

Oil rent, the Rentier State/Resource Curse Narrative and the GCC Countries

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Abstract

Despite the fact that ‘rent’ underpins both Rentier State (RS) and Resource Curse (RC) theses, external factors that help shape perceptions of it and determine its value, are rarely factored in. The purpose of this article is to suggest reasons for this shortcoming and, with particular reference to the ‘archetypal candidate’ Gulf Cooperation Council countries, question the utility per se of the RS/RC paradigm (RS outcomes can only manifest within RC contexts). To explain the default and long-standing utilisation of the construct across the social sciences—in spite of the frequent need to detour around contrary data—this paper points firstly to the way in which rent is now popularly perceived (from logically grounded, to excessively unwarranted) and secondly, to the fact that ‘oil’ lies at the paradigm’s heart. It is a commodity that various Western polities once had unfettered control over; no other depletable natural resource in the past century has held such global economic significance (external actors clearly have a vested interest). Lastly, to underscore the need for a reappraisal of the RS/RC analytical framework, some data are presented that demonstrate that the GCC countries have not, comparatively speaking, suffered the deleterious consequences that the paradigm stipulates.

1. Introduction

The purpose of this paper is to suggest that because rent derived from oil—‘oil rent’—is central to both the Rentier State and Resource Curse (RS/RC) schools of thought (see **Fig. 1**, below), many of those who use it as conceptual and analytical framework will, unwittingly perhaps, view the GCC countries in a more value-laden way than if the commodity in question were the cocoa or coffee bean. The contention is this: Western industrialised world economies once had largely unfettered access to developing world oil and, as a consequence, benefited in a multitude of ways from cheap-at-source oil. It follows that it will have continued to be in their geostrategic interest to seek ways of retaining control over rent setting following the developing world’s resource nationalisations of the 1960s and 1970s. Therefore, if a causal link could be established between high oil rents on the one hand and adverse developmental effects for the host countries

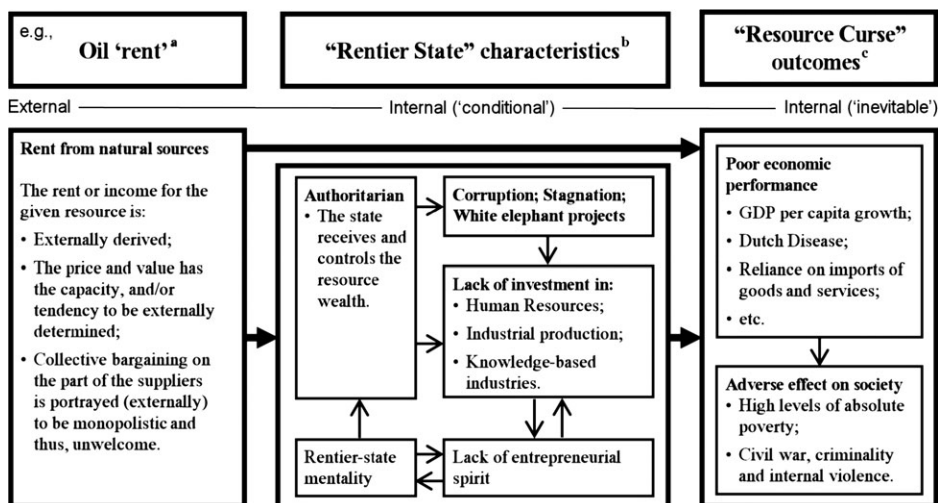


Figure 1 Rentier state^c theory within the 'Resource Curse' construct.

Notes: ^aFor oil rent, see in particular, Mommer (2002) and Noel (2002) and for the external factors and key actors, see Rutledge (2005). ^bKey 'rentier state' expositions include: Amuzegar (1982), Beblawi and Luciani (1987) and Gibas (2006), the 'rentier mentality' is discussed by both Beblawi (1990) and Minnis (2006); counterpoints include: Fandy (2004), Hertog (2010), Ramady (2012) and Springborg (2013). ^cFor the 'resource curse', see in particular Amuzegar (1982), Gelb (1988), Auty (1990), Sachs and Warner (1995, 2001), Karl (1997) Collier and Hoeffler (1998), Friedman (2006) and Ulfelder (2007); counterpoints relating to economic performance include Lederman and Maloney (2007) and Wick and Bulte (2009) for sociopolitical outcomes, consider Basedau and Lay (2009).

on the other, then the oil-rich developing countries may be more inclined to accept a form of payment mechanism other than 'ground rent' alongside the freer participation of external agencies (e.g. Western IOCs).

This paper will also suggest that the RS/RC narrative, particularly in relation to oil rent is profoundly ahistoric. Conceptual issues arising out of the category of rent itself, have come to result in oil rent having rather pejorative associations. The paper will chart how 'rent' was utilised by both the Classical economists and the Neo-Classicals, and resulted in notions of resource rent being somehow excessive and unwarranted which, in turn, led to the demonisation of what this article refers to as 'landlord' oil and gas states whose legitimate role in a world capitalist economy is logically to maximise the rent they receive from their national property. In relation to this, the ramifications of the resource

nationalisations that occurred in many developing countries during the 1960s—UN declaration 1803—and Kissinger's stated war on OPEC shortly thereafter are also emphasised (Kissinger, 1999). Such conjunctural circumstances will inevitably have shaped the ways in which social scientists subsequently thought and wrote about oil rent and GCC socioeconomic developmental trajectories.

