Will Oil Drown the Arab Spring?

Democracy and the Resource Curse

Michael L. Ross

MICHAEL L. ROSS is Professor of Political Science at the University of California, Los Angeles [1], and the author of the forthcoming book The Oil Curse: How Petroleum Wealth Shapes the Development of Nations [2].

Even before this year's Arab uprisings, the Middle East was not an undifferentiated block of authoritarianism. The citizens of countries with little or no oil, such as Egypt, Jordan, Lebanon, Morocco, and Tunisia, generally had more freedom than those of countries with lots of it, such as Bahrain, Iraq, Kuwait, Libya, and Saudi Arabia. And once the tumult started, the oil-rich regimes were more effective at fending off attempts to unseat them. Indeed, the Arab Spring has seriously threatened just one oil-funded ruler -- Libya's Muammar al-Qaddafi -- and only because NATO's intervention prevented the rebels' certain defeat.

Worldwide, democracy has made impressive strides over the last three decades: just 30 percent of the world's governments were democratic in 1980; about 60 percent are today. Yet almost all the democratic governments that emerged during that period were in countries with little or no oil; in fact, countries that produced less than $100 per capita of oil per year (about what Ukraine and Vietnam produce) were three times as likely to democratize as countries that produced more than that. No country with more than a fraction of the per capita oil wealth of Bahrain, Iraq, or Libya has ever successfully gone from dictatorship to democracy. Scholars have called this the oil curse, arguing that oil wealth leads to authoritarianism, economic instability, corruption, and violent conflict. Skeptics claim that the correlation between oil and repression is a coincidence. As Dick Cheney, then the CEO of Haliburton, remarked at a 1996 energy conference, "The problem is that the good Lord didn't see fit to put oil and gas reserves where there are democratic governments."

But divine intervention did not cause repression in the Middle East: hydrocarbons did. There is no getting around the fact that countries in the region are less free because they produce and sell oil.
Oil has not always been a barrier to democracy. Until the early 1970s, oil-producing countries were no less likely to be democratic than any other state. Ironically, this was because until that point, the so-called Seven Sisters, a handful of giant Western oil companies, dominated the global oil industry and collected most of its profits. This meant that the governments of countries with a lot of oil had no more funding, and no more power over their citizens, than the governments of countries without oil.

Starting in the 1960s and early 1970s, however, all this began to change. First, the Seven Sisters lost their stranglehold on the global oil market due to the rise of independent oil companies such as Getty Oil, Standard Oil of Ohio, and the Italian state-owned Eni. Meanwhile, oil-exporting states banded together to create the Organization of the Petroleum Exporting Countries, or OPEC, which boosted their leverage over the old and new companies. These developments, along with the Arab oil embargo that followed the 1973 Arab-Israeli war, caused oil prices to jump from $2.50 a barrel in 1972 to about $12 a barrel in 1974. Eager to capture the resulting windfalls, virtually all developing countries expropriated the foreign oil companies operating on their soil and set up national oil companies to manage them.

These nationalizations brought with them massive influxes of new wealth and so were hugely popular; they made the careers of many politicians. Shortly after coming to power in a 1969 military coup, for example, Qaddafi began to nationalize his country's oil industry, which gave him control over a flood of revenue. He then spent it funding his revolutionary agenda and buying off powerful tribal chiefs who might otherwise have been a threat to his rule. The architect of Iraq's oil nationalization was the vice chair of the Revolutionary Command Council, Saddam Hussein. Saddam's prominent role in the seizure of international oil interests was his "gateway to fame," according to his biographer Con Coughlin. And his control over the resulting torrent of oil money allowed him to eventually displace Ahmad Hasan al-Bakr as Iraq's president.

Nationalization made the governments of oil-exporting countries richer and more powerful than ever before. But it was a mixed blessing for the citizens of these countries. The daunting wealth and economic power that was once held by foreign corporations passed into the hands of politicians. Rulers across the region used some of the oil wealth to fund social programs to improve public services and appease their populations. That helped them survive the wave of democratization that swept the globe in the 1980s and 1990s and chased scores of other dictators out of office.

Since then, control over oil revenue has helped autocrats stay in power in three main ways. First, it has allowed them to buy off citizens by providing them with many benefits with virtually no taxation. The relationship between taxation and representation has always been close: when rulers want to raise taxes, citizens demand accountability. In colonial America, frustrated subjects revolted against Great Britain in part because they had to pay taxes even though they were unrepresented in the British parliament. In the Middle East today, oil-funded leaders typically respond to demands for greater accountability by offering new handouts, lowering taxes, or both -- and this usually works. In 2011 alone, for example, Algeria announced plans to invest $156 billion in new infrastructure and cut taxes on sugar; Saudi Arabia directed $136 billion to increasing wages in the public sector, unemployment benefits,
and housing subsidies; Kuwait offered each of its citizens a cash gift of 1,000 dinars (about $3,600) and free food staples for 14 months. Autocrats with little or no oil wealth -- Zine el-Abidine Ben Ali in Tunisia, Hosni Mubarak in Egypt, and Ali Abdullah Saleh in Yemen -- made similar gestures, but their pledges were much smaller and therefore less effective.

