



Democratization Barriers:

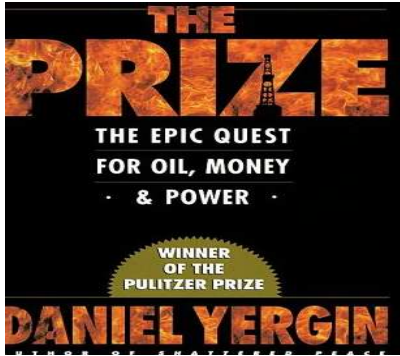
The Resource Curse, Socio-Economic Challenges and Regional Conflict



“Oil, it turns out, is a curse and one of the obstacles to the democratization of the region...

People are not demanding representation because the regime is a patriot state providing all the goodies. It completely alters the state-society relationship as we know it in the West.”

*~ Daniel Brumberg
Carnegie Endowment*



Oil: A Brief History



- ❑ Daniel Yergin's *The Prize: The Epic Quest for Oil, Money & Power*, explores the contours of the global politics of oil, capitalism, and international power.
- ❑ Believing the Middle East to be the largest repository of oil on the planet, the European powers carved up the remains of the Ottoman Empire after World War I with an eye toward claiming it as their “sphere of influence.”
- ❑ The need for oil also sparked World War II. Lacking reserves of their own, the Japanese attacked Pearl Harbor because they needed to conquer the Dutch East Indies but felt safer if they could first score a knockout blow that would frighten the U.S. and Britain into leaving them a free hand in the Pacific.



Oil: A Brief History



- ❑ Oil also played a dominant role in bringing World War II to an end. In 1945, Nazi Germany was still producing everything it needed to continue fighting the war – except oil.
- ❑ Beginning in the 1860's and continuing for more than a century, the U.S. was the world's largest producer of oil as well as its biggest consumer.
- ❑ By the early 1970's, America's demand for oil was still rising – even as production leveled off and then began declining.
- ❑ For decades, U.S. diplomatic and military strategy have been based on the belief that protecting oil-supply lines from the Middle East is essential to U.S. security (e.g. Carter Doctrine, U.S.'s 26 years of support for Shah's regime in Iran, first Gulf War, and 2003 Iraq incursion)



The Rentier State

- ❑ According to Giacomo Luciani's "Rentier State" theory, income generated from oil revenue is in fact a form of rent.
 - ❑ As a result, the vast amounts of income raised by the state have nothing to do with traditional methods of taxation and economic development which has always been related to popular rule, reform, and legitimacy.
 - ❑ The Arab Gulf States and Libya are rentier states *par excellence* – not only are citizens not obliged to make a substantial financial contribution to the state, but most are dependent (either directly or indirectly) on government expenditures (wealth of citizens mostly derived not from their own productive activity, but the state).
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The Rentier State

- ❑ Analysts have also argued that oil rents are “recycled” to poorer Arab countries, such as Egypt and Jordan, through remittances from workers living in the Gulf States.
 - ❑ Other scholars have argued that democratization in the Arab world has been also been impeded by the infusion of “strategic rent” from foreign powers in the form of economic and military aid and debt write-offs.
 - ❑ According to Michael Ross’s study “Does Oil Hinder Democracy?”, other social, political, and economic factors need to be examined in making the case that petroleum revenues do impede democratization.
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“Historically, nations that have a vital need for resources they lack are very likely to face one of two fates:

Dominate nations that can supply the need or be dominated by them. For no commodity is this truer than petroleum.”

~ Time Magazine



The Future of Oil

- ❑ As the most important energy source today, oil supplies about 40% of the world's energy and 96% of its transportation energy.
- ❑ From now to 2020, oil consumption will rise by about 60% - with transportation being the fastest growing oil-consuming sector.
- ❑ By 2025, the number of cars will increase to well over 1.25 billion from approximately 700 million today. Global consumption of gasoline could double.
- ❑ China and India, whose combined population account for 1/3 of humanity, are poised to be the two countries with the highest rate of growth in oil use. It will be imperative for them to secure their oil access.



