



Political Economy of Oil

Politics of Middle East & North Africa
October 16, 2012

Oil as the Independent Variable

- The search for laws in political science
- Outcomes that we care about:
 - **Political:** state building, **regime type**, conflict, foreign policy
 - **Economic:** growth, redistribution and inequality
 - **Social:** group divisions and hierarchies, norms
- Empirical evidence that natural resource endowments have implications for many of these outcomes
- “Resource curse” or “paradox of plenty”

Oil and Regime Type: Mechanisms

- **Rentierism; no representation without taxation**
- **Resources for internal security**
- **Modernization effect (or the lack thereof)**

Timeline

- **1950s: 7 Sisters controlled 85% of world petroleum**
- **1960s: Rise of independent oil companies; OPEC formation**
- **1973: Oil Embargo after Arab-Israeli War; barrel prices rise.**
- **Mass nationalizations and the rise of state owned companies**

The Rentier State

- Rents as income derived from the “gifts of nature”
- Rent is external; can sustain economy without a strong domestic sector
- Only a few people are involved in generation of rents (creation of wealth)
- Government is the major recipient of rents <-- **State as Prize**

Rentier Effects

- **No representation without taxation; weak institutions**
- **Spending Effects:**
 - **Provision of benefits without representation: oil funded leaders often respond to demands for greater accountability with handouts**
 - **Patronage**
- **The case of Kuwait's pearl merchants**

Repression Effects

- **Use of force to block collective action**
- **Spending on military and internal security**
- **Compliance more cost-effective than dissent for risk averse actors in society**