Another shortcoming is the extent to which 'external factors' are omitted from most conventional RS/RC analytical frameworks. External factors, as just alluded to, include the historical experience of the Middle East oil producers after the First World War and the sustained campaign by some Western polities to 'liberalise' the world oil industry starting in the early 1980s. Indeed the campaign—of which the Regan era National Petroleum Council (NPC) report of 1982 was a part—was, for a period of time at least, successful from the industrialised oil-importing world's perspective: oil prices fell due to overproduction. Sustained efforts to reduce at-source oil rent led to a sustained period of lacklustre GDP growth in many of the oil-exporting developing countries; arguably, this was more a consequence of external factors than it was internal mismanagement of oil revenues. Despite this, the final part of this paper provides data indicating, at the least, that the GCC countries have not suffered to the degree the narrative suggests they should have; therefore, the default utilisation of the RS/RC analytical framework for conducting socioeconomic research on the GCC requires critical reappraisal.

2. The RS/RC paradigm's narrative

Books, journal articles and media contributions utilising the concept of the 'rentier state' in relation to what are generally considered to be the adverse socioeconomic consequences of national income derived from abundant extractive industry export earnings, the 'resource curse', continue to proliferate. More than any other group of countries, it is those which are dependent on oil that are said to demonstrate, 'perverse linkages between economic performance, poverty, bad governance, injustice and conflict'; and the causal relationship to be so persistent, that it is said to be a 'constant motif' of economic history (Karl, 2007; p. 5). It is the six Gulf Cooperation Council (GCC) countries that are said to be the 'archetypal candidates'; the examples 'par excellence' (Beblawi, 1990, p. 89; Niblock and Malik, 2007, p. 15) of rentier states.

In 2009, the Editor-in-Chief of the US journal *Foreign Policy* argued that there was little scope for escape from being an oil-based rentier state, since any attempt to build successful sovereign wealth and oil-stabilisation funds rarely worked because they were raided or squandered in poor investments (Naím, 2009). More recently still, in the middle of the so-called Arab Spring, an editorial in the *Financial Times* portrayed the uprisings as directly linked to the fact that the governments in question were 'Rentier States' (Financial Times, 2011). As a matter of record, Tunisia—the country where the

uprising began in 2010—was a net oil importer; Syria was a net gas importer and its oil production was only slightly larger than its oil consumption; Egypt, although a net gas exporter, was a net oil importer (BP, 2016); no regime changes occurred in any of the GCC countries. Nevertheless, these societal upheavals and the precipitous fall in oil prices following the 2008 global financial crisis led many to forecast the imminent fall of the GCC's 'rentieristic regimes.' In no small part this was based on allegations of economic mismanagement (see e.g. Coates Ulrichsen, 2011; Davidson, 2012) sentiments, which it should be noted are not dissimilar to those penned in the early to mid 1990s when the price oil was at its long-run nadir (see e.g. Aburish, 1995). As Fandy (2004, p. 675) stated over a decade ago, 'rentier state theory dominates research and writings on the political economies of the GCC' and, is 'no longer deterred by alternative hypotheses or data'. In spite of some revisions of position and correctives (e.g. Sachs, 2007; Ross, 2012; Luciani, 2013), it is the view of this author that Fandy's contention still holds (see e.g. Selvik and Utvik, 2015).

3. The RS/RC paradigm's evolution

The initial work of the RS thesis, Mahdavy (1970), dealt with the economic policy implications of a dominant hydrocarbon sector in a Middle Eastern country and, the earliest work that may be attributed to the RC thesis, that of Amuzegar (1982), specifically critiqued the economic policies of the Arab members of OPEC. Crucially, the seminal RS work of Beblawi and Luciani (1987) was directly related to the 'Arab State'. Resource 'rent' has always been centre stage (e.g. Gelb, 1988; Auty, 1990; Karl, 1997; Ross, 1999) and, oil is the commodity at the heart of Friedman's (2006) 'First Law of Petro-politics'.

The first use of the term 'rentier state' is found in Mahdavy (1970, p. 429) who simply defined it as applying to 'those countries that receive on a regular basis substantial amounts of external rent'. Written before the great increase in oil prices of the mid-1970s and using Iran as a case study, Mahdavy's use of 'rentier state' avoided any value-laden implications and focused instead on identifying some of the economic problems associated with the receipt of substantial rent, Mahdavy was mainly concerned with recommending certain policy changes which could alleviate those economic problems, for example, by direct government investment in non-oil industries and services in tandem with greater investment in education and training. In fact, Mahdavy argued that if the resource rent was used wisely such countries would have an advantage over their resource-poor counterparts. There was certainly no suggestion in his paper of determinism or 'resource curse' from which escape was unavoidable.

All this changed markedly in the seminal works on the subject, those of Beblawi and Luciani (1987) and Beblawi (1990). It seems evident that their principal interest was in

determining the nature of the ‘Arab state’. It is around this period that the pejorative and deterministic elements of what had now become a generalised theory seem to have emerged. The word ‘state’ in ‘rentier state’ now carried the meaning ‘state apparatus’, whereas in Mahdavy the term was simply a synonym for ‘country’. From this point onwards, a radical new sociopolitical argument was factored into the discussion of oil rent (the value of which, or the cost to the West of which, had increased enormously since Mahdavy’s, 1970 paper). They argued that oil rent absolves the ‘state’ (i.e. the government) from the need to tax its citizens who are rewarded for political quiescence by generous welfare subsidies. This, in turn, was considered to result in a lack of ‘capitalistic entrepreneurialism’, ‘hard work’ and the imperative to develop indigenous human capital, giving way to a society-wide ‘rentier mentality’ which is inimical to economic development (refer back to Fig. 1).

