and 19,110,000 barrels of refined petroleum products per day (ranking in 1st), while exports 629,400 barrels of crude oil per day (ranking 20th after Saudi Arabia, Russia, Canada, UAE, Nigeria, Iraq, Kuwait,

Angola, Kazakhstan, Venezuela, Iran, Qatar, Mexico, Norway, Algeria, Oman, Azerbaijan, Libya and the UK) and 2,992,000 barrels of refined petroleum products per day (ranking in 2nd after Russia)<sup>22</sup>. These two countries are far from being a dictatorship despite ranking among the top energy producing and exporting countries. Cases such as Canada and the U.S have lead scholars (who believe that there is a causal relationship between oil and the regime) to question why other oil rich countries are not democratic as well (most notably in the case of the Middle East). They concluded that there must be a missing variable aside from oil rents alone that helps foster (or not) democratic regimes (Dunning, 2005).

Other than accusing oil of being a cause of inhibiting democracy, which has been defended in the abovementioned argument, theocracy is not only an essential root cause of enhancing dictatorship, but it can also be seen as being an advantage to most Arab countries that lead to stability and other positive outcomes as will be shown in the following section.

#### **4.1.2 Theocracy and its Advantages on the Arabian Political Landscape**

The reason why there is a distinction between Canada or the United States and the Middle East when it comes to having authoritarian regimes has nothing to do with wealth

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<sup>22</sup> See CIA world Factbook, Country Comparison: Crude oil exports; Crude oil production; Refined petroleum products exports, Refined petroleum products production, retrieved from:  
<https://www.cia.gov/library/publications/the-world-factbook/rankorder/2242rank.html>;  
<https://www.cia.gov/library/publications/the-world-factbook/rankorder/2241rank.html>;  
<https://www.cia.gov/library/publications/the-world-factbook/rankorder/2247rank.html>;  
<https://www.cia.gov/library/publications/the-world-factbook/rankorder/2245rank.html>

generated from oil, but rather with intrinsic political culture and religion. According to (Malachova, 2012)<sup>23</sup>

*“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.” 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” 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.”*

So the main influential factor leading to an effective authoritarian regime in Arab countries lies under theocracy. Theocracy is basically a system of government in which supreme religious leaders rule in the name of God. In Arab states, the leading religion is Islam, and Islamic states' governments are primarily based on the application of al-Shari'a (Islamic law).

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<sup>23</sup> Malachova A. (2012), “The Middle East and Oil: Economic Modernization and Political Stagnation”, E-International Relations Students, retrieved from: <http://www.e-ir.info/2012/10/29/the-middle-east-and-oil-economic-modernisation-and-political-stagnation/>

Just like a polar bear cannot live in the desert, Western political practices (such as democracy) may not successfully survive in the Islamic states of the Middle East. The political regime in Arab states is due to the religion and political culture that relies on the presence of authoritarianism, respect and adherence to a leader (who has a divine authority).

On the bright side, theocracy brings many advantages to the political formation of Arab countries. Due to the fact that religion and the state are not separated, this cooperation between religion and the state, results to an effective and efficient government. Since these states hold a unified government (unlike democracies, which usually have separation of powers: executive, judicial and legislative branches), new laws and regulations can be legislated more efficiently, without having to pass through several governmental powers. The respective national legislations can also be directly passed from the top leader(s) to citizens, since there is few to no debate among government officials and fewer complaints from the people<sup>24</sup>.

The cultural and economic aspect of theocracy will be further elaborated in the following section, which tackles the positive influence that oil has brought upon the cultural, religious and economic status of certain Arab states.

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<sup>24</sup> <http://connectusfund.org/6-advantages-and-disadvantages-of-theocracy>

## **4.2 Socioeconomic and Cultural Benefits**

After stating the benefits that oil has brought to the political landscape of some Arab states, in this section, the positive influence that oil has brought upon the cultural, religious and economic status of certain Arab states will be stated and elaborated.

Throughout the last hundred years, the Arab world has been defined and shaped more from its oil resources and respective revenues than any other factor. From the early twentieth century until now, this region has both bled and breathed oil. This energy resource has been responsible for approximately all aspects of its political, economic and social life. Both its domestic and international policies have been determined by the reserves, revenues and exports of oil. Just like oil has brought some unfavorable socio-economic and cultural outcomes upon the Arab world, this does not overpower the many great socioeconomic benefits that oil has brought upon this region as well.

### **4.2.1 Economic progress of Arab Oil-Rich States**

Oil rich states have been able to retain such high revenues and consequently high GDP that it has had a higher GDP than that of the United Kingdom since 1981. This high GDP is definitely due to the discovery of oil, its further exploration, extraction, utilization and exportation (which has boosted the economic modernization in the oil-rich region, and most importantly improved social and living conditions, health care and infrastructure).

Additionally, many of these oil-rich Middle Eastern states have become attractive business investments and touristic destinations. More and more companies are entering oil rich Arab countries such as Saudi Arabia, UAE, and Qatar, despite the fact that no foreigner can have more than 49% ownership of anything in the region. When it comes to tourism, states like the UAE have become such a popular tourist destination; having gained the reputation of being a luxurious holiday destination due to being the only country that has a 7-star hotel among other lush and unique attractions (Malachova A., 2012).

According to the Center for Educational Technologies, the non-oil producing Middle East such as Lebanon, Jordan, Egypt, Palestine and Yemen also gained some benefits from the oil producing states. Many citizens of these non-oil-producing states went to oil-producing states to earn money as construction workers, teachers, (49%) business ownership, oil field workers... etc. The money that these non-oil-producing citizens earned was consequently sent home to their families and was of tremendous importance to their national income. Because this money was being spent in their home countries, their national economies boosted. During this growth period, these non-oil-producing countries also took advantage of an increase in foreign aid received from non-other than their oil-producing neighbors. Because of this newfound wealth, many great social achievements followed in the Middle East. For example, there was a 10 year rise in life expectancy, and increase in school enrollment, infant mortality decreased by 50%, and adult literacy increased almost 20% from 1970 to 1990. This newfound wealth also widened the income gap among the Middle East. On the higher end of the income gap, some major oil-producing countries (especially the Gulf states with small populations) were able to earn incomes per capita that were on the same level (or even higher) than economic levels of western Europeans.



Oil has financed Gulf wars and also made Saddam Hussein a greater power than he would have ever been in the region because it made it possible for him to purchase war materials and weapon systems that he could never have produced extensively on his own or in such a rapid manner and use them to detriment his neighbors and his countrymen. Some states like Bahrain and Kuwait, made efforts in redistributing oil revenues to their citizens through subsidizing utilities, medical care, education and housing. In Bahrain, the government sold houses to citizens at extreme low prices while in Kuwait, the state would purchase land from its citizens at high inflated prices. This led to the subsidized and pampered natives of many Gulf States to lose interest in low-income low-status jobs, which created a need for importing hordes of guest workers who could fill in these unappealing jobs. This created large vacancies for work.

When it comes to foreign policy, money generated from oil increases the autonomy of these oil-rich countries, which makes them less subject to binding themselves as clients to patron states in order to receive military or economic assistance. Even though these oil-rich countries of the Middle East have been scrutinized for “wasteful” development plans, most have done better jobs than oil-poor states whose economic decisions are supervised by patron governments and foreign bankers. The arrival of money generated from oil into the Arab region has allowed countries such as Egypt to abandon its client relationship with the Soviet Union, favoring a more egalitarian relationship with the oil-rich Arab states. Thus, according to Tetreault<sup>25</sup>, “oil money has hastened the breakdown of the tradition of Great Power Primacy in the Middle East that had long shaped the region's politics in the images desired by outsiders”.