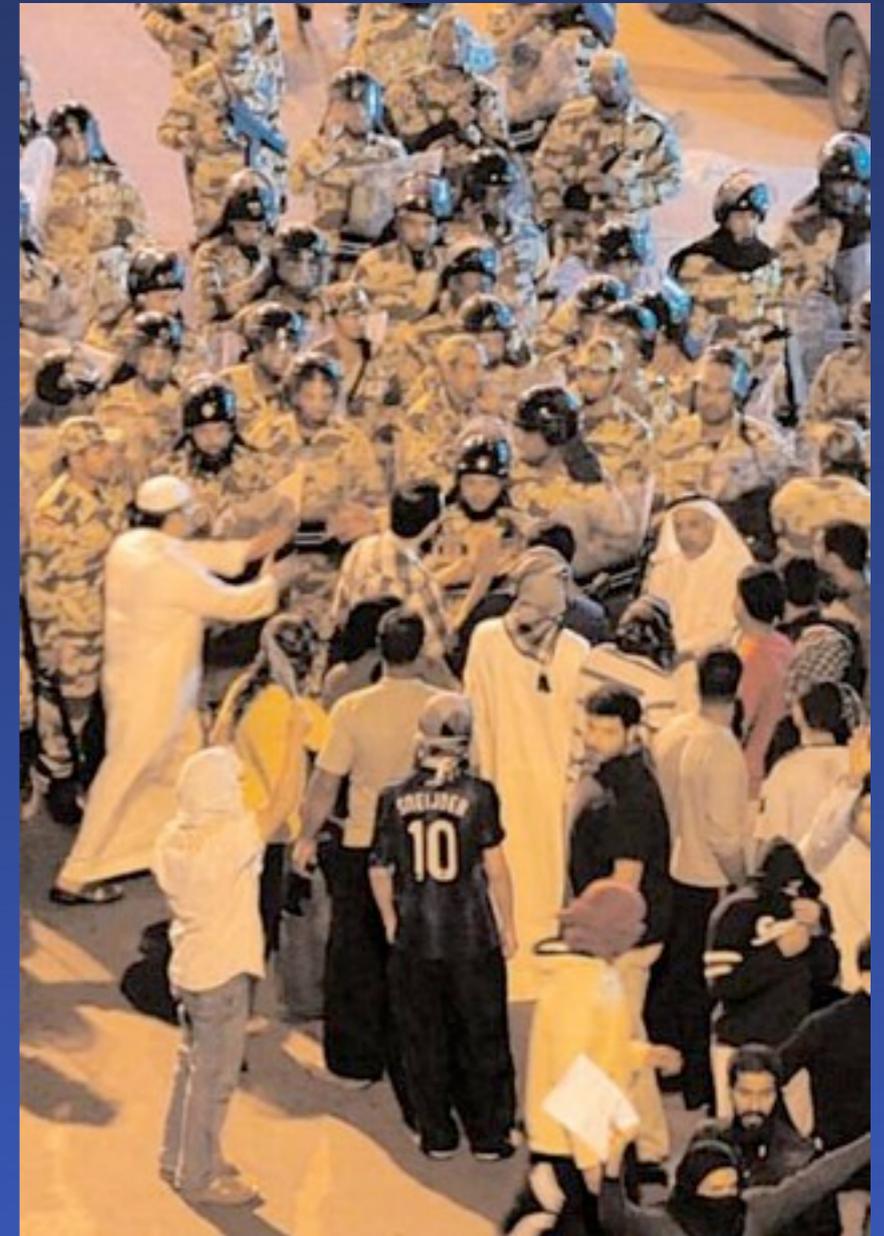
Saudi Arabia Case

- **1933: Concession granted to Standard Oil of California**
- **1950: King Abdul Aziz bin Saud threatens to nationalize - profit sharing agreement is reached**
- **Saudi Government acquires 25% stake after 1973 embargo and takes full control by 1980 - name changed to Saudi Aramco by royal decree in 1988**
- **World's largest company worth ~ \$780billion; state within a state?**



Saudi Arabia Case

- **Royal family's encounters with dissent**
- **Shi'ite minority in Eastern Province, fear of spillover from Iranian revolution**
- **1979: Seizure of Mosque in Mecca**
- **2011: Limited protests in Eastern Provinces; Hunayn Revolution**
- **2011 Reforms Package: welfare based**



