Rethinking the Conflict-Proneness of Oil-Rentier States in Historical Context

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Abstract: With the rise of intra-state conflicts in the Middle East, particularly in the last two decades, the causality relationship between oil wealth and political stability has become a matter of debate in the literature. However, despite the proliferating research interest, the impact of oil revenues on regime stability and civil conflicts still remains contested in both theoretical and empirical terms. Bearing this limitation in mind, this article aims to present a fairly general but analytically broadened framework to explain the relationship between the decline of the oil-rentier states, and the rise of intra-state conflicts experienced in the Middle East in the past two decades. Putting matter into the historical context of the state formation and the colonial legacy in the Middle East this study presents a slightly different reading of the causality relation between oil revenue and the conflict-proneness of rentier states. Thus this article, to a certain extent, moves beyond the conventional explanations of the rentier state theory and argues that oil revenue cannot be taken as an explanatory variable of conflicts per se.

Keywords: Oil-Rentier State, State Formation, Colonial Legacy, the Middle East.

Jel Codes: F50, F51, F54

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Introduction

To speak about state-formation in early modern Europe opens up the debate linking the activity of war-making with the centralization of political power, the extraction of resources from the population and the notion of bureaucratization as well. As many historical studies have pointed out the principle feature of European state formation centres around the long periods of war and the preparation for war which entail consolidation of state apparatus, neutralization of internal opposition and more importantly the effective extraction of resources and tax collection. In this respect, the activity of war-making for modern Europe was associated with a combination of political, administrative and fiscal activities which laid the foundations of European states in three main aspects: First, war making required power holders to have an increased and more effective taxation capabilities, which in turn gradually creates fiscally strong and politically more representative states. Second the need of effective taxation for the purpose of war brings along bureaucratisation and expanded judicial and economic system for the well-functioning of extractive capabilities. Last but not the least, long periods of war in Europe also fostered social cohesion within states and more or less drew the boarders of states in line with national and ethnic identities.

In contrast to European experience, it is not the activity of war-making that has played determinant role in the state-formation process of the Middle East, but more importantly the colonial legacy and abundant oil revenues that have worked in a complementary manner. Even though colonial experience of the Middle East was a matter of decades, it laid the foundations of the later patterns of state behaviour not only by delineating boundaries of states but also by installing new political structures and client elites within them. The flaws embedded in the earlier phase of state formation have afflicted the states in the Middle East with enduring legitimacy deficits and have not been effectively resolved by any type of regime even long after independence. Moreover, the use of growing oil revenues by political elites completed the work of colonialism in institutionalizing the lack of legitimacy and accountability of regimes. Thus, with growing share of oil revenues, the drama of state-formation in Middle East engaged in a new phase of rent-dependent state formation which has consolidated structurally weak and socially autonomous states. Rather than creating political acquiescence and societal peace in real terms, these states have tended to provide political stability within society through distributive policies, patronage, repression and clientelist networks.

Given the rise of intra-state conflicts in the region, particularly in the last two decades, the casual mechanism linking oil wealth to political stability or outbreak of civil conflicts has become a matter of debate in the literature. Despite the proliferating research interest, the impact of oil revenues on regime stability and civil conflicts is still ambiguous and contested in both theoretical and empirical terms. Looking into the literature, there are seemingly two contradictory and prominent findings with respect to this. The first is that abundance of oil revenues tends to enable regimes to buy off stability and societal peace through patronage, repression and distributive policies. The second finding is that the presence of oil encourages civil conflicts, triggering greed and grievances of insurgent groups and creating institutional and economic causes of social restlessness. At first sight, these two strands seem to be contradictory or irreconcilable, but while hypothesis associating oil to regime stability assumes a regime with strong state capacity, this associating oil to civil conflict assumes a regime with weak state capacity. Therefore, taking state capacity as category of analyses this article aims to present slightly different but more integrated reading of the casual mechanism between oil wealth, decline of rentier state, and patterns of conflict in the Middle East, arguing that oil cannot be regarded as the only explanatory variable in analysing recent conflicts in the Middle East, but it is a triggering and augmenting factor of civil conflicts whose underlying causes originally lie at the core of state formation process in the early modern Middle East.

With this goal in mind the article is organized as follows. The next section provides an overview of earlier phase of state formation in the Middle East, showing how the original sin of legitimacy deficit and conflict proneness of the region was rooted in the colonial era. Then, the
second section presents how the drama of state formation in the region engaged in a phase of rentier-state formation process with the growing share of oil revenues as percentages of export earnings and government income. Finally, the last section explains the relationship between oil wealth, the decline of rentier state and the patterns of conflict in the region with special reference to the case of Algeria. In so doing, the article seeks a more integrated explanation of the link between recent conflicts and the decline of rentier state by putting the matter into a broader historical context and identifying the patterns of conflict with Kaldor’s et al. 9 conceptualization of New Oil Wars.

Legitimacy Deficit, Identity Crisis and the Earlier Phase of State Formation

Two characteristics of the Middle East region, legitimacy deficit and identity crisis, were structurally embedded in the earlier foundation of modern state system in the beginning of 20th century. As Halliday 10 stresses the political, social and international formation of the modern Middle East was, in large measure, shaped in this period. When viewed from this aspect, before examining the relation between oil, rentierism and patterns civil conflicts in the region, it seems essential to understand how modern state dynamics of the Middle East were problematically constructed as an antecedent foundation on which rentier state practices were built thereafter. Roughly speaking, an ideal state formation is the process in which rulers institutionalize state apparatus as a politically legitimate unit capable of absorbing political mobilization, and governing territory representing an identity community. In respect to the Middle East, the earlier phase of state formation, in large measure, was considerably contrary to this ideal type due to two main aspects.

First, in many Middle Eastern countries, state itself came into being as a contested political unit within which newly developed institutions of administration and coercion run by semi-independent, narrowly based political elites and bureaucracies which were imposed by colonial powers. Rather than emerging domestically through consent and popular mobilization and depending on domestic support, state elites, even after independence, remained dependent on external protection and recourses for maintaining their existence and the political control of society as well. 11 In Kamrava’s 12 words, with rulers in hand, what limited or concerned French and British colonial administrations were “not the wishes and aspirations of the peoples whose lives they were influencing but rather their own diplomatic maneuvers and agendas.” On that sense, modern Middle Eastern states, with few expectations, emerged as contested political units in which state-builders or authoritative leaders have remained politically illegitimate and relied on external support and the use of narrowly based sub-state loyalties -kinship, tribe, sect and/or supra-state identities such as Arabism and Islam in order to gain political legitimacy in the eyes of the public.

Second, after the demise of Ottoman Empire the contemporary state system of the region was haphazardly constructed at the risk of a pre-existing cultural unity of a mosaic of identities, dating back several centuries before. Instead of sorting out boundaries in its natural process through wars and territorial settlements, the boundaries of the region were artificially drawn in accordance with interests and needs of Western powers, not wishes of indigenous and centuries-old regional dynamics. 13 Therefore, identification of many states has clashed with sub- and supra-state identities, limiting the loyalty of masses to the state and national/state identity. 14 The result of this has been that many states in the region, except Iran, Egypt and Turkey in varying degrees, suffer from the lack of congruence between identity/sovereignty and nation/state which paves the way for ongoing political illegitimacy, society-