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<sup>25</sup> Tetreault M. (2012), “The Political Economy of Middle Eastern Oil”, retrieved from: <http://www.globaloilwatch.com/reports/political-economy-middle-eastern-oil-tetreault.pdf>

#### 4.2.1.1 Iran

The deal that Iran struck with the Western powers in July 2015 has given the country's regime an opportunity to revitalize its energy industry (after the economic sanctions are lifted). The history of Iran shows the great potential it could be as an oil producer, and with the massive reserves to draw from, it is possible for Iran to flourish and transform itself into another Middle Eastern energy superpower (Brew, 2016)<sup>26</sup>

In late November 2015, hundreds of business representatives from Asia and Europe gathered in Tehran, the capital of Iran where some of the world's largest energy companies such as Shell, Total, Sinopec, BP and Statoil were all in attendance. The reason for this gathering was so that they could hear presentations from Bijan Zanganeh (the Minister of Energy in Iran) and Roknoddin Javadi (the CEO of the National Iranian Oil Company- NIOC), and announcement of the new contracts within Iran's energy industry. These contracts that are worth \$30 billion were offered to Western companies for the first time, providing less risk, more profits and more flexibility for those who choose to work with the Iranian government and NIOC. There were over 150 companies in attending the conference in Tehran, and Iran hopes to attract and accumulate \$150 billion investment over the next five years as a result of it. All of this would have been out of reach had Iran not mended its relations with the West. If the Joint Comprehensive Plan of Action (JCPOA) (also known as the Iran nuclear deal) agreed upon between the Western powers and Iran in July 2015 is successfully implemented, this would potentially dramatically change the economic capabilities of Iran in the near future. Starting with sanction relief such as unfreezing Iranian overseas financial assets could improve the state's short-term economic position (Brew, 2016).

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<sup>26</sup> Brew G. (2016), "The Oil of Iran: Past and Present in Perspective", E-International Relations, retrieved from: <http://www.e-ir.info/2016/01/19/the-oil-of-iran-past-and-present-in-perspective/>

It only seems natural that Iran, with the 4th largest oil reserves and 2nd highest gas reserves among any state, takes advantage of the upcoming economic boost in order to expand its gas and oil production which was not possible after sanctions on Iran came into effect in 2012. Iran's minister of tourism has predicted that a massive amount of tourists once relations between them and the West improve, and hopes are resting on the oil to carry his state into a new future of power and prosperity (Brew, 2016)

#### ***4.2.1.2 Saudi Arabia and American Foreign Policy***

Saudi Arabia holds one of the largest crude reserves in the world, exporting 7.55 million barrels as of February 2016. Due to the scale of the kingdom's output of energy makes it powerful enough to influence the whole energy market. This makes protecting Saudi Arabia along with other Gulf energy exporters a cornerstone to be considered with the U.S foreign policy for many years now.

By the early 1940s, the Kingdom's oil resources had become evident and the petroleum companies in the United States were urging Washington to undertake further responsibility for political stability and security in the region. As a consequence, Franklin D. Roosevelt's administration in 1943 declared that defending the Kingdom was an essential interest to the U.S and sent the first U.S military mission to Saudi Arabia.

##### **4.2.1.2.1 Oil Embargo and the Energy Crises**

The relationship between King Faisal and the U.S was going smoothly until the 20th of October 1973 when the King, in collaboration with other Arab states, decided to issue an oil embargo against Europe and the United States. This was the King's way of showing a

favor towards the Arab position in the Yom Kippur War believing that the United States' support for Israel against the Arabs makes it very difficult for the Kingdom to continue oil supply to the West yet remain friends with them. This caused an energy crisis in the U.S and was the largest obstacle in the U.S-Saudi relations before 9/11.

Regardless of the tension due to the oil embargo, the U.S calculated its rivalry towards the USSR and resumed relations with Saudi Arabia. This embargo increased the price of oil and as a result accumulated great wealth for the Saudis allowing them to purchase large sums of U.S military technology. On March 1974, after Israel was pressured by the U.S into negotiations with Syria over the Golan Heights, the embargo was lifted and Riyadh and Washington signed an agreement on expanding military and economic cooperation three months later. A year later the two countries signed a \$2 billion contract agreement which included sending 60 fighter jets to Saudi Arabia and setting the price of OPEC oil lower than Iran and Iraq initially wanted. At that time the U.S tried to attempt improving Saudi-Iranian relations by actions such as persuading Iran to remove territorial claim in Bahrain.

#### **4.2.1.2.2 United States' Arms Sale to Saudi Arabia**

After the Persian Gulf War in 1991, Saudi Arabia faced again the possibility of congressional opposition to its desires for weapons. Riyadh believed that its assistance in the war against Iraq established the validity of its defense requirements. Nonetheless, the U.S administration informed Saudi officials that the kingdom's request to purchase US\$20 billion of U.S military equipment needs would not win the approval of Congress that would be required. Riyadh hesitantly agreed to a U.S administration proposal to go through its request into 2 or 3 separate packages, which would be submitted in consecutive years. This process

inclined erosion towards the positive feelings generated during the war and reduce Saudi resentments after being treated as a less-than-equal ally.

However in October 2010 the Saudi Kingdom made the largest arms purchase to ever occur in U.S history by making an approximate of \$60.5 billion arms purchase from the United States. This made a considerable improvement in Saudi armed force offensive capabilities. The U.S was keen to highlight that the transfer of arms would increase "inter-operability" between the Kingdom and U.S forces. During the Gulf War in 1990-1991, the U.S-trained Saudi forces accompanied by military installations constructed to U.S specifications, permitted a more comfortable and familiar battle environment for the deployed American armed forces.

#### ***4.2.1.3 Bahrain***

Most of Bahrain's revenues have been a result of the wealth extracted from natural resources. Bahrain's coastal waters have massive natural gas reserves and oil makes up about 60% of the profits from exports. Due to the fact that Bahrain is small in land area size, lacks sufficient supply of fresh water and other natural resources, it has prompted this state to expand into the financial sector. Financial services and Islamic banking for the global marketplace has been an ever-growing sector of the economy. Their objective from diversifying their economy is to reduce their dependency on oil being their sole source of future national wealth.

The fact that the U.S has entered into a free trade agreement with this Gulf States has made it attractive for multinational corporations to do business in that region. Bahrain supports the U.S military presence in its territory (they have the permanent headquarters for the United States' 5th naval operations) for both cooperation and protection. Bahrain and the U.S have a mutual defense agreement, which includes hosting one thousand U.S naval officers and personnel on the island. Additionally, the country is opening up some developments in the service sector. Despite the fact that tourism does not come to mind when one thinks of Bahrain, it has been attracting millions of tourists yearly. From their oil money, Bahrain has heavily invested in international sports facilities and modern shopping malls as efforts to attract more international events and to modernize the country.

#### ***4.2.1.4 Qatar***

Oil revenues in the past few years have provided Qatar with high living standards and a fast-growing economy. For such a small country, Qatar holds enormous proven reserves of natural gas and oil. Qatar holds the world's third largest gas reserves. This Gulf States has been pursuing the development of foreign and private investments in non-energy related industries such as financial and banking institutions. Qatar's desires for a greater emphasis on education have been supported by modernization efforts. Revenues, generated from natural gas and oil, are fueling this small peninsula's rapid development that is able to keep up and rival core economic countries.