The ‘rentier state’ came to be counterposed to the ‘production state’ (an idealised version of the governmental institutions of the industrialised West). The ‘rentier state’ is portrayed as predominantly engaged in ‘allocating’ the ‘unearned’ oil rent largesse to its citizens, until ‘the last drop of its oil is exported’ (Beblawi, 1990, p. 86)—in contrast, the ‘production state’ is seen as pursuing the aim of self-sustaining economic growth (Luciani, 1990). Although the dichotomy is not explicitly phrased in terms of ‘consumption’ versus ‘investment’, it is clear from a variety of RS sources that this is the crux of the matter. For Beblawi (1990, p. 98), there is a, ‘marked absence of a productive outlook in their behaviour’ and a break in the work-reward causation is also claimed to be observed in rentier states.

The publication and dissemination of Sachs and Warner’s seminal RC paper in 1995 (and their later, 2001 paper) provided a distinct economic theory in relation to RC and thus, to RS. The mid-1990s were characterised by low oil prices: in no small part due to the expansion of oil production in some Western nations—especially the USA (Alaska), Britain and Canada—but also, as shall be explored later on in this article, due to the reopening of the world oil market and the consequence of pursuing market share over price. It was in the mid-1990s that the allegedly ‘inevitable’ economic consequences of the rentier state began to appear in the literature. Sachs and Warner collected data for a large number of countries and estimated a multivariate cross-section regression equation in an attempt to explain average economic growth over the period 1970–1990. Typically, their growth regression equations took the general form where Y_t is national income at time t and Y_0 is initial year income. SXP is the measure of ‘resource abundance’ (e.g. ratio of primary exports to GDP in the year 1970) and Z is a vector of control variables of the type usually used in cross-sectional growth regressions:

$$\text{Ln}(Y_t/Y_0)/T = a_0 + a_1 \text{Ln}Y_0 + a_2 SXP + a_3 Z + e \text{ (Sachs and Warner, 1995)}$$

Sachs and Warner's conclusion, when investigating the above equation (and subsequent variants of it) was that the coefficient of the resource abundance variable was significant and negative; it was also said to be particularly pronounced for 'point' resources such as oil (Isham *et al.*, 2005). Several points are worth making here. Firstly, also published in 1995, was the work of Davis (1995, p. 1773) that in a generally similar way considered mineral resource-rich and resource-poor countries in 1970 and 1991, and concluded the opposite: mineral-rich economies had not 'underperformed' (the work of Davis (1995) did not sync with the zeitgeist in relation to the impact of having abundant hydrocarbon endowments: the protracted Iran–Iraq War; the USA's bombing of Libya and the American-led 'Operation Desert Storm' in 1991). Secondly, while Sachs and Warner considered some of the candidate socioeconomic and political variables which might account for this negative relationship, they largely dismissed these variables from further analysis. They argued instead that natural resource wealth creates excess demand for non-traded goods resulting in higher prices, including input costs and wages, 'which squeeze profits in traded activities such as manufacturing that use non-traded products as inputs', which, in turn they concluded, negatively impacts the rate of growth (Sachs and Warner, 2001, p. 833).

A key point for the argument being put forward by this paper is that the factors seen as typifying RS came to be integrated into RC, the symbiotic referencing between the two schools, where they can be disambiguated, is exhaustive (survey articles include, Ross, 1999; Rosser, 2006; Stevens, 2003). RS attributes acted as a 'transmission belt' forming the link between abundant natural resource endowment and the mentioned deleterious economic consequences, as illustrated in Fig. 1 (see above). What may once have been a useful working concept and an attempt to underline the economic problems, which some oil-exporting countries were facing, RS in conjunction with RC, became too general and was all too often unable to provide useful analytical insights or empirically robust causal explanations. In a review of three recent resource curse books, the conclusion drawn was when considered together, oil is a curse, except when it isn't, and that 'curse' is probably the wrong metaphor in any case (Conca, 2013, p. 131). Yet, and crucially for the purposes of this article's call for a reappraisal of the construct, it remains the default analytical framework for conducting research on the GCC: the convenient intervening set of variables linking substantial natural resource endowment with an alleged developmental 'curse'.

4. Notions of 'rent' and oil rent's inescapable geopolitical importance

Although 'rent' underpins the RS and RC theses, what governs popular perceptions of it and its acceptability, its value and volume, are notably absent from much of the discourse and are typically limited to references to 'oil shocks' which emanate from somewhere outside of the relevant frame of reference. Is oil rent conventionally

portrayed as a form of classical ‘ground rent’ or an ‘excessive’ return in the neo-classical sense? As Hanieh (2011) argues, the lack of attention given to the role Western powers have played in seeking to manage the supply of oil—including rental arrangements—in the decades following the Second World War is a key oversight of the RS thesis. Moreover, it cannot be under-emphasised that most of the Middle East’s major oil producers, originated under colonial or semi-colonial rule (‘informal empire’), where economic structures and client governments were geared to the extraction and exportation of resources in favour of say, developing domestic manufacturing capabilities. Such omissions are all the more glaring because of the central role of the state at both the producing and consuming ends of the global oil production network chain from 1945 onwards (Bridge, 2008, p. 413). So, while oil is subjected to geopolitical forces to a far higher degree than any other natural resource commodity, too little consideration within the discourse is given, *inter alia*, to the ways in which different modes of rent arrangements impact on the stability of fiscal income; or why some of the economies in the countries in question have such dominant hydrocarbons sectors. Before investigating such matters, a semantic point needs to be raised. ‘Rentier’ is not cognate with the English word ‘rent’ (in whichever mode of categorisation); ‘rentier’ derives not from ‘rent’ but is a loan word from French in which the ‘rente’, with which it is cognate, means ‘a private income’ or ‘a government stock’ and a ‘rentier’, in both French and English, is a person who largely lives on ‘unearned’ interest payments on government stock. The rentiers who were the target of both Lenin and Keynes were not the landlord states that owned mineral property, but rather finance capitalists who may well have invested in them.