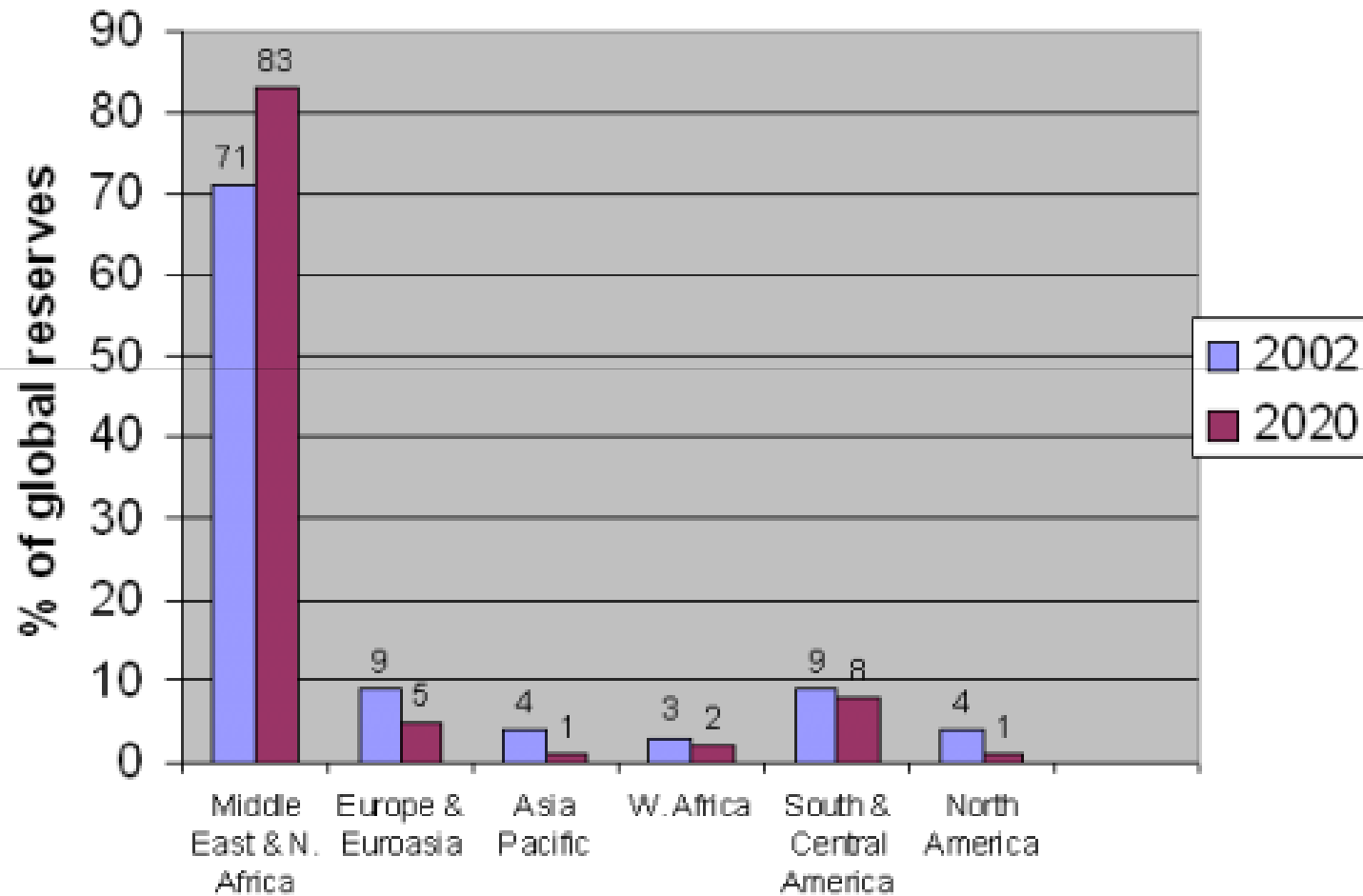
The Future of Oil

□ Where are the Oil Reserves?

Of the trillion barrels currently estimated:

- 4% Asia Pacific
 - 6% North America
 - 6% Former Soviet Union
 - 7% Africa
 - 9% Central and Latin America
 - 2% Europe
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- Today, **66% of global oil reserves** are in the hands of Middle Eastern regimes. By 2020, estimates place the figure at **83%**.
 - Saudi Arabia (25%), Iraq (11%), UAE (9%)
 - Kuwait (9%), Iran (8%), Libya (2%)

Share of global reserves based on current production rates





As demand for oil grows, the energy and national security concerns that stem from reliance on a single energy resource that is unevenly distributed throughout the world will be intensified:

- A handful of Middle East Suppliers will most likely regain the influence they had in the 1970's and be able to dictate the terms on global oil markets – thereby, manipulating oil prices and world politics.
- Middle Eastern producers will continue to use their oil revenues to increase their military expenditures, fuel an arms race and undermine regional stability.
- Corrupt, oppressive regimes will continue to use oil revenues as a means to maintain power.
- The U.S. will need to keep increasing military presence in the region to ensure access to remaining oil (more anti-American sentiment, more conflict).
- Mounting tension between U.S. and China – as they compete for oil resources in the Middle East.