#### ***4.2.1.5 The United Arab Emirates***

The UAE has invested the wealth generated from oil in building its infrastructure catered to competing in a global economy. Hundreds of billions of dollars of projects in

construction are in progress in Dubai alone. Dubai has the most expensive hotel, most expensive airport (when it is complete), the world's biggest artificial islands and the world's tallest structure. Dubai offers unique activities such as indoor ski resort with actual genuine snow, Dubai Sports City and Dubai entertainments complex. Despite the downhill in the global economic condition that has slowed down the development in Dubai, it has not weakened the potential in and perspective on the future.

#### ***4.2.1.6 The Sultanate of Oman***

The Sultanate of Oman has a very strategic geo-political location because all oil tankers intending to leave the Persian Gulf must pass through Oman. This state has been using the income generated from oil in order to build infrastructure for the benefit of its citizens. The sultan of Oman has popular support from his people and has established goodwill from the international community because of his concern and investment in his country and its people. Due to influence from the West, he has built a trade-free zone, luxurious tourist hotels a high-end international airport and an efficient road system. Even though Oman is not a democracy, the sultan is very well liked by his people and is a positive role model for other rulers. He has used the wealth of the country's oil to help his state modernize and develop.

#### ***4.2.1.7 Taxation***

Chapter 3 mentions scholars' beliefs in a correlation between oil rich countries' tendency to tax their citizens less heavily and ending up in a state with few to no representation systems. However, the government is providing its citizens with a wide variety of genuine public services and goods such as: education, defense, social security, national

security, a network of infrastructure and employment. Such services and goods are usually of excellent quality. Not only does the government distribute these benefits and favors to its population, it also is (usually) the major employer in the economy. When compared to the West for example, the U.S government only employs 1 out of 16 Americans.

Citizens value these social and economic conditions provided to them by these governments and are satisfied with them. Since the citizens are satisfied with the welfare provisions, they “tolerate” the government that gives them these benefits as well as the political situation in the state. This is because to protest against the government regime will lead to more harm and loss, and hence is not worthwhile (Malachova A., 2012).

With all these economic blessings stated above, the Arab world clearly flourished in a matter of couple of years owing it to oil. Furthermore, the following section tackles the cultural and social factors that enhanced the well-being of the Arab world, opposing several ideas of the previous chapters. The Arab culture clearly stems from Islam, the leading historical religion and the dominant factor in Arab societies; therefore, the social and cultural upcoming factors under “Theocracy and Islamism” are going to be generalized.

#### **4.2.2 Theocracy and its Advantages on Socioeconomic Conditions**

Theocracy has many advantages when it comes to the economic and cultural conditions of the Arab world, for instance, theocratic governments can easily gain control over their citizens, using religious beliefs, fear and persecution; in return, this level of control can greatly increase the state’s economic output. One of the reasons why productivity can be



increased is that the nations' funds in those theocratic states are distributed faster and easier, due to the fact that religion and the state are not separated. And since the foundations of actions and opinions are based upon a holy book, this will help reduce poverty, hunger and other low-income concerns, as the holy book's dictations would aid these issues as mandate of governing.

There are numerous examples of Arab theocratic countries in the Middle East; the examples will be narrowed to a few of the Arab rentier states, which will be relevant for the sake of the argument posed by the hypothesis. The Islamic Republic of Iran is a theocratic state, where the constitution indicates that the leader of the state is eligible of interpreting Islam, and makes sure that the citizens of the state firmly adhere to the beliefs of the Shia Islamic religious practices. Saudi Arabia is an Islamic theocratic monarchy, which holds one of the most controlled governments in the Arab world; the Holy Quran and the Sunni School of Islam form Saudi's constitution. Iran is also an Islamic state with a theocratic government, where Islam is the official national religion; its major political institutional foundations are based on the Islamic sharia law<sup>27</sup>.

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<sup>27</sup> <http://www.worldatlas.com/articles/countries-with-theocratic-governments-today.html>

## CHAPTER 5

### WESTERN INFLUENCE IN THE ARAB WORLD

As established throughout this thesis, the West has long been interested in the Arab world and specifically the oil-rich region. Many investors have flooded this region especially the GCC states because of their more economically and politically stable environment. This chapter examines the Western influence in three GCC countries- The UAE, Qatar and Saudi Arabia, while also looking at the foreign policy of the U.S towards each of these states.

#### 5.1 The United Arab Emirates and the West

A few years ago the UAE was one of the least developed states in the world, but today it has accomplished an income level competitive with that of industrialized nations. The UAE did not have to go through “development stages” that most developed states have experienced because of its large oil reserves. Massive oil revenues have allowed the UAE to skip the lengthy and difficult process of capital accumulation and saving for economic development (Shihab, 2009)<sup>28</sup>.

The structure of development in the UAE (specifically Dubai) has been highly influenced by the West. Their large oil income has allowed them to gain access to Western businesses and concepts while also having its security become a major concern for major powers such as the U.S.

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<sup>28</sup> [https://www.uaeinteract.com/uaeint\\_misc/pdf/perspectives/12.pdf](https://www.uaeinteract.com/uaeint_misc/pdf/perspectives/12.pdf)

### 5.1.1 Western Influence

UAE's Dubai is a city where everything and everyone in it, such as its luxuries, accents, aspirations laborers and architects, has been flown in from someplace else. The West has been able to influence major industries such as the airline, finance and technology industries.

In 1974, UAE's Amir at the time, Sheikh Rashid bin Saeed Al Maktoum, tasked his son Mohammed bin Rashid Al Maktoum with overseeing the growth of Dubai International Airport. In the 1980s, Mohammed appointed Maurice Flanagan (a British Airways veteran) to launch Emirates airline. By 1990, Emirates Airline was flying to major hubs like Singapore, Frankfurt and London, taking advantage of UAE's strategic location of reasonable flying distance to most of the world's populated city-states. Tempted by the idea of tax-free salaries, many international businessmen who visited stayed. It is important to note that many countries such as the UK do not tax the earnings of expatriate nationals, while countries like the U.S tax foreign earned income exceeding \$91,500.

The Dubai International Financial Centre (DIFC) free zone opened in 2002 and is located is on a block of desert off of Sheikh Zayed Road. The DIFC complex, designed by San Francisco architecture firm Gensler, is filled up with the giants of global banking such as HSBC, Credit Suisse, Citibank, and Standard Chartered.

Similar to its architectural blueprints, the DIFC's intellectual blueprints was drawn up by an American firm called "Consulting Behemoth McKinsey. They advised the Dubai government to create a financial district administered by business regulations that complies

with that of the West. Errol Hoopmann, an Australian finance regulator veteran who worked for the Australian Securities and Investments Commission was hired in 2003 to write the legal code. This code was mainly based on UK regulations but also included Australian and American laws as well. Like a state, the DIFC has its own court system separate than that of UAE's, and is presided over by a British judge to enforce its laws. Additionally, the DIFC has its own currency which is the U.S dollar and it also has its own official language which is English.

Another popular area in Dubai for businesses is Internet City and Media City. To tempt international companies to locate to these two cities, Dubai's authorities have relieved these contiguous zones from UAE's strict Internet censorship policy. Usually UAE's sites are blocked with a message that reads : "We apologize the site you are attempting to visit has been blocked due to its content being inconsistent with the religious, cultural, political and moral values of the United Arab Emirates" (Brook, 2013)<sup>29</sup>. But within the walls of Internet City and Media City, the government has promised to allow access to all sites except for the ones based in Israel.