4.1. From historical category to ideological construct

For the Classical economists (Smith, Ricardo, Marx)—interested particularly in the forces determining the division of national income between workers, capitalists and landowners—the concept of rent was grounded in early to mid 19th century socioeconomic reality: it was simply the share of the income received by landowners (and, occasionally mentioned, owners of mines). As far as Ricardo was concerned, the quantity of rent was determined by the expansion of cultivation into increasingly less productive arable lands. Society’s demand for ‘corn’ (i.e. wheat) pushed cultivation to the very margin of fertility. Capitalist farmers competed against each other on lands of gradually diminishing fertility, handing over to the landlord amounts of rent which just ensured them the minimum profit they could accept and stay in business. The point at which demand for corn resulted in land which could not afford to provide any rent at all (no-rent land) set the price (which all intra-marginal farmers received) thus the total amount of rent received by the landlord was price-determined, not price determining, as was commonly believed at the time, and all rent was ‘differential rent’.

While recognising the existence of Ricardo's 'differential' rent, Marx rejected the implicit notion of totally rent-free land at 'the margin' of cultivation. He pointed out that in his introduction to the discussion of rent, Ricardo used the 'colonies' as his example. However, Ricardo was referring to regions like the United States and Australia where, at the time, vast quantities of land lay outside the fringe of private property—'free land' (although, of course, not unoccupied). However, where all land had been fully converted into private property, as in Europe, there was no such 'free land'. Therefore, the reality was that no landowner would let his land without receiving some minimum payment from the capitalist farmer who wished to lease it (which Marx called 'absolute rent'). If no capitalist farmer was willing to pay, then the land in question would simply be taken out of cultivation and become fallow. The implication was that in a 'developed' country, rent was, to a degree, price determining (Marx, 2012 [1909], p. 757).

In fact, as Mommer (2002) has shown, an analogous 'absolute' rent, Mommer calls it 'customary ground rent', exists in the largely privately owned oil reserves in the United States (except in Alaska and the Outer Continental Shelf). The private landlords with sub-surface oil or mineral reserves impose an *ad valorem* 'royalty' on the total cost incurred by oil companies wishing to lease their mineral lands and which ranges between 12.5 per cent and 20 per cent. Unless the oil company is willing to pay—in which case the royalty is added to the oil price (price determining)—the landlord will not allow oil exploration or production on his/her lands. We shall return to this important point later since it has a direct bearing on the question of petroleum fiscal regimes and the attempt by Western 'experts' to get rid of percentage royalties (but not in the USA where there are around 4.5 million royalty owners) and make upstream tax regimes more 'neutral' and 'oil company friendly' thereby reducing the income received by many oil-producing host countries.

Nevertheless, by the mid-19th century, the relevance of ground rent to the economy as a whole was considered by many to be of declining socioeconomic importance: it was assumed that the development of industrial capitalism would see the increasing power of the capitalist class and the concomitant decline of the landlords. Reflecting this decline, the later 19th century Neo-Classical school of economics came to view rent as simply the return to any factor of production which exceeded that required to maintain the factor in employment. As a consequence, the connection between the concept of rent and natural resources largely disappeared, and was subsumed by the growing influence of static neo-classical general equilibrium theory (see Fine, 1990, p. 43).

However, with the emergence and expansion of an international oil industry in the years following the First World War, 'absolute' rent took on a new, and hitherto unanticipated significance. The penetration of Western oil capital into the embryo states of the Middle East established a new and modern nexus of economic and political relationships. This unanticipated relationship mirrored that between the 19th century

landlords and capitalist farmers, however, the difference now was that the ‘landlords’ were the oil-rich host countries and the ‘capitalist farmers’ were the industrialised world’s international oil companies (IOCs).

For a while, the economic, political and ideological resonance from this new development in the world economy remained relatively subdued; in no small measure because the host countries (landlords) remained under Western control, either directly or indirectly, (colonial rule or ‘informal empire’) and were thus obliged to accept the minimal ‘eminent domain’ rights (including the right to tax) they were permitted. It was the political awakening of the countries of the ‘Third World’ in the early 1960s that radically altered the status quo and brought the issue of rent, and especially oil rent, to the fore.

During a mere 20-year period (1960–1980), the appearance of a substantial ‘absolute rent’ in the world oil industry constituted a major challenge, not only to the assumptions of orthodox, neo-classical economic thought, but also to the governments of the oil-consuming industrialised world and the profits of its IOCs. The initial academic response was to resurrect Hotelling’s concept of ‘scarcity’ or ‘resource’ rent. Sub-surface minerals were considered to be a ‘fixed stock’ subject to depletion and the owner of the minerals had to determine the optimum rate of depletion thus, there exists a ‘scarcity rent’ over and above the marginal cost of production reflecting the owner’s depletion costs (see e.g. Solow, 1974). However, it was eventually realised that any such ‘scarcity rent’ could by no means account for the huge increase in the price of oil (see e.g. Adelman, 1990). Instead, for Adelman and others, the answer to the ‘absolute oil rent’ puzzle could be explained by the familiar notion of monopoly.

Thereafter, oil rent progressively took on a number of value-laden attributes: the neo-classical notion of excessive remuneration to a factor of production over and above its opportunity cost was retrieved together with the popular idea of ‘extortionate monopoly profits’ which were ‘unearned income’. Those countries (or, as portrayed, ruling elites) which enjoyed income from rent were therefore castigated as ‘rent-seekers’ that sought stagnation over entrepreneurialism and fostered a society with a rentieristic mentality. If this sounds exaggerated, consider the article by the British economist John Kay, writing in the *Financial Times* in November 2009, where he argued that when the appropriation of the wealth of others is illegal it is called theft or fraud but, when it is legal it is called ‘rent-seeking’ which ‘drives the paradoxical resource curse’, where resource wealth mostly reduces living standards by diverting effort and talent away from wealth creation (Kay, 2009).