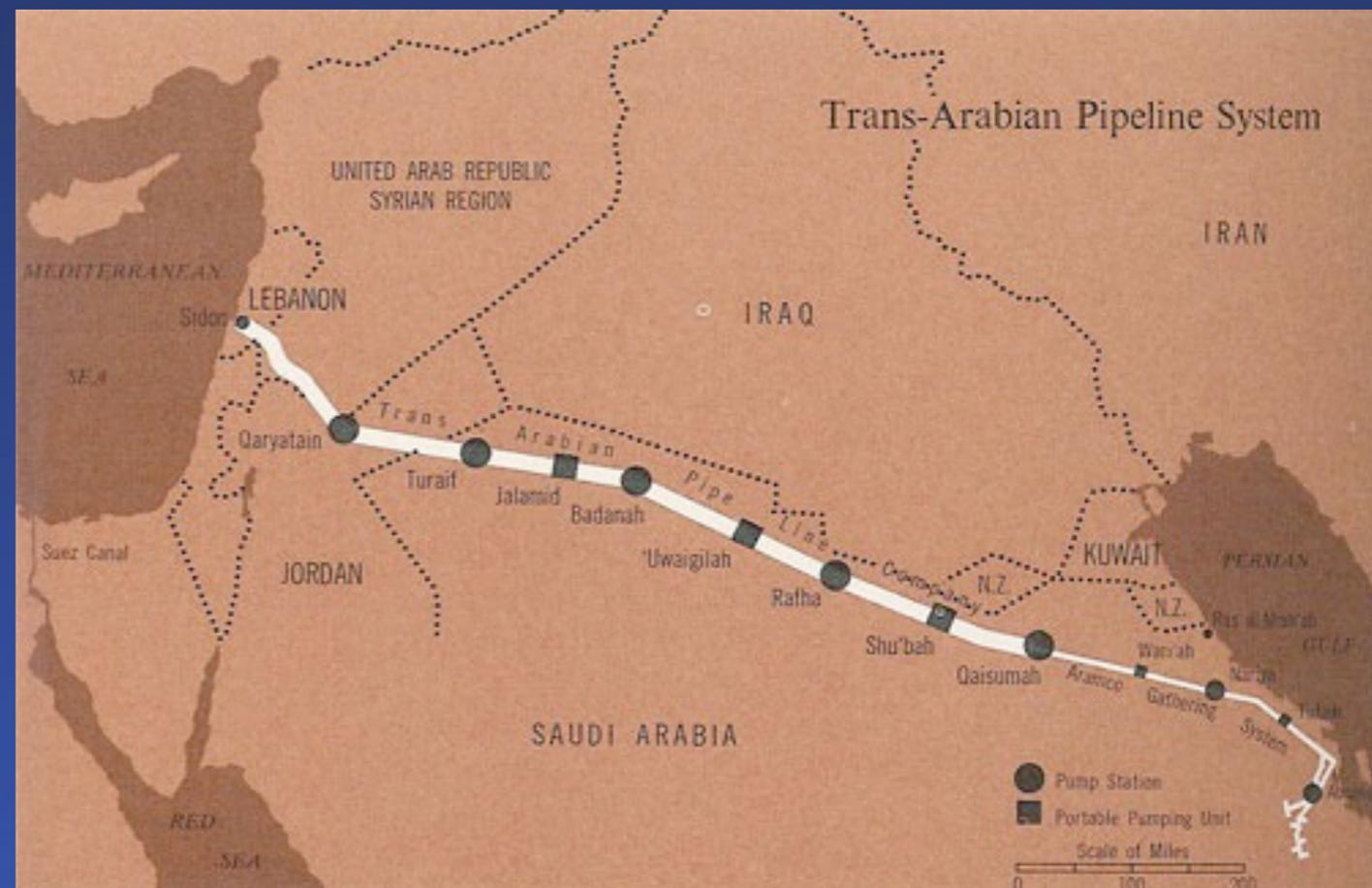
Carbon and Labor Power

- **Specific properties of different carbon-based fuels**
- **Vulnerability to political demands of labor**
- **Post WWII reorganization of fuel networks - rise of the transnational oil company as an actor.**
- **Oil as a surplus commodity, question of how to maintain profits. Strategies of control impacted regime type outcomes.**



Trans-Arabian Pipeline

- Joint venture of Exxon, Chevron, Texaco and Mobil to transport oil from Saudi Arabia to the Mediterranean
- Original point of termination was Haifa, site of British refinery. Rerouted through Syria in 1946 to avoid Palestine
- Political uncertainty as well as history of labor strikes (next slide)
- Syrian parliament refused to ratify agreement - bloodless coup d'état led by Husni al-Zaim (early experiment in CIA covert action?)



“The oil refinery at Haifa (The Consolidated Refineries Limited) is a foreign concern exempted from all payment of customs duties. Monopoly concessions have been granted to the Iraq Petroleum Company and to the Trans-Arabian Oil Company.

These concessions include the right - free of royalties, taxes, import duties or other payments, charges or compensations - to lay pipelines through any part of the country, to expropriate land, to seize any wood, stone, water and other local materials required, to import cheap labour regardless of existing immigration laws, to pass freely the border of Palestine, to build and use their own harbours, rail-roads, aerodromes and wireless stations, to exact port taxes for harbouring and loading, and to keep their own police force.

The population of Palestine does not derive even cheaper oil and petrol from these concessions, granted by the Government without any consultation of the people.”

(Samuel Mikunis - 1947)

Social Impacts of Oil

- **Economic underpinnings of culture and tradition**
- **Economic factors can shape incentives of social actors and the nature of their interactions**
- **Oil can cement ethnic identities and secessionist demands**
- **Impact on the status of women**

Status of Women

- **FLFP as an independent variable: FLFP impacts gender relations (income, contact and collective action, fertility decisions)**
- **FLFP as a dependent variable: oil booms can lead to low FLFP**
- **Labor markets are often occupationally segregated; women workers in developing economies tend to be clustered in low wage export oriented industries and agriculture**
- **Oil booms produce a “Dutch Disease” - shift in the economy from traded (agriculture and manufacturing) to non-traded sector (construction and services). This reduces “female jobs”**
- **Morocco and Tunisia - counterfactual?**

Take Away Points

- **Resource curse is a useful simplification; oil can't explain everything about the region's politics but it is an important variable**
- **Not all resources are the same**
- **Context matters: resource wealth and dependency can have different impacts; the "curse" has many caveats**
- **How do these theories bear upon our understanding of the events of the Arab Spring?**