### **5.1.2 U.S Foreign Policy towards the UAE**

The UAE has been a significant U.S partner when it comes to Gulf security for over 20 years. In recent years, almost all high-level UAE-US meetings have been focused almost entirely on security and regional issues. The United States does continue to promote democracy, civil society and rule of law in the UAE through State Department programs that are acceptable to (or at least tolerated by) the UAE government. These largely State

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<sup>29</sup> <https://nextcity.org/daily/entry/how-dubai-became-dubai>

Department funded programs, such as the Middle East Partnership Initiative (MEPI), promote women and students' political participation, international trade law compliance, legal reform, entrepreneurship, independent media and civil society. The U.S Embassy in Abu Dhabi hosts MEPI staff/office that runs the MEPI programs all over the Gulf region.

Senior U.S officials' summit meetings at Camp David (most recently held by President Obama on May 12-14, 2015) have repeatedly tried to reassure the GCC states of the high U.S commitment in the Gulf region and to its security despite any outcome of nuclear negotiations with Iran. At the most recent Summit Sheikh Mohammad bin Zayid represented the UAE. Both Sheikh Mohammad bin Zayid and President Obama issued a statement after the Camp David meeting announcing a new GCC-U.S partnership and reiterating that the U.S foreign policy is to use all elements of its national power to secure its core interests in the Gulf region, and to confront and deter any external aggression against its partners and allies. An annex to the joint statement stating an increase in U.S security cooperation with the GCC states in the following ways: (1) increasing U.S-GCC cooperation on counterterrorism, cyber-security and maritime security, (2) stating a renewed commitment to a concept of a Gulf-wide ballistic missile defense capability, (3) facilitating U.S arms transfers to the GCC states and organizing additional large-scale joint military exercises and U.S training (Katzman, 2015)<sup>30</sup>.

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<sup>30</sup> <https://www.fas.org/sgp/crs/mideast/RS21852.pdf>

## 5.2 Qatar and the West

Qatar has also been a hub for businesses and foreign expats due to its tax-free income and oil wealth. What makes it more distinguished than the UAE and Saudi Arabia is the amount of foreign influence in its education system, specifically higher education.

### 5.2.1 Education

Numerous prominent U.S universities have built satellite campuses in Doha at Qatar's Education City, where Americans, Qataris and other students can pursue undergraduate and graduate degrees across a broad range of subjects (Blanchard, 2014)<sup>31</sup>.

Education city is a multi-billion dollar conglomerate of Western and local institutions of higher learning and research centers that includes satellite campuses from six of America's top universities: Northwestern University, Georgetown University, Cornell-Weill Medical College Virginia, Carnegie Mellon University, Commonwealth University and Texas A&M University.

Qatari leaders believe that based on their positive experiences studying in the US, American universities at Education City have a dire role to play in forging strong cultural and educational ties between the American people and Qataris, facilitating the robust exchange of perspectives and ideas in this country that seeks to become a gateway between West and East.

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<sup>31</sup> <https://www.fas.org/sgp/crs/mideast/RL31718.pdf>

Additionally, these universities can help Qatar build its own human capital to manage the country's rapid modernization and growth (Smith, 2015)<sup>32</sup>.

### 5.2.2 U.S Foreign Policy with Qatar

Qatar emerged as a U.S partner in the mid-1990s and currently serves as a host to many major U.S military facilities. After the joint military operations during “Operation Desert Storm” in 1991, the United States and Qatar settled on a defense cooperation agreement that was subsequently expanded and has been renewed in 2013.

In 2003, the U.S Combat Air Operations Center for the Middle East transferred from Prince Sultan Airbase in Saudi Arabia to Qatar's Al Udeid airbase in Qatar. Other facilities in Qatar aside from Al Udeid also serve as command, logistics and basing hubs for the U.S Central Command (CENTCOM) area of operations.

U.S-Qatari defense relations have expanded to include base access agreements, equipment pre-positioning, and cooperative defense exercises. Some U.S concerns over alleged material and financial support for terrorist groups by Qataris (including claims of support from a prominent Qatari royal family member) have been balanced with time due to Qatar's efforts in counterterrorism and its broad and long-term commitment to support and host U.S military forces active in Afghanistan and Iraq and the rest of the CENTCOM area of responsibility.

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<sup>32</sup> <https://www.americanambassadors.org/publications/ambassadors-review/spring-2015/us-qatar-relations-realizing-the-full-potential-of-a-growing-strategic-partnership>

In December 2013, Chuck Hagel (U.S Secretary of Defense) visited Doha to have a meeting with Emir Tamim. This meeting resulted in Hagel signing a new 10-year defense cooperation agreement, followed by agreements for \$ 1.1 billion in advanced arms sales on July 2014. The United States has provided some counterterrorism assistance to Qatar in support of the development its domestic security forces. Meanwhile the Export-Import Bank has provided over \$2 billion in loan guarantees in support of multiple natural gas development projects in Qatar that have been running since 1996 (Blanchard, 2014)<sup>33</sup>.

### 5.3 Saudi Arabia and the West

Of all the GCC countries, Saudi Arabia is the least country that has been influenced by the West because among the GCC countries it is the strictest when it comes to having the Sharia law as its constitution. The only Western cultural influence found in Saudi Arabia is the structure of its buildings and the lifestyle found in its enclosed compounds for expatriates.

As the Kingdom's economy flourished over the past ten years and its stock market became public to investors in 2015, many European and American banks are expanding their operations in Saudi Arabia. Bank of American, one of the U.S's leading banks, has been preparing for the opening of the Saudi Market for years. Meanwhile Credit Suisse and Morgan Stanley have shifted staff from Dubai's DIFC to Riyadh. U.S investment funds such as Apollo Global Management and Providence Equity Partners are also seeking to obtain stakes in Saudi companies (Staff, 2016)<sup>34</sup>.

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<sup>33</sup> <https://www.fas.org/sgp/crs/mideast/RL31718.pdf>

<sup>34</sup> <http://www.cfr.org/saudi-arabia/us-saudi-relations/p36524>



Saudi businessmen and government officials, both commoners and royals, have deep ties to the United States. Saudi petroleum, economy and finance ministers all have degrees from U.S. universities. Saudi central bank governor Fahad al-Mubarak who controls over \$700 billion in reserves (mostly those is U.S Treasuries), was previously the chairman of the Morgan Stanley unit in Saudi Arabia. Prince Al Waleed bin Talal (Saudi Arabia's most famous billionaire investor) owns stakes in Twitter and Citigroup.

Joint venture partnerships between local Saudi companies and U.S counterparts are playing a snowballing part in the development of the plastics industry in Saudi Arabia. Plastics projects profit from large government incentives since they form a significant chunk of the Kingdom's diversification program (which will be further elaborated in the upcoming chapter). These incentives embrace a 10-year tax holiday, in addition to access to low-cost feedstock from Saudi Arabia Basic Industries Corporation (SABIC) and Saudi Aramco, as well as loans with encouraging terms that cover up to 50% of the total capital cost from the Saudi Industrial Development Fund. There are also exceptional opportunities sought from fresh joint ventures by the private sector for U.S manufacturers and suppliers of industrialized equipments and SABIC to the plastics and petrochemical industries.