4.2. The invisible hand seeking to control the mode and size of the rent

During the first decades of the 20th century, the leading Imperialist power, Britain, actually created the so-called rentier states in the Middle East, a process which continued

in the countries which later were to become the GCC, until the 1960s. Britain, France and later the USA acquired a vested interest in creating a state apparatus and infrastructure in these countries entirely centred upon the extraction and exportation of hydrocarbons (see e.g. Rich, 1991; Rutledge, 2005; Commins, 2012). Therefore, it should not be entirely unexpected that most of the newly independent oil states lacked the institutional structures to effectively deploy and invest the rents they received in the most productive ways. It is also incorrect to attribute conflict and instability to oil rent to the extent that the RS/RC narrative has and does do. To illustrate by example, 'oil' did not create the regime of Saddam Hussain nor the 'predatory state' of Iraq, nor the tragic conflicts currently being witnessed between Iraq's constituent racial and religious communities. In 1920–21 Britain, in its desire to gain control over Iraq's oil reserves and to protect its general; strategic position in the region, first crushed a huge, Arab Revolt in Iraq and then imposed a 'friendly' monarchy which, after the 1958 Revolution, morphed into the brutal dictatorship of Saddam. It was the major western powers, both during and after the First World War, that laid the foundations for this dysfunctional state (see e.g. Dodge, 2003; Tripp, 2007; Fisk, 2014). Oil may have facilitated the brutal dictatorship of Saddam Hussain and his wars, but it certainly did not cause them.

Western oil interests also played a key role in the period between 1987 and 2001, the prolonged period of economic difficulties for oil producers which included absolute declines in GDP for a number of resource-rich developing countries. It is the contention of this paper that these difficulties had less to do with the kind of 'internal' factors, as set out in the RS/RC paradigm, but are more obviously explained in terms of 'external' factors, not least Kissinger's political war on OPEC from the mid-1970s onwards and the West's rather fruitful attempt to liberalise the world oil market from the 1980s onwards. Key precursors were the UN declaration 1803 of 1962 (which declared the developing countries' permanent sovereignty over their natural resources) and the UN declaration of a New International Order in 1974. Such milestones along with OPEC's founding in 1960, and its registering with the UN Secretariat in 1962 under resolution 6363, resulted in the world's oil and mineral producing nations progressively adopting policies which today would be called 'resource nationalism'. In short, a bold new class of 'landlord' oil states came into being.

In halting the fall in oil prices during the 1960s and later succeeding in increasing them substantially, oil and mineral abundant countries were simply exercising their function as landlord states, prioritising the interests of their citizens and setting a minimum charge below which they would not lease their depletable resources; exactly the behaviour of the private US oil 'landlords'. It was understood that, after all, if some IOCs consequently refused to invest under the fiscal terms demanded by the host countries, the *in situ* resources were not going to disappear and; in reality there would always be some company or other which would agree to stricter contractual terms. Since

the oil companies had a ‘reservation utility’ (i.e. their required rate of profit) then, so should the governments of oil-rich countries.

However, the response to this arrival of the new oil landlord oil states was not long in coming. In his memoirs, Kissinger (1999, p. 688) records that both the Nixon and Ford Administrations had no higher priority than to, ‘bring about a reduction in oil prices by breaking the power of OPEC’, and that this strategy reflected not only economic analysis, but even more, ‘political and indeed, moral conviction’. Consequently, via a wide spectrum of government-backed agencies and consultancy firms, including the newly established International Energy Agency, the Western powers began to promote the notion that a reliance on high oil rents was socially and economically disadvantageous to the world economy. Noel (2002) has shown that President Reagan’s government set out to aggressively implement the policies of the US NPC whose report of 1982 called for the opening-up (or reopening) of the oil resources of the developing countries to the IOCs. Pursuing this strategy, which met with more initial success in the non-OPEC member countries, the United States advocated the abandonment of the current policy of granting financial assistance to improve the productivity of state oil companies and instead shifted to financing the services of consultants, predominantly from the USA and the UK, whose advice generally favoured the establishment of a ‘liberal’ international petroleum order.

Over the next decade, many developing countries accepted the ‘liberalisation’ of their petroleum resources and some of those who had previously nationalised their subsoil resource endowments like Venezuela and Algeria, reopened them to the IOCs. In short, the role of the state in projects, via state oil companies, was reduced or suppressed and the interests of investors were prioritised. The classical economists’ notion of capitalist farmers competing against each other to gain access to the landlords’ land was now replaced with the widely disseminated dictum that the landlords (i.e. the owners of the natural resource) must compete against each other to ‘win’ the investments from the capitalist farmers (i.e. IOCs) (in this regard, see Mommer, 2002).

Contracts increasingly included clauses that (a) protected overseas investors from tax increases (which could now be deemed a form of expropriation) and (b) stipulated that the settlement of any differences between IOCs and their host countries would be subject to international, not national, arbitration, thereby largely nullifying the 1962 UN declaration of ‘permanent sovereignty over natural resources’. All bilateral and to a lesser extent multilateral investment treaties, played a key part in this process. Between 1985 and 2000, the USA signed 45 bilateral investment treaties involving oil and other minerals, 35 of which were signed in the period since 1990 (Noel, 2002, p.87). Over the same period, the oil price followed an irregular but general decline which did not terminate until the beginning of the 21st century. If the rationale behind the USA’s NPC report of 1982 was to create a truly competitive world oil market—one in which price

was reduced to considerably nearer marginal cost—then, for a time, it was largely successful; especially for those at the consuming end of the oil production network. The ultimate consequence of the concerted efforts of the West to ‘liberalise’ the world oil industry was that, until the beginnings of the 21st century, almost all oil-rich developing countries were caught in a downward spiral whose sequence followed the pattern:

1. Liberalisation of oil investment regimes →
2. Increased production →
3. Lower prices and fiscal weakening →
4. Further liberalisation of oil investment regimes →
5. Overproduction and even lower prices, etc.

