

## **COLLABORATIVE COLONIALISM**

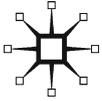
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**Collaborative Colonialism**  
**The Political Economy of Oil in the**  
**Persian Gulf**

Hossein Askari

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COLLABORATIVE COLONIALISM

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*To Rodrigo and Inês*

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# Foreword

*Robert E. Looney*

Distinguished Professor, Naval Postgraduate School, Monterey

Would the Gulf region have been better off if oil had never been discovered? While it is difficult to come up with a credible counterfactual charting how development might have taken place in the absence of oil, Professor Askari's fascinating assessment leaves no doubt that oil's corrosive effects, both directly and indirectly, have been a blight on the region.

Like the lottery, the oil curse and its variants have intrigued observers for some time. Outcomes for individuals winning the lottery routinely range anywhere from a disaster—lavish living that often leaves the winner in the end divorced, financially ruined, and occasionally homeless—to the other extreme of the secure, comfortable life of a coupon clipper.

Unfortunately such a spectrum of outcomes stemming from the fortuitous possession of oil reserves has not developed in the Gulf. The result, outside of relatively small group of elites especially in the larger economies of Iran, Iraq, and Saudi Arabia, has in nearly all cases been a disaster—dismal economic growth rates except for short bursts of oil-financed growth, and even less satisfactory progress in most of the key measures of human development. The region is home to many lost lives and few coupon clippers. The social contract many governments forged with their populations during the oil boom years are now fraying under the weight of rising expectations and rapidly expanding populations.

Throughout the book one senses Professor Askari's disdain for the region's callous and often corrupt leaders as he leads us through the grim terrain: With oil-financed governments less accountable, the region's populations have experienced more repression and less in the way of freedoms relative to other parts of the world. The region has no doubt experienced more wars and conflicts than would have

occurred in the absence of oil. Outside interference from the major world powers has eroded the confidence of large segments of populations in their leaders, while radicalizing others.

With governments deriving large chunks of their revenues from oil, relatively little attention has been devoted to developing a dynamic private sector. In fact, many governments have gone out of their way to discourage entrepreneurship and the creation of private-sector wealth on the fear that competing power-base might challenge their authority. With stagnant private sectors and governments unable to fulfill their traditional role of employer of last resort, unemployment rates are soaring in countries even as well-endowed as Saudi Arabia. Even individuals that may have benefitted from subsidized food and fuel are facing the stark reality that their dysfunctional governments are unable to sustain these handouts and as such are facing the prospect of rapidly falling standards of living.

The associated Dutch Disease (strengthening of the real exchange rate) has impeded economic diversification and decimated agriculture in countries like Iran and Iraq, leaving many of the rural populations little alternative but an uncertain future in a unfamiliar urban setting. Iraq's per capita income today, despite having potential oil reserves possibly as large as those in Saudi Arabia, is probably what it was around 1950. Despite the mullahs' vow of radically changing the structure of the Iranian economy, little change in this regard has taken place since the shah's day.

Ironically the Arab spring forces sweeping through the region have brought little in the way of fundamental change in the oil countries. The government's large military and security budgets have helped preserve the regimes, while stepped up subsidies and handouts have bought a few more years of domestic peace. In short, oil has enabled governments to be unaccountable to their populations, pursue irresponsible and inept policies, and deny future generations their rightful legacy.

Is there any way out of this calamity? Orthodox economists from international agencies such as the IMF often point out that the solution is simple—economic reforms combined with improved governance in areas such as: control of corruption, rule of law, government effectiveness, voice and accountability, and regulatory quality.

Less orthodox observers suggest the countries should adopt some sort of institutional evolutionary approach such as the Chinese model—build on what works and gradually move their economies into the global economy, where competition, capital flows, and imported technologies will enable these countries to eliminate poverty and quickly catch up with their peers in other parts of the world.

Professor Askari knows the region all too well to subscribe to these naïve approaches. Realistically, few significant reforms are likely to proceed without an alternation of the relationship between the region's governments and the major Western powers. As Professor Askari documents, the interaction between the governments of the Gulf Monarchies, Western powers, and their oil companies has evolved into a form of colonialism—"collaborative colonialism," whereby first Britain and now the United States provide protection for the regimes, in return for secure oil supplies. An equilibrium has developed whereby collaborative colonialism enriches the Monarchies and their foreign supporters. The message is clear: it is US support that has impeded change.

With time, this equilibrium is likely to weaken as the United States becomes less dependent on Gulf oil. The shale-oil revolution along with expanded production in Iraq is likely to fundamentally alter oil markets, with prices and revenues set to decline. No longer being able to count on Western protection the Monarchies may turn towards China, but it will be some time before China will be able to provide adequate support and protection. With falling revenues and Western support in decline, the region's restive populations will be more and more difficult to control.

Clearly the countries in the region, especially the Monarchies, are on an unsustainable path. The stable equilibrium forged with the West is weakening, with Arab spring winds blowing in from all sides. Reading Professor Askari's book is like watching a train wreck from afar. You know a disaster is going to happen, and it's just a matter of time. Many authors, especially those in the West, might shrug at the hopelessness of the situation and end their assessment at this point.

Instead, Professor Askari provides a solution that embodies a basic sense of compassion and fairness that runs throughout the book. Without going into detail, his proposal for the creation of intergenerational oil funds provides for a fair, equitable, and hopefully peaceful transition to sustainable growth. As one might gather, while the book is titled political economy, it is much more. It integrates the region's economic history, politics, and religion with the author's deep sense of fairness and compassion for the population.