Implications of High Oil Prices

- In periods of record-high oil prices such as the present, the major oil producing regimes will find it easier to avoid political and economic reforms.
- Public sector domination of private activity, restrictive measures on foreign investment, and high government spending will likely continue to be the order of the day – as one scholar noted there is very little incentive for reform in such an environment and “With over \$50 oil, you can cover a multitude of political and economic sins.”
- Oil prices rise and fall in cycles (not likely to fall in the next 2-5 yrs), however, when prices fall the demands for political change will become extremely acute and regimes will have fewer resources to counter those demands.



Oil Crises

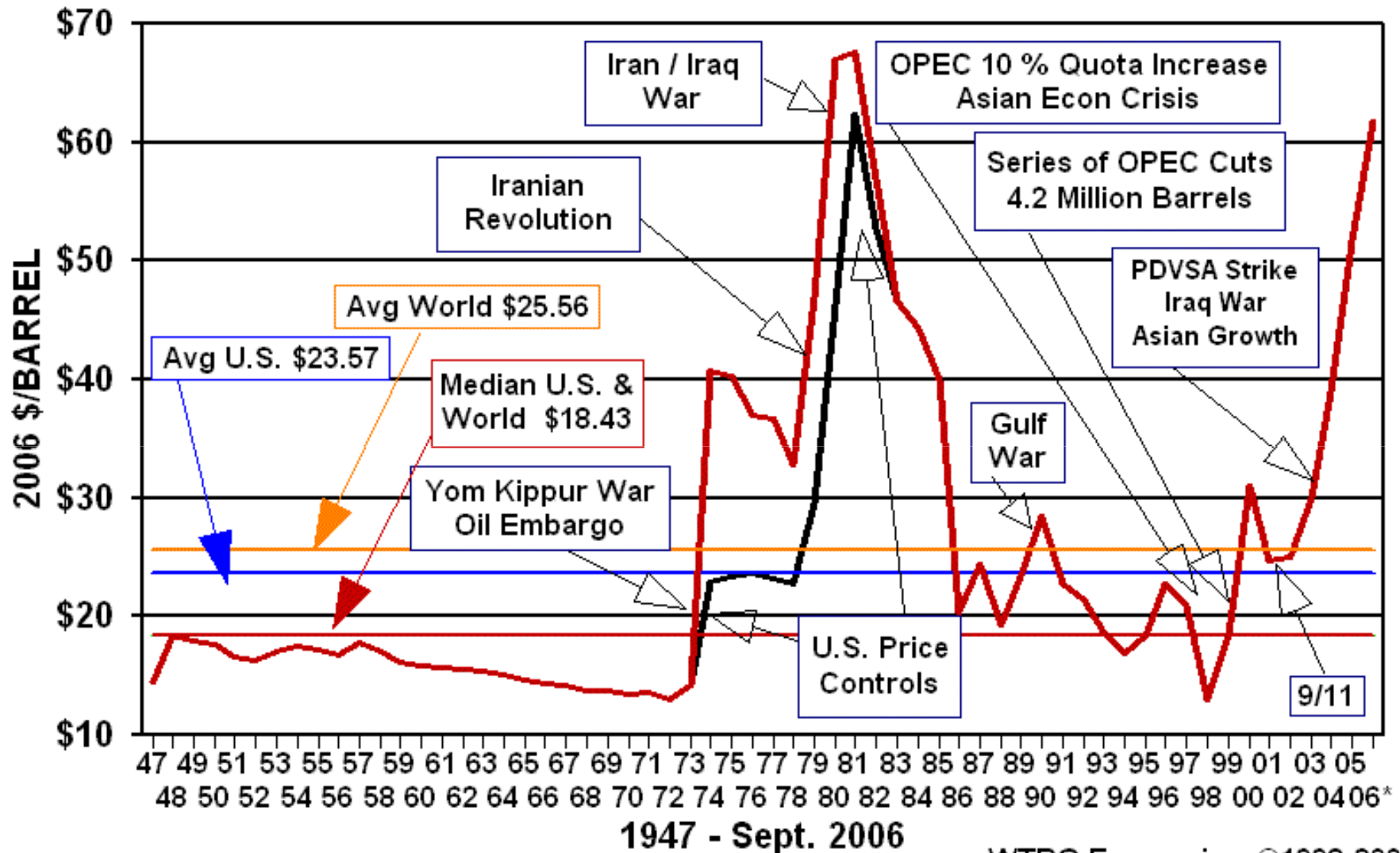
- ❑ **1973 oil crisis:** an OPEC oil export embargo by many of the Arab oil-producing states in response to western support of Israel during the Yom Kippur War.
 - ❑ **1979 energy crisis:** the Iranian revolution – the oil price spike in the early 1970's sparked massive overspending; when prices fell in the late 1970's, the associated economic problems and political discontent along with the Carter Administration's stance served to undermine the Shah's regime.
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Oil Crises