American engineering and designing companies are licensing their processes and providing technical know-hows to the Saudi market through licensing agreements. The American production processes and technological methods uphold an advanced reputation for being technically innovative, and providing high quality standards. Engagements already exist with numerous U.S companies from which: Halliburton Kellogg Brown & Root, Great Lakes Chemical Corp., Bishop Technology Co., Dow Chemical, and Union Carbide.

### 5.3.1 U.S Foreign Policy towards Saudi Arabia

The current U.S policy looks to coordinate with Saudi leaders on regional issues and assist them in responding to security, economic and domestic challenges. U.S-Saudi internal security cooperation and counterterrorism has expanded since 2008, with the signing of a bilateral technical cooperation agreement that established a U.S-interagency critical infrastructure protection advisory mission to Saudi Arabia. Modeled loosely on technology transfer programs and embedded advisory of the U.S-Saudi Joint Commission for Economic Cooperation, the Office of the Program Manager-Ministry of Interior (OPM-MOI) is a U.S-staffed, Saudi funded senior advisory mission that offers embedded U.S advisors to key cyber-security , maritime, industrial, security and energy offices within the Kingdom's government. According to the State Department, "Through the OPM-MOI program, U.S agencies are helping Saudi Arabia improve its ability to thwart terrorists before they act and to defend against terrorist attacks if they occur" (Blanchard, 2016)<sup>35</sup>. Corresponding to these advisory efforts, the U.S Military Training Mission also supervises a Saudi-funded Training and Advisory Group that supports the Ministry of Interior's Facilities Security Force (FSF-TAG). The role of the FSF-TAG is to protect key infrastructure locations.

The Obama Administration requested from Congress to appropriate a small amount of International Military Education and Training assistance funding for Saudi Arabia (roughly around \$10,000) in its annual budget requests. This minimal amount makes Saudi Arabia eligible for a significant discount on the millions of dollars' worth of training it purchases through the Foreign Military Sales program. The Administration argues that this discount has supported the continuous Saudi participation in U.S training programs. In turn, the

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<sup>35</sup> <https://www.fas.org/sgp/crs/mideast/RL33533.pdf>

Kingdom's participation improves Saudi capabilities and supports the maintenance of significant military-to-military relationships (Blanchard, 2016)<sup>36</sup>.

With all that being said, the Western interference in those Arab countries (which are the major oil-rich states of the Arab world) has been beneficial to those Arab states. In addition to security and military assistance, the West has also brought technical and educational support. Those technical and educational know-hows form a key factor in helping those states thrive and develop economically by using their oil wealth, which in return can help them sustain their economic development throughout harsh times of the oil industry. The following chapter will develop this argument, highlighting the idea of investing oil wealth of these oil-rich Arab states in many sectors, through plans of diversification and decreasing dependency on oil.

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<sup>36</sup> <https://www.fas.org/sgp/crs/mideast/RL33533.pdf>

## CHAPTER 6

### RECOMMENDATIONS

Considering all the pros and cons that oil has brought upon the political, social, cultural and economic landscape; it is hard to take an “either/or” stance between the two hypotheses of this thesis. But at the end, from an economic point of view, there are no “ones” or “zeros”, outcomes are based on losses and benefits, and in this case the “blessings” that oil has brought to the Arab world outweigh the harm it has caused these Arab countries. This conclusion will be further elaborated and supported by new arguments in this final chapter that will shed light on the advantages that oil has given to many Arab countries, which in turn has positively affected other Arab states; and how these advantages are being successfully used by leading Arab rentiers such as Saudi Arabia, to minimize the negative effects of oil on the Arab world.

#### 6.1 Oil

Over the past century, modern societies have developed an inevitable thirst for oil. Oil has been holding many features all over this period, which has been the key factor for the blooming of many Arab states in a short period of time. Oil has been “power”, in the energetic sense of the word and the economic political sense of it too; for oil has been a stepping stone for its holders in the process of controlling and maintaining political dominance, in building infrastructure, and in some cases converting a chunk of the desert into being ranked the world’s number one city to live and work in. Oil has been “universal”, all countries around the globe need oil in a way or another, oil has become the leading cause of

every single aspect of today's life; for instance, technology and transportation have become a basic necessity in today's world. Oil has been "Unique" and "Rare", despite the fact that many alternatives have been proposed to replace oil whether as energy supplies for creating electricity or other substitutes, oil is still the hegemon supply needed worldwide in every single aspect of development in daily human lives. Some of these characteristics have been fading away recently, but most of them are still valid.

As time goes by, the demand for oil is increasing, which affirms that dependency on oil is still important. Back in the year 2000, demand for oil was around 75 million barrels per day, nowadays as of June 2016, demand has reached 96 million barrels per day<sup>37</sup>. This implies that despite all other alternatives for energy, oil is still needed more than ever.

In the following subsections, an overview of some Arab countries, that are known today to be among the top economically thriving countries in the world, will be presented. Using a brief historical comparative approach, the extent to which oil has been influential in the changing and making of these prosperous countries will be emphasized.

### **6.1.1 Pre/Post Oil Dubai**

Dubai was known for its pearl trades and exports up until the 1930s; however this pearl trade was critically damaged by the Great Depression of the 1930s and the revolution of cultivated pearls. Due to the downfall of the pearling trade, Dubai endured a deep economic

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<sup>37</sup> <https://www.iea.org/oilmarketreport/omrpublic/>

depression and numerous inhabitants starved or migrated to other Persian countries. Until 1966, Dubai lacked any economic development apart from few British aid and promises.

After the discovery and the establishment of the first field of oil in 1966, the city's population grew by 300% in a matter of 7 years, and it thrived until reaching \$50.7 billion GDP where oil accounted for at least 25% of it<sup>38</sup>.

However, despite the abundance of oil, Dubai has made large efforts to diversify. It has invested in tourism, financial services, manufacturing, construction, real estate and many other investments. Dubai's economy, which has been built on revenues from oil industries, currently accounts less than 10% of its GDP from petroleum. Today, Dubai's GDP is more than \$360 billion owing it to its prosperous investments, originated from oil revenues<sup>39</sup>.

### 6.1.2 Pre/Post Oil Saudi Arabia

If it weren't for oil, Saudi Arabia would have been known as the world's largest producers of dates. Back in the 1940s/50s, people in Saudi Arabia used to die from thirst; plenty of tribes used to migrate from south to north and then all the way back because of the unpleasant weather and environmental conditions. Since the country was mainly formed of a plain desert, there was nothing to grow and people relied heavily on foreign imports to fulfill their needs. The region was composed of several regions that lived off a plantation economy of growing dates and long-distance trades.

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<sup>38</sup> <https://en.wikipedia.org/wiki/Dubai>

<sup>39</sup> <https://www.quora.com/What-will-happen-to-Dubai-after-its-oil-runs-out>

It wasn't until the discovery of oil in the 1930s that the Saudis have started to establish and develop their country, which over time has become the most flourished oil-based economy in the world. Saudi Arabia is currently the world's leading oil exporter (which accounts to 97% of its petroleum earnings from its exports) and the second largest producer of oil with an estimated 260 billion barrels of proven reserves<sup>40</sup>.

In Jubail Saudi Arabia alone, there are 8 petrochemical companies which are: Kemya, Jubail United Petrochemical Company, Eastern Petrochemical Company-Sharq, Sadaf-Saudi Petrochemical Company, Sahara Petrochemicals, Tansee Jubail Petrochemical Complex, Advanced Petrochemical Company and Saudi Aramco Total Refining and Petrochemical. All eight of these companies are located near each other as seen in "Figure 1" below. Jubail is the host of the largest industrial city in the Middle East and has the world's largest Independent Water and Power Project (IWPP) producing 800,000 m<sup>3</sup> of water and 2743.6 MW of electricity daily (which is very impressive seeing as Saudi Arabia is considered to be a "desert")<sup>41</sup>. Despite the global economic depression of the oil market, the size of the Saudi petrochemical industry is estimated to triple<sup>42</sup>. Saudi Arabia by this time has as many as 80 new chemical plants under construction.