Second, autocrats who get most of their funding from national oil industries find it easier to keep their countries' finances secret. Secrecy helps give oil wealth its democracy-repelling powers: citizens are satisfied with low taxes and seemingly generous benefits only when they do not realize how much of their country's wealth is being lost to theft, corruption, and government incompetence. Under Saddam, more than half of Iraq's national budget was funneled through the Iraq National Oil Company, the finances of which were never disclosed. A 2010 survey by the International Budget Partnership found that autocracies in the Middle East that have little or no oil, including Egypt, Jordan, and Morocco, release at least some information about their finances; by contrast, oil-rich autocracies, such as Algeria and Saudi Arabia, disclose almost nothing. It is worth remembering that the revolts in Egypt and Tunisia were sparked by the people's growing awareness of government corruption.

Finally, oil wealth allows autocrats to lavishly fund -- and buy the loyalty of -- their armed forces. Iranian President Mahmoud Ahmadinejad, for example, has given billions of dollars in no-bid contracts to businesses associated with the elite paramilitary Revolutionary Guards. Globally, autocrats without oil wealth spend about two percent of their countries' GDPs on their militaries, whereas their colleagues with oil wealth, who already have much larger budgets, typically spend about three percent. Oil-poor Tunisia, for example, spent $53 per capita on its armed forces in 2008; its oil-rich neighbor, Algeria, spent $141 per capita and had far fewer protests. Some of the world's biggest oil producers, including Oman, Saudi Arabia, and the United Arab Emirates, are also some of its biggest military spenders. This spending has payoffs: when the citizens of Oman and Saudi Arabia took to the streets earlier this year, their armies proved relatively willingly and able to suppress them.

WELL-OILED DEMOCRATIZATION

None of this means that oil will drown the Arab Spring or that the oil states of the Middle East are doomed to dictatorship. Over the last 12 years, Indonesia, Mexico, and Nigeria have all successfully made the transition to democracy. And all have oil.

But things will not be easy for the Middle East. Indonesia, Mexico, and Nigeria were only moderate oil producers (Indonesia barely has enough oil to export), and all three opened up politically in 1999 or 2000, shortly after oil prices hit their lowest point in almost 30 years. In fact, the last country with substantial oil wealth to successfully democratize was Venezuela, and that was in 1958. And Venezuela profited from the fact that it had a history of democratic rule and an unusually well-organized labor force, which undermined the military regime's power. But the oil-rich countries of the Middle East are very different. None has had much previous experience with democracy. And most of them have a lot more petroleum than Indonesia, Mexico, and Nigeria: Bahrain, for example, makes more than three times as much money from oil per capita as Venezuela did in 1958 (even after adjusting for inflation), Libya six times as much, and Saudi Arabia more than seven times as much. No country with more oil wealth than Venezuela, which in 1958 produced about 2.5 million barrels of oil a day, has ever successfully democratized.

That is not to say that the Middle East's oil-funded rulers could never fall. The spread of the Internet could make it
harder for autocrats to conceal government waste and corruption. Meanwhile, oscillating oil prices and government mismanagement could drain their coffers and force them to cut popular subsidies. The shah of Iran's ouster in 1979 followed a similar mixture of corruption that benefited the elite and austerity measures that hurt the lower and middle classes.

Yet even if the Middle East's oil-backed dictators were replaced by elected leaders, the specter of authoritarianism would continue to loom. The region's dictators and monarchs have used oil revenues to finance vast patronage networks, which typically entangle both these regimes' supporters and their potential opponents; these networks make it harder for independent civil-society groups to take root. The lack of civil society would make it tough for new democracies to build sturdy coalitions among the old regime's opponents -- coalitions necessary to lead the new governments and fend off a return to authoritarianism.

So long as oil prices remain high, moreover, these funds will be a constant source of temptation. Even politicians chosen through free and fair elections can use large petroleum windfalls to roll back democratic reforms. Venezuelan President Hugo Chávez, for example, has siphoned hundreds of millions of dollars out of his country's state-owned oil company and poured it into projects that boost his popularity among low-income families and the military. The goodwill he has thus generated among them has allowed him to eliminate checks on his authority: for example, he has replaced disloyal judges on the Supreme Court, imposed new restrictions on the media, and removed presidential term limits. Russian Prime Minister Vladimir Putin has behaved similarly.

It is hard to predict whether Iraq will follow a similar course. About 85 percent of the government's revenues come from oil exports, yet despite years of trying, the Iraqi parliament has been unable to pass a new oil law that would set up a legal framework to manage these revenues. Meanwhile, there are signs that Iraqi Prime Minister Nouri al-Maliki is edging away from democracy: he has taken advantage of the Iraqi constitution's ambiguities to establish personal control over key security institutions, including the Counter-Terrorism Command. Critics charge that he uses these instruments to silence political opponents. His government has also started to generously subsidize journalists with cash and land. And following popular demonstrations in February, security forces reportedly beat and arrested hundreds of journalists, political activists, and intellectuals. The Arab Spring uprisings are a reminder of the virtually universal appeal of democracy. But they should also serve as a reminder that oil wealth is one of the most stubborn obstacles to democratic reform.

ENDING THE OIL CURSE

The oil curse will last only as long as the world buys huge quantities of oil. Aggressive reductions in oil consumption could help reduce prices and hence the flow of money to oil-backed autocrats. The United States alone can have an impact: it is the planet's biggest consumer of petroleum, and in 2009 it burned more than twice as much oil as China, the second-largest market. By reducing its total oil consumption, the United States could help both reduce global oil prices and undermine petroleum-based dictators, even those who sell their oil to China and other autocracies.

Without meaningful cuts in consumption, other measures, such as targeted sanctions, would be less effective. For example, the United States could boycott undemocratic oil producers, but as long as global demand is unchanged, these regimes could easily sell their supplies to less discerning buyers at more or less the same price. Moreover, sanctions against oil-exporting countries are notoriously ineffective. Between 1990 and 2003, the UN Security
Council imposed severe restrictions on Iraq's oil sales, but these failed to loosen Saddam's grip on power. More limited sanctions have also failed to dislodge oil-dependent regimes in Iran, Libya, and Myanmar (also called Burma). If global demand for oil grows, sanctions will be even less effective.

The United States and other petroleum importers could also push for greater transparency in oil markets, which would undermine the authoritarians' ability to buy off their citizens and use state funds for graft. In a joint 2010 study, Revenue Watch Institute and Transparency International found that 29 out of 41 oil-, gas-, and mineral-producing countries disclosed only "partial" or "scant" information about their resource revenues. The international community has already taken some important steps to correct this. In 2002, then British Prime Minister Tony Blair launched the Extractive Industries Transparency Initiative, which called on resource-rich countries to publicly disclose their income. Today, the EITI is an independent organization, with some three dozen country members, including Azerbaijan, Indonesia, Iraq, and Nigeria. Meanwhile, one provision of the United States' 2010 financial reform law compels companies registered with the U.S. Securities and Exchange Commission to report what they pay to governments, on a country-by-country and project-by-project basis, for access to oil, gas, and minerals. This requirement will make it tougher for oil-exporting countries to hide their revenues, and hence government waste and corruption, from their citizens.

But more can and should be done. First, the European Union and other oil-consuming regions should follow the United States' lead and require all companies to disclose their payments to foreign governments for access to natural resources. The G-8 endorsed such a measure at its May summit in Deauville, France, but has no power to compel member states to follow through. They must act on their own. Also, the London-based International Accounting Standards Board, which sets accounting procedures for over 120 countries, needs updating. Under the board's current rules, petroleum and mining companies are not required to reveal their payments to foreign governments.

Meanwhile, the international community should encourage oil-producing countries to open up their national oil companies. For example, countries could be encouraged to list their national oil companies on the New York Stock Exchange. By joining the exchange, they would gain access to new investors but would also become subject to the United States' new disclosure standards. The international community should also encourage producers to follow the principles set by the Natural Resource Charter, which was drafted by a group of scholars and practitioners to help citizens and governments use their countries' resource wealth in more socially beneficial ways. Oil-producing countries could give shares in national oil companies or an annual cash dividend to all their citizens, as Alaska has done since the 1970s. If well designed, such schemes could be politically popular and satisfy citizens' demands for sharing in the wealth of their oil-rich countries -- and encourage citizens to scrutinize their governments' finances.

Since the 1970s, the oil-producing states have remained far less democratic than other states. In the Middle East, oil wealth has made monarchs and politicians strong and kept citizens weak. So far, even the Arab uprisings this year have failed to change the situation. Meanwhile, thanks to high oil prices, rising global demand for oil, and improved drilling technology, between 15 and 20 low-income countries have recently begun, or are about to begin, exporting oil and natural gas. Most of them are in sub-Saharan Africa. If they mismanage their revenues, they may well fall prey to the oil curse, too. But geology need not be destiny: for both the new oil producers and the old ones, oil is a greater obstacle to democratic reforms when autocrats are able to keep their finances hidden. The money that U.S. consumers send to the oil states helps empower their governments. By reducing U.S. oil
consumption and making oil payments more transparent, Americans can start to empower those states' citizens instead.

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