Professor Askari adds a fascinating personal touch to the volume by sharing some of his reflections as a privileged boy growing up in Iran. What if Mossadeq had not been overthrown? How might things have been different? Would the mullahs have come to power? Of course there is always the question of what the country would have been like without oil. An industrial rival of Turkey, with an Iranian Ataturk

leading reforms? It's interesting how these what-ifs have haunted him over the years—providing perhaps the necessary reflection and stimulation to undertake the current volume.

There are only a handful of people in the world who could undertake such a broad-sweeping account of this important region. Professor Askari's economic skills, understanding of Islam, knowledge of history, compassion, and basic sense of justice combine for a significant contribution to our understanding of the forces that have shaped the region and will continue to effect developments there. Hopefully his advice for the region's rulers will be taken seriously before it's not too late. Are there some things left out or incomplete? Perhaps, but if so all the better. I for one am eagerly awaiting Professor Askari's next book.

## Preface

Over the years, Islam and oil have been the two principal forces shaping developments in the Persian Gulf and in the broader Middle East. While Islam has been the foundation and scaffolding for some 1,400 years, oil has been a relative newcomer in framing events in the region, with oil production initiated in Iran about 100 years ago, gaining global and regional significance after World War II and capturing global headlines beginning in 1973–1974.

Today oil and the Persian Gulf are by all accounts inseparable. It is tough to mention one without the other. Even other words that are commonly associated with the Middle East or the Persian Gulf are perceived as being inextricably linked to oil: cartels, boycotts, sanctions, terrorism, military expenditures, corruption, dictatorships, conflicts, wars, revolutions, foreign meddling, and, yes, even Islam. How did the countries of the Persian Gulf become so associated with oil? How have the political, religious, and social structure of these societies affected the way oil has been exploited, and in turn, how has oil affected these societies—their human, political, and economic development, and their relations with the outside world? What does it all mean for the future? We examine these questions and implications of oil for the Persian Gulf, or what one might loosely label the “political economy of oil in the Persian Gulf.” As we will see, over the last 75 or so years, most of the significant developments in the Middle East region are in some way related to oil—inefficient institutions, the absence of the rule of law, corruption, economic failure, wars and conflicts, foreign interference, foreign relations, and more.

In short, the Persian Gulf and the Middle East conjure up Islam and oil, as Islam and oil conjure up the Middle East and the Persian Gulf. The Middle East, Persian Gulf, Islam, and oil are words that have become almost inseparable to most of our minds.

Before the discovery of vast quantities of oil in the Persian Gulf, the countries (or in some cases sheikhdoms) were poor (especially those

that had little non-oil natural resources, such as Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates), politically and socially backward, and looked to the West for direction. Today, a century later, the countries of the region are much the same, but with a façade of unimaginable wealth and ostentatious living on the part of rulers and their supporters—especially in the countries that have extraordinary per capita oil (and natural gas) wealth—more regional conflicts, and more foreign meddling than ever before in the affairs of the region. While most former colonies have been cut loose, countries of the Persian Gulf, though technically not colonies, have been pulled in the opposite direction and arguably reined in. What has been the political and economic manifestation of oil—the political economy of oil—that has shaped the region in this way? Will the future necessarily be the same?

We hope to demonstrate that the production of oil and the promotion of weak institutions (because effective institutions undermine corrupt rule) in the Persian Gulf countries have harmed citizens politically, socially, and economically, possibly leaving some countries worse off than had oil never been discovered on their land. While a number of these countries may appear to have been transformed with high levels of per capita GDP today, their economies are fundamentally unsustainable (built upon the depletion of oil) and unstable (with an unjust foundation and little popular backing). In support of this proposition, we make four essential claims: (i) effective institutions are at the foundation of political, social, and economic progress in this region just as they are in any other region, but their development has been undermined by unelected rulers who are motivated by the accumulation of wealth for themselves and their supporters; (ii) oil has not only hindered the development of good institutions but also skewed the interests of rulers and elites to such an extent that they actively prevent the creation of sound institutions; (iii) although all Persian Gulf countries were exploited by the governments of colonial and neocolonial powers in the past, today most of the rulers of these countries solicit the support of those same foreign governments, their current and former senior government officials, their multinational companies, and their influential lobbyists to exploit their own countries for personal gains—what we will call “collaborative colonialism”; and (iv) with so much wealth at stake, foreigners have not given up control of these countries (though not technically colonies), as they more or less did with former colonies, nor have these countries freely developed with all the ups and downs that the process entails. We believe that the discoveries of vast quantities of shale gas around the

world and the increasing competitiveness of unconventional crudes (from shale and tar sands) and renewables have definitively changed the global energy outlook. As a result, the countries of the Persian Gulf have less time than they might have ever imagined to transition to “oil-less” economies. In the process, we will address and expunge a number of popular myths, including: the United States supports dictators to maintain stability and to guarantee the “flow” of oil at a “reasonable price” for the United States, its allies, and the world at large; and Islam impedes development and progress.

Our goal is to shed light on how oil has affected the region’s political, human, and economic development, its external relations, indeed its fabric, and why there is more urgency than ever before to adopt foundational political and economic reforms. In the first half of the book, we take a chronological look at how the political structure of these countries and their relations to the outside world affected the exploitation of oil, how the role of oil grew, and how oil extraction shaped political and economic developments in these countries over the past one hundred years. In the second half of the book, we explore the impact of oil on development and on conflicts in the region as well as on the region’s relations with the world at large. We examine how foreign interests in the region first exploited the region’s oil as colonialists and then supported rulers to exploit the region’s wealth as collaborative colonialists. We conclude by suggesting how the role of oil can be transformed into a positive force in the future as the region transitions to non-oil-based, or oil-less, economies.

We have endeavored to limit our use of tables, graphs, and data. Instead, we hope to present a narrative that is sufficiently clear to require little use of numbers. For the reader wanting more background and explanation, we provide a little extra information in a number of short appendices.

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