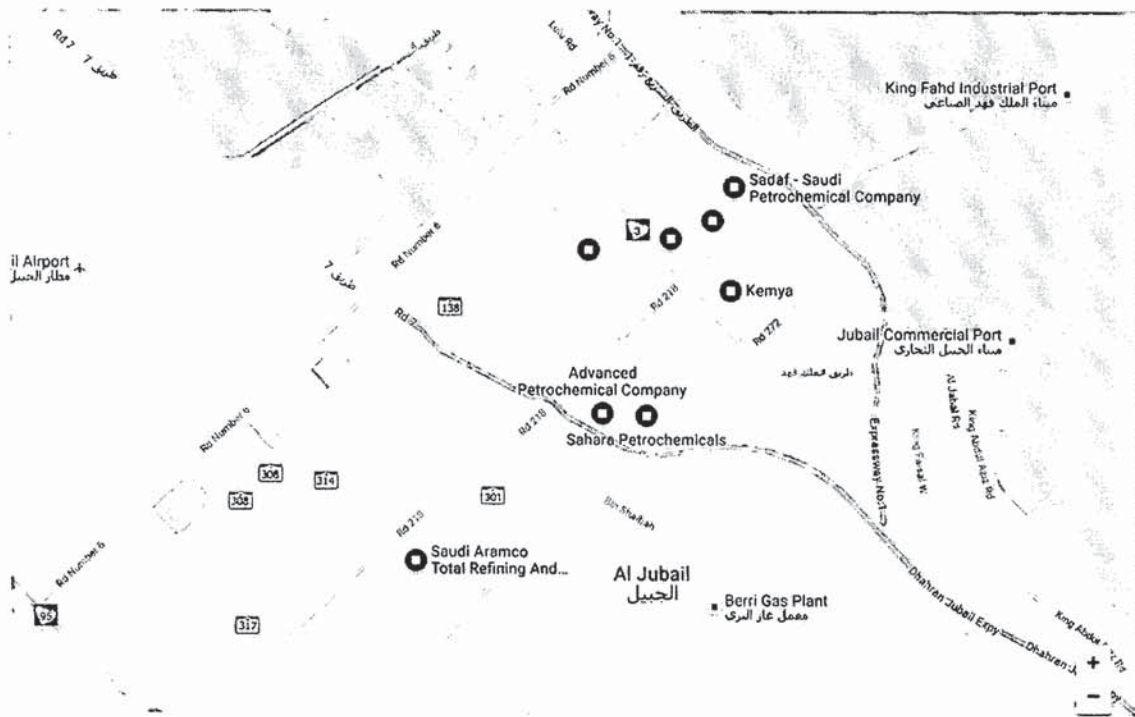
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<sup>40</sup> [https://en.wikipedia.org/wiki/Economy\\_of\\_Saudi\\_Arabia#Economic\\_overview](https://en.wikipedia.org/wiki/Economy_of_Saudi_Arabia#Economic_overview)

<sup>41</sup> <http://www.the-saudi.net/saudi-arabia/jubail/Jubail%20Industrial%20City%20-%20Saudi%20Arabia.htm>

<sup>42</sup> [http://www.us-sabc.org/files/public/petrochemicals\\_brochure.pdf](http://www.us-sabc.org/files/public/petrochemicals_brochure.pdf)

**Figure 1: Petrochemical Companies of Jubail, Saudi Arabia**



## 6.2 The Secondary Advantages of Oil on the Arab World

In reliance on the previous section and the following previous subsections of chapter 4: “4.2.1.1: Iran”, “4.2.1.2 Saudi Arabia and American Foreign Policy”, “4.2.1.3 Bahrain”, “4.2.1.4 Qatar”, “4.2.1.5 The United Arab Emirates” and “4.2.1.6 The Sultanate of Oman”. It will be labelled how the advantages that oil has given to many Arab oil-rich countries, have in turn positively affected other Arab states such as Lebanon, Egypt, Syria and other Arab countries in the Middle Eastern region.

Nowadays, the above mentioned oil-rich countries have a considerable stock of foreign labors. Immigration into these countries is historically and explicitly interrelated to the



expansion of oil resources. By 1972, there were around 800,000 migrant labors in the Arab Organization of the Petroleum Exporting Countries (OPEC); when the oil prices increased, the Gulf region quickly became in demand of foreign workers, and by 1975 the foreign labor force in the Gulf countries jumped to as much as 3.8 million migrant workers (40% of the total population back then).<sup>43</sup>

With their high-salaries oil-based economies, the countries of the GCC draw migrant workers from all over the globe. As GCC countries' flourishing economies grow rapidly, awareness of highly paid job opportunities in countries such as the UAE and Saudi Arabia are grabbing the attention of potential migrants from many developing countries, especially those from the surrounding area since many Arab states in the neighborhood have skilled and/or Arab speaking human resources, seeking economic opportunities and employment. According to United Nations (UN) estimates, in 2013 the UAE had the fifth biggest global number of immigrants in the world, with 7.8 million migrants<sup>44</sup>, seeking working opportunities and higher standards of living.

### 6.2.1 Lebanon

Migration from Lebanon to Arab Oil-producing states increased mostly within the escalation of oil prices during and after 1973<sup>45</sup>. Because of the economic opportunities, many Lebanese after World War II have migrated to work in the Arab World, particularly towards oil-producing Arab countries of the Persian Gulf such as Saudi Arabia and Kuwait. There are

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<sup>43</sup> Abella, 1994: 165

<sup>44</sup> <http://www.un.org/en/development/desa/population/migration/data/index.shtml>

<sup>45</sup> Marwan Maaouia, "Lebanese Emigration to the Gulf and Saudi Arabia," in Albert Hourani and Nadim Shehadi, eds., *The Lebanese in the World: A Century of Emigration*, The Center for Lebanese Studies (London: I.B. Tauris & Co. Ltd, 1992), p. 651.

estimated to be more than 120,000 Lebanese emigrants in Saudi Arabia, more than 80,000 in the UAE, more than 40,000 in Kuwait and more than 25,000 in Qatar<sup>46</sup>. According to the Lebanese former Minister of finance Mohammad Chatah in an interview with “As Safir” newspaper in 2008, about 350,000 Lebanese (which was equivalent to one-third of Lebanon’s total workforce) were working in the Gulf by 2008<sup>47</sup>.

Remittances from the Lebanese workers in the Gulf region have always played an essential role in the Lebanese economy and the well-being of Lebanese people. Remittances from Lebanese expatriates to Lebanese family members within Lebanon were estimated at \$8.9 billion in 2014 and accounted for 18% of the country's economy<sup>48</sup>. These remittances has often formed Lebanon’s most constant and secure financial inflow, as well as they have helped a lot during economic and political crisis in the country, especially for families that has been directly or indirectly affected by unemployment, underemployment and education fees during harsh times.

Gross remittance inflows, which are generating a positive multiplier effect in Lebanon when consumed, constituted around 20% of the Lebanese GDP as of 2008<sup>49</sup>, which makes out of Lebanon the largest country in the world that receives remittances according to its share in the GDP of the country; and this is mostly due to the increasing number of emigrants from Lebanon, especially towards the oil-rich Gulf countries.