However, while oil-importing industrialised world countries enjoyed lower prices, it was inevitable that the West’s IOCs suffered from declining profitability, therefore the attention of ‘oil friendly’ economists and consultants turned to encouraging the major oil-producing countries to adopt more ‘liberal’ (i.e. weaker) petroleum fiscal regimes which would ensure that a shrinking world oil rent would not significantly reduce oil company profits. This included success in pressurising the host countries to reduce or actually abandon ad valorem royalty payments (condemned by the oil company economists as being ‘non-neutral’) and making major alterations to ‘production-sharing contracts’ which in some major oil producers predominated over complete state ownership. New ‘modern’ fiscal regimes were introduced which guaranteed the companies a healthy return on capital before there was any distribution of the surplus to the host countries of their ‘profit’ from oil. For example, the various types of ‘Resource Rent Tax’ according to which costs and revenues are rolled forward until the company’s ‘threshold’ internal rate of return is reached, before any actual ‘production-sharing’ is carried out. An example is the Sakhalin II contract of 1994 signed between Russia and a consortium of Marathon Oil, Shell and Mitsubishi where the consortium’s ‘threshold’ rate of return—effectively guaranteed because the hydrocarbon reserves had already been proven by exploration—was 17.5 per cent (Rutledge, 2004).

During the 1990s, the annual surveys of world-wide petroleum fiscal regimes carried out for the *Oil & Gas Journal* by the oil tax expert, Daniel Johnston showed consistent falls in the tax-take received by the petroleum host countries (see, e.g. Johnston, 1999). Similar results were recorded by van Meurs and Seck (1997). Consequently, one of the most important findings of Noel (2002) research was that between the early 1980s and the late 1990s, the average percentage of profits paid by US oil multinationals to their host countries in the form of royalties and petroleum taxes fell by around 20 per cent.

In taking the advice of the oil-importing industrialised world’s energy agencies and IOC consultants, the major oil-producing countries themselves began to prioritise output maximisation and market share and relinquishing their legitimate ‘proprietary’ and

‘landlord’ role. Not surprisingly a country which, in the general context of low and falling oil prices, was persuaded to accept a reduction in the tax-take would inevitably suffer reductions in its general fiscal revenues and contribute to the kind of economic difficulties typically blamed on the alleged sociopolitical consequences of being a ‘rentier state’.

There were, however, limits to which the West desired to increase world oil production and reduce prices. The West also had its own oil producers. Indeed, during the 1990s the USA was not only the world’s largest oil consumer but also its second largest oil producer. As oil prices fell below USD12 per barrel, they began to inflict serious damage on both the many small US oil producers and large new oil projects planned for Alaska (Rutledge, 2003; p. 13). It was realised that the policy of encouraging the breakup of OPEC (the most noticeable success of which was the decision of Venezuela’s state oil company PDVSA to ignore any OPEC constraints and prioritise output growth over price) had gone too far—even to the point where a movement to ‘Save our Oil’ emerged in the USA. The result was a certain diplomatic rapprochement between the USA and the OPEC states to try to halt the feared collapse in oil prices to around USD5 per barrel (Rutledge, 2003, pp. 16–19).

Between 2006 and 2013, the economic situation of oil and other mineral producing countries was considerably transformed. Several factors account for this not least increased demand for commodities, most notably from China. Secondly, as a consequence of the protracted low prices, there had been little incentive to invest in exploration and many oil fields and mines where extraction was relatively expensive, had been mothballed. A third factor, however, was the re-emergence of ‘resource nationalism’ and the strengthening of host countries’ petroleum fiscal terms (e.g. Hoyos, 2008). Around the same time, OPEC expanded and was much more united; Angola and Ecuador joined in 2007 and under the Chavez government, Venezuela returned to the OPEC fold which it had previously, more or less, abandoned. Between 2014 and the time of writing, the oil price has once more fallen steeply. This is a consequence primarily of lack of demand, but with little irony, the oil-producing countries are again being blamed, the aim: to destroy the USA’s nascent but rapidly expanding fracking programme; seemingly, little in the way of evidence to substantiate such claims is required (see, e.g. Evans-Pritchard, 2016). The RS/RC narrative’s tenacity is also underscored by some of the contributions in a recent book edited by Selvik and Utvik (2015) and exemplified in press contributions at the time of this article’s writing (e.g. Burgis, 2016; Kaiser-Cross and Scholl, 2016; *The Economist*, 2016a).

5. Development: the GCC in comparison to resource-poor neighbours

This paper now considers the extent to which reality corroborates the paradigm’s predicted outcomes: does oil rent lead to adverse socioeconomic outcomes? Ultimately the extent to

which the RS/RC construct needs reappraisal must rest, in part, on this. A range of empirical materials are used to contrast the economic, social and political performance of the GCC countries with a group of comparators whom share (i) geographic and (ii) sociocultural similarities but differ in terms of resource endowments. The methodological implications of this procedure should be clear on two counts. Firstly, since the GCC countries have been portrayed as ‘archetypal’ candidates in the RS/RC narrative (e.g. Niblock and Malik, 2007), for the RS/RC paradigm to hold—and constitute a valid and useful analytical framework—one would expect them to perform notably worse in terms of economic performance, poverty, governance and conflict in comparison to other similar but natural resource-poor countries (e.g. Karl, 2007). Secondly, to bring into the analysis such widely different nations as Nigeria, Venezuela, etc. would mean abandoning this ‘control’ and allow for the possibility that a huge number of factors other than natural resource endowment may be playing important roles in determining the economic and social outcomes of such countries. As a point of record, both Lederman and Maloney (2007) and Alexeev and Conrad (2009) found that dependence on natural resource exports had, on balance, been positive for resource rich developing world economies; Basedau and Lay (2009, p. 18) find that natural resource exporting developing countries had better governmental institutions than did their resource-poor counterparts.