- **1990 energy crisis:** This third energy crisis was milder and more brief than the ones in '73 and '79. Resulting from the first Gulf War and lasting only six months, disruptions resulted as a result of Saddam setting Kuwait's oil field on fire during his retreat. During this crisis, oil hit a then-record of over \$40 dollars a barrel.
- **Oil price increases of 2004-2006:** Beside other regional conflicts in the Middle East, near-stagnant world oil production in the face of increasing demand from the U.S. and China has fueled these increases. Standard crude oil was under \$23 per barrel in 2003 - by early 2006, prices skyrocketed well over \$60 per barrel.

Crude Oil Prices 2006 Dollars



— U.S. 1st Purchase Price (Wellhead) — "World Price" *

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Socio-Economic Challenges

- ❖ According to “modernization theory”, economic development propels societies toward participatory forms of government.
- ✓ Mass education, for example, is said to produce “a more articulate public that is better equipped to organize and communicate.”
- ✓ Higher levels of occupational specialization produce an autonomous workforce “with specialized skills that enhance their bargaining power against elites.”
- ✓ Advances in healthcare and greater income equality are said to promote democratization by satisfying the basic medical needs of citizens – allowing them to embrace post-materialist values such as freedom and self-expression.



Socio-Economic Challenges

- ❖ Although “modernization theory” posits valid hypotheses and propositions, explaining the Arab democratic deficit remains challenging given the socio-economic indicators:
 - ✓ Most SES indicators in the region are relatively high by Third World standards and have been rising steadily for decades.
 - ✓ Only major exception – Arab world’s literacy rate at 57% in mid 90’s, ranking well below those of East Asia and Latin America.
 - ✓ There is evidence that low literacy rates and internet usage rates factor heavily in the enduring authoritarianism of the region (Syria).
 - ✓ The internet’s contribution to democratic and participatory politics is gaining recognition, with Iran paving the way (The explosion of 700,000 blogs on the web in Farsi is shaping new forms of political discourse in Iran).



Regional Conflict

- The Arab-Israeli conflict continues to be tremendously important to Arabs and Muslims at a symbolic level. As long as it is unresolved, it will hinder political liberalization in the region.
- ✓ The pervasive sense of insecurity caused by the conflict facilitates a “rally-around the flag” effect that de-legitimizes internal critics.
- ✓ The conflict creates a rationalization for the diversion of national resources into excessively strong national security establishments.
- ✓ Regimes use the conflict as an excuse for domestic repression, and the public is more willing to tolerate repression in a conflict-oriented environment.



Regional Conflict

- Democracy cannot flourish without the establishment of a secure environment. Lebanon and Iraq are prime examples where sectarian strife has created a volatile mix – one that undermines the efforts to build stable democratic institutions.
- ✓ Although the “Cedar Revolution” gained momentum as a result of the domestic outrage of the assassination of Prime Minister Rafiq Hariri and Syrian forces were forced to withdraw, this popular movement was overshadowed by the Hizballah-Israeli conflict. Today, Lebanon is more divided and Hizballah continues to justify its armament on the grounds that it provides a deterrent against Israel.
- ✓ The sectarian strife in Iraq and the insurgent stronghold in the country continues to impede significant progress in security, development and freedom for the Iraqi people.

“At times, the U.S. has avoided scrutinizing the internal workings of countries in the interests of ensuring a steady flow of oil...

Yet by failing to help foster gradual paths to democratization in many of our important relationships – by creating what might be called a “democratic exception” – we missed an opportunity to help these countries become more stable, more prosperous, more peaceful, and more adaptable to the stresses of a globalizing world. It is not in our interest – or that of the people living in the Muslim World – for the U.S. to continue this exception.”

~ Richard Haas, State Department (Former Director of Policy Planning)