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<sup>46</sup> [https://en.wikipedia.org/wiki/Lebanese\\_diaspora#cite\\_note-13](https://en.wikipedia.org/wiki/Lebanese_diaspora#cite_note-13)

<sup>47</sup> “Lebanon Starts to Feel the Pinch of Financial Crisis” Reuters, December 6, 2008, <http://www.gulfnews.com/BUSINESS/Economy/10265415.html>.

<sup>48</sup> “IMF lowers Lebanon growth forecast to sluggish 2 percent”. The Daily Star. 22 April 2013.

<sup>49</sup> “IMF Report Proposes Adding Remittances to Lebanon’s GDP,” Daily Star, September 30, 2009, [http://www.dailystar.com.lb/article.asp?edition\\_id=1&categ\\_id=3&article\\_id=106972](http://www.dailystar.com.lb/article.asp?edition_id=1&categ_id=3&article_id=106972).

## 6.2.2 Egypt

The first phase of emigration that Egypt has endured was to Libya in the early 1970s, the second one to Saudi Arabia in the late 1970s, and the third to Iraq during the mid-1980s. Egypt has around 2 million migrants in other Arab countries (half of which are in Saudi Arabia), and about 800,000 emigrants elsewhere (almost half in North America, and the rest in several European countries).“Figure 2”<sup>50</sup> shows the number of Egyptian migrants by country of location.

Figure 2: Number of Egyptian Migrants by Country of Location

<b>RECEIVING COUNTRY</b>	<b>Number of migrants</b>	<b>percentage</b>
<i>Saudi Arabia</i>	923.600	48,3
<i>Libya</i>	332.600	17,4
<i>Jordan</i>	226.850	11,9
<i>Kuwait</i>	190.550	10,0
<i>UAE</i>	95.000	5,0
<i>Iraq</i>	65.629	3,4
<i>Qatar</i>	25.000	1,3
<i>Yemen</i>	22.000	1,2
<i>Oman</i>	15.000	0,8
<i>Lebanon</i>	12.500	0,7
<i>Bahrain</i>	4.000	0,2
<b>TOTAL</b>	<b>1.912.729</b>	<b>100,0</b>

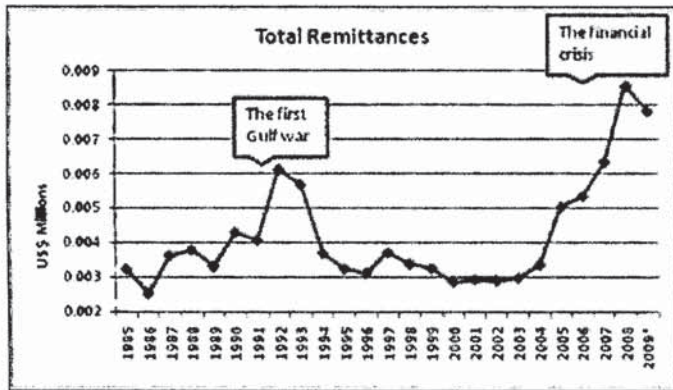
As stated above, within the Middle East, Egyptians migrated mainly to the oil-producing countries of the Gulf and Libya. “Figure 3”<sup>51</sup> shows the progress of Egyptian migrant remittances from 1985 to 2009. Egyptian emigrant remittances improved from around \$3.2 billion in 1985 until reaching \$8.5 billion in 2008. Saudi Arabia had been the most crucial source of remittances for Egypt until 2004 (reaching \$640 million by 2004). Since 2004, remittances from Kuwait have increased to the point that Kuwait has become the most significant source of remittances from the Gulf to Egypt, starting with \$922 million in 2004

<sup>50</sup> Anon. 2003: 32 (data from Central Agency for Public Mobilisation and Statistics)

<sup>51</sup> Source: UNCTAD and the Central Bank of Egypt

until reaching \$1594 million by 2009<sup>52</sup>. A braking in remittances' growth began in 2012 with the commencement of dropping in oil prices; this has eventually strained the earnings of Egyptian migrants, especially in oil-producing countries<sup>53</sup>.

Figure 3: Egyptian Migrant Remittances from 1985 to 2009



According to the bilateral data from the World Bank in 2012, Saudi Arabia ranked highest among all countries from which Egyptians send their remittances worldwide, contributing 28% of Egypt's total remittances, followed by Jordan with 19%, Kuwait with 11%, Libya with 10%, UAE with 5%, Qatar with 3%, Oman with 1% and Bahrain with 1%<sup>54</sup>. So, remittances' main chunk stems from oil-producing countries, particularly Saudi Arabia.

Although oil lies at the center of Saudi's economy, Saudi Arabia is recently considering many alternatives for decreasing its dependency on oil. This notion will be further elaborated in the upcoming section of this chapter, which will shed light on the alternative plans that

<sup>52</sup> <http://www.mei.edu/content/remittances-egyptian-migrants-overview#ednref1>

<sup>53</sup> <http://www.worldbank.org/en/news/press-release/2016/04/13/remittances-to-developing-countries-edge-up-slightly-in-2015>

<sup>54</sup> <http://www.econjournals.com/index.php/ijefi/article/viewFile/1477/pdf>

Arab rentiers have sought to adapt in order to shrink their dependency on oil by using oil-based wealth.

### 6.3 Oil Alternatives

Despite the tremendous revenues that oil has brought to the Arab countries, and considering the fact that oil is a scarce resource, and that using new technologies, many discoveries of crude oil reserves has been made in several countries; and considering the fact that many substitutes for energy supply are being pushed into replacing oil, some Arab states have already used its oil based returns and invested in many thriving sectors successfully. Some others are still in the process of planning into diversifying their economic revenues on many aspects, which will lessen their dependency on oil and lead to a prosperous outcome.

The oil market, taking into account its historical booms and busts, has fell to its deepest since the 1990s<sup>55</sup>. There are many reasons behind the drop in the price of oil, especially in the recent years; by looking at this issue from an economic point of view, the causes will be narrowed into the normal economic demand and supply of oil in the global market nowadays. Companies like Shell are using advanced technologies, by looking underneath lands and seas for “hard-to-find” petroleum reserves for the purpose of helping the world’s growing demand. With the development of new technologies, such companies became able to detect reserves of petroleum that were previously invisible in many areas around the globe. With all that being said, many countries including the U.S nearly doubled their domestic production of oil in the recent years, which has led to an excess of supply in the international market,

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<sup>55</sup> [http://www.nytimes.com/interactive/2016/business/energy-environment/oil-prices.html?\\_r=0](http://www.nytimes.com/interactive/2016/business/energy-environment/oil-prices.html?_r=0)

leading relatively to a huge drop in the prices of oil on the market. Global demand for oil on the other hand, has slightly decreased due to the fact that starting from vehicles to every other oil-based machine, they are becoming more fuel-efficient, and the global pressure by “eco-friendly” NGOs all around the world are spreading awareness regarding the reduction or replacement of oil as an energy source since its causing harm to the environment and global warming.

Oil-producing countries, and particularly those whose economies are based on oil like Saudi Arabia, will suffer if the prices of oil maintained their low quotas. Moreover, many analysts are predicting at least few years to come before oil returns to a price which was somehow the norm over the last decade<sup>56</sup>. So it is at the very interest and urge of an Arab rentier state like Saudi Arabia to start looking for an alternative plan; the most recent one has been declared around three months ago by the Deputy Crown Prince Mohammad bin Salman, and will be stated and clarified in the following subsection.