As Fandy (2004) pointed out, RS theory partly rested on the assumption that it was an abundance of oil rent stemming from high oil prices which enabled the Arab state apparatus to maintain the acquiescence of its subjects via a variety of hand-outs and excessive welfare payments. The implication of this premise being that a severe shrinkage of the rent, that occurred, for example, in the 1990s, would lead to political unrest and even violence. Yet, a recent work, focusing on Bahrain, suggests that social unrest, to the extent that it exists within the GCC, has little to do with incumbent political structures and a lot to do with ethnic and confessional distinctions (Gengler, 2015). During the recent steep fall in oil prices since 2014 there has been no indication that the ‘quiescent’ GCC populations have turned against their rulers. Indeed, the response of both rulers and citizens has been calm, measured and realistic. For example, in 2016 the GCC collectively decided to introduce VAT by 2018; in the same year Saudi Arabia announced intentions to part-privatise Saudi Aramco, its state-owned oil and gas producer (presumably to raise capital from sources other than its pressurised national budget) and the UAE has been gradually lifting domestic fuel subsidies and stream-lining ADNOC, its own state oil company (Kerr and Clark, 2015; PricewaterhouseCoopers, 2016; The Economist, 2016b). None of these developments are what one would expect of ‘rentier states’. Moreover, evidence suggests that the economic and societal transformation now taking place in the GCC is systemic in nature (e.g. Forstenlechner and Rutledge, 2010; Hertog, 2010; Gray, 2011). As Ramady (2012) points out, that there is now an unambiguous shift to convert hydrocarbon resources into value-added manufactured products.

Table 1 shows that while the countries of the GCC (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and UAE) had far higher GDP per capita than the comparator group (Egypt, Jordan, Lebanon, Morocco and Tunisia), as we should expect, the growth rates of the GCC were much more volatile. However, the years of negative or low growth were those during which the oil industry ‘liberalisation’ policy measures of the ‘Washington Consensus’ contributed significantly to the lengthy fall in oil prices (and oil-related GDP) as we have already argued. As shown in Table 1, over the 1970–2012 period, the top three performing economies were in the GCC; since 2000, GDP growth has been strongest in the GCC.

In **Figs 2 and 3**, the GCC and comparator countries are ranked along the horizontal axis according to the Resource Dependency Index (RDI)—a measure of the percentage contribution of natural resources to a given country’s exports and its GDP. It is clear from Fig. 2 that the GCC have performed significantly better than the comparator group: a significant and positive correlation between GDP per capita and RDI was found. Due to the GCC welfare system it is fair to assume that these GDP figures are reasonably well distributed among citizens; such welfare provision is not a given in the comparator countries (e.g. EIU, 2009). Nevertheless, GDP per capita is only one aspect of ‘development’. Thus, Fig. 2 also shows data on the World Economic Forum’s Global Competitiveness Index (GCI). It is noticeable that the hydrocarbon-rich countries are seen as more ‘competitive’ and ‘open for business’ as compared to the resource-poor countries (WEF, 2015). Furthermore, the GCC countries, on average, have also seen positive improvements in terms of their GCI ranks since records began in 2006. Overall, this group of economies has gained an average of nine places in terms of rank compared to a loss of 36 places for the comparator economies.

Figure 3 depicts data on the UNDP’s Human Development Index (HDI) and the World Bank’s World Governance Indicators (WGI). HDI—the oldest of the various attempts to broaden the definition of human welfare away from a simple GDP per capita measurement—has received some criticism for still including GDP per capita which could distort findings. For this reason, the data presented in Fig. 3 is for the HDI rank are without this indicator. GCC countries have clearly done better than their comparators. For example, life expectancy and literacy rates are notably higher in the GCC, 75.4 years compared to 72.1 years and 91.5 per cent compared to 78.5 per cent, respectively (UNDP, 2016). With regard to the WGI rankings, over the period 1996 to 2012 the GCC countries recorded an overall improvement, whereas for each of the resource-poor comparators, there were marked declines. The GCC performed better on average than the comparator economies in five of six dimensions of governance (World Bank, 2016; higher values indicate better governance ratings). In fact, a significant and positive relationship was found between the WGI criterion of ‘Regulatory Quality’ and RDI for the GCC countries.

Table 1 Economic growth and resource wealth indicators; GCC and comparator countries:

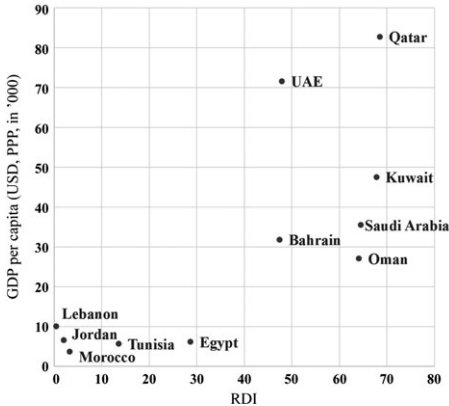
	GDP Growth Averages and Volatility, 1970–2012						Resource Wealth Indicators			
	Average 1970–2012	SD	1970s	1980s	1990s	2000s	Average GDP (PPP, USD)*	Average RDI*	SWF assets (Global rank)	Oil Reserves Per capita [†]
GCC	4.65	5.05	9.40	−0.14	3.62	5.67	49399.35	60	\$2.428bn (−)	18,130
Bahrain	4.58	7.13	8.58	0.07	4.68	5.45	31860.61	47	\$11bn (29th)	212
Kuwait	2.26	16.39	0.52	−0.82	3.17	5.64	47552.68	68	\$410bn (6th)	43,581
Oman	7.18	8.26	12.08	8.16	5.29	4.59	27100.36	64	\$19bn (25th)	2361
Qatar	7.00	7.53	6.50	0.69	6.86	12.43	82756.31	68	\$170bn (10th)	196,107
Saudi Arabia	4.96	7.14	12.35	−0.64	3.08	5.15	35524.09	64	\$743bn (4th)	12,628
UAE	6.00	8.58	12.91	1.50	4.76	6.21	71602.06	48	\$1,075bn (2nd)	94,146
Comparators	5.02	2.04	5.43	5.82	4.57	4.90	6490.45	10	−	−
Egypt	5.75	3.05	6.17	7.73	5.01	4.95	6233.66	29	−	−
Jordan	4.94	5.84	6.35	3.64	4.22	6.43	6644.37	2	−	−
Lebanon	4.50	23.19	3.28	0.37	9.93	4.59	10109.06	0	−	−
Morocco	4.18	4.23	5.48	4.00	2.75	4.71	3749.57	3	−	−
Tunisia	4.84	3.31	7.33	3.45	5.11	4.59	5715.58	14	−	−

Author's calculations based on Arab Monetary Fund (2016), BP (2016), IMF (2016), SWFI (2014); UNDP (2016) and World Bank (2016) datasets.

*Data for the period, 1980–2013.

[†]The per capita figures here are for 'national' capita as a large fraction of the GCC's population are non-national, transient 'guest workers'.

GDP per capita



Global competitiveness indicators

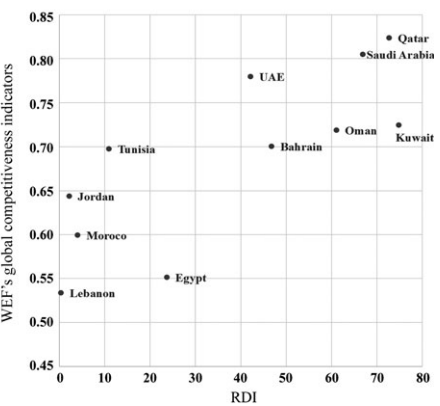
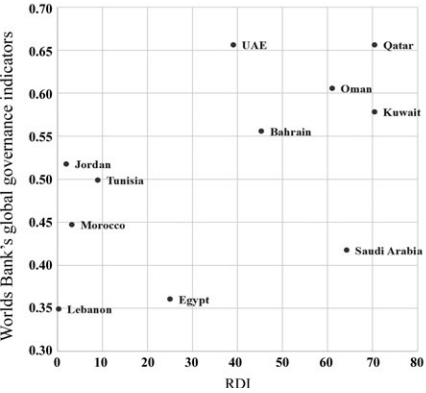


Figure 2 Resource Dependency Index in relation to economic indicators; GCC and comparator countries.

Notes: Author's calculations based on Arab Monetary Fund (2016), IMF (2016) and World Economic Forum (WEF, 2015) datasets. GCC RDI and GDP per capita were significantly and positively correlated ($r = 0.457$; $p < 0.01$). GDP per capita data for the period: 1980–2012; Global Competitiveness Indicators for the period: 2006–2014.

World governance indicators



Human development index

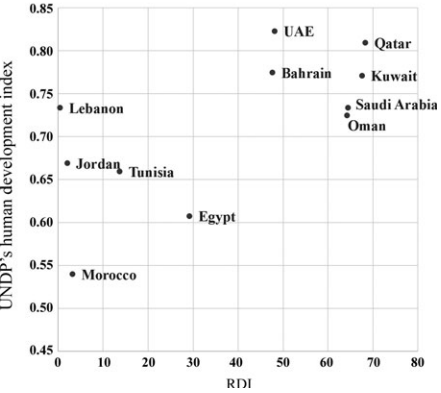


Figure 3 Resource Dependency Index in relation to development indicators; GCC and comparator countries.

Notes: Author's calculations based on Arab Monetary Fund (2016), World Bank (2016) and UNDP (2016) datasets. GCC RDI and the WGI 'Regulatory Quality' were significantly and positively correlated ($r = 0.586$; $p < 0.01$). World Governance indicators are for the period: 1996–2014; HDI data for the period: 1980–2014.

6. Conclusion

This paper shows RS and RC to essentially comprise parts of a unitary paradigm, which, despite contrary empirical evidence, continues to exert hegemonic influence in relation to social science discourse on the GCC's developmental trajectories. This paper has argued that the RS/RC narrative's tenacity is in part a consequence of the nature and the subject of the 'rent' itself. Oil rent is generally portrayed as unearned and thus, in some way, unwarranted income (i.e. it is not typically seen as a legitimate ground rent charge for extracting a depletable sovereign resource). The RS/RC paradigm's longevity is also in part due to 'external factors'—one conventionally omitted from the frame of reference—not being factored into the equation. The primary factor being oil's geopolitical importance and all that it has entailed for the afflicted countries. In summary, this paper has argued that such perceptions and omissions result in a tendency to rely more faithfully than is wise on the well-versed and oft repeated catchphrases and underlying assumptions that the RS/RC narrative puts forward. It follows then that only by addressing this shortcoming can the difficulties that do actually arise from a significant level of externally derived rent, be better accounted for (accurately portrayed) and indeed addressed.

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