### **6.3.1 Saudi Arabia’s Newest Vision: Reducing the Dependency on Oil**

On April 25, 2016, the Deputy Crown Prince, Minister of Defense, and Chairman of the Council for Economic and Development Affairs Mohammad bin Salman declared Saudi’s goal to decrease the kingdom’s reliance on oil returns in the long run, by diversifying and expanding the sources of income, based on the fact that the value of oil has been widely fluctuating over the recent years and that oil is a limited resource.

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<sup>56</sup> [http://www.nytimes.com/interactive/2016/business/energy-environment/oil-prices.html?\\_r=0](http://www.nytimes.com/interactive/2016/business/energy-environment/oil-prices.html?_r=0)

As stated above, Income for the majority of Saudi's takings stems from the oil sector and oil products accounts; accordingly, lower oil returns and high spending have triggered a large budget deficit (which amounted at the end of 2015 to about \$98 billion or 15% of Saudi's GDP)<sup>57</sup>. Since these large deficits are backed up by drawings from monetary reserves and sales of assets; Saudi Arabia recognizes that this deficit cannot last and should be reduced and even eliminated in the near future. Therefore, Saudi's economic foundation must be quickly renovated from its base.

Bin Salman's intervening aim for the coming decade is to add massive resources outside the oil sector to increase the actual national revenues and taxation. That way, even when the oil industry is at its bottom, as is currently the case, the kingdom will be able to withstand large deficits. One of the plan's goals is to also reduce the unemployment rate, by aiming to generate 6 million new jobs by the coming 15 years. The suggested ways for achieving the economic targets of the plan include the development of tourism, health, finance and mining; including cuts in subsidies from the national budget spending for fuel, water and electricity, until reaching those who are needed the most. One wishful additional objective in this plan is to also replace arms imports by relying more on local production by the end of the coming year. This last objective is sought of as being also a way to diminish reliance on the U.S, based on the fact that the U.S-Saudi relations have deteriorated in the recent years.

In the aim of being able to finance and apply this plan, Saudi Arabia plans to issue 5% of its shares in Saudi Aramco on the Saudi stock market. Moreover, government capital fund will

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<sup>57</sup> Even S. & Guzansky Y. (2016), "Saudi Arabia's Vision 2030: Reducing the Dependency on Oil", INSS Insight, 819

be given to government companies in the kingdom, in the aim of enhancing and facilitating the diversification of state revenues.

In addition to this plan, the expansion of Saudi Arabia's plastics industry form an essential part of the Kingdom's overall economic diversification program. SABIC, which started as a polymer processing facility in 1956, is now the main supplier of raw materials for various national and international plastics and chemical processing enterprises. The successful growth of the country's plastics industry can be accredited to the Kingdom's Government commitment to industrially diversify through foreign investment. With greater foreign investments and new technological know-hows, the plastics industry in Saudi Arabia witnessed an important shift from basic to sophisticated products. By offering several financially supportive national policies and incentives, the Saudi Government, which inspires industrial joint ventures and licensing technology, moved the industry from import substitution to a significant growth in locally manufactured plastic goods.

This plan however does not imply that Saudi Arabia will retreat or reduce its focus on the oil industry; nor will it change its policy in the global oil market. On the contrary, in order to maximize revenues and minimize losses, it will keep a strong interest in readjusting oil prices in the market until reaching a higher level gradually; and for that it has several other strategies.



Other Arab oil-rich countries like the United Arab Emirates (UAE) is also focused on diversifying its economy and revenues through many sectors; and owing it to that, the UAE is surviving the worldwide drop of oil prices in the market successfully.

### **6.3.2 The United Arab Emirates' Ongoing Reduction on Oil Dependency**

According to the UAE's Deputy Prime Minister and Minister of Interior Sheikh Saif, the UAE's dependency on oil will shrink to just 5% of the GDP by 2021.<sup>58</sup> In addition to this statement made by Sheikh Saif in February 2015, he confirmed that only 30% of UAE's GDP is contributed by oil revenues as of 2015, which by itself is a 90% drop since the 1970s. Sheikh Saif has also stated some ideas for reducing dependency on oil in his plan for reducing the dependency on oil in the coming 5 years to just 5%; he emphasized that this percentage will be achieved through progressive patriotism, and that the future wealth of UAE will come from its investment in education.

The UAE has already witnessed success in many sectors from which industrial markets, through companies like "Strata" that manufactures parts for aircraft makers such as Boeing and Airbus airport. Furthermore, aviation and tourism sectors are also thriving, with Dubai International even becoming one of the best airports in the world after serving more than 70 million passengers last year.

Abu Dhabi's Crown Prince and Deputy Supreme Commander of the UAE Armed Forces Sheikh Mohamed Bin Zayed Al Nahyan has scheduled a nuclear plant to be ready by 2017

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<sup>58</sup> <http://www.arabianbusiness.com/uae-s-oil-dependency-fall-5-of-gdp-by-2021-581729.html#.V5yWwfm7iko>

for the UAE. With his declared nuclear program, Sheikh Mohamed aims to supply up to 25% of the country's total power. Likewise, Sheikh Mohamed echoed with Sheikh Saif's emphasizing on education, which according to his calculations will provide skill sets for the upcoming 25 years and more.

Moreover, according to Engineer Sultan Bin Saeed Al Mansouri who is the Minister of Economy of the UAE, the UAE aims to increase economic returns from Small and Medium Enterprises (SMEs) by 10% in 2021, for the purpose of diverting UAE's economy away from oil. In this speech made in 2015 at the third UAE Economic Outlook Forum, Al Mansouri also declares that UAE plans on improving the innovation sector by 5% in the coming 5 years, and the industrial sector by 6% as of 2025. Rashed Al Zaabi, who is the acting executive director of planning and statistics at the Abu Dhabi Department of Economic Development was also at the event, and stated that he expects Abu Dhabi's average growth rate to hit 4.2% in 2019. Al Zaabi also added that Abu Dhabi's non-oil sector is estimated to grow 5.3% in 2016<sup>59</sup>.

Besides, the UAE is known to be heavily reliant on foreign labor workforce, which will help in gaining and sustaining economic progress and high living standards in the country.

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<sup>59</sup> <http://gulfnews.com/business/economy/uae-on-right-track-to-reduce-oil-reliance-al-mansouri-1.1634095>

## 6.4 Final Word

With all that being said, even the most oil-dependent Arab countries are using their oil-wealth to diversify their economies and reduce their dependency on oil. Accordingly to that and to the other above indicated arguments, it can be confidently concluded that oil has been a blessing and a tool of development for the Arab world at the end of the day. Despite all the negative impacts that oil might have caused at times to certain Arab countries, the benefits that it has brought upon the economic and political landscape of the Arab world still by far outweigh those negative consequences.

What was possibly partially true regarding the negative aspect of oil on the Arab world's political and socioeconomic landscape is not anymore relevant or true in today's globalized world. That is why in Chapter 3, most of the references date back to the 1990s. This comparative approach was used to show how those negative arguments made by scholars back then are no longer valid; and to highlight the many blessings that oil and the West have brought upon the Arab world.

Let's also bear in mind that many of those negative influences that have been caused by the natural Arab culture and structure of some Arab countries (as mentioned in Chapters 3), would have most likely still existed without the presence of oil in the region, since it stems from the Arabic Islamic Shari'a, theology and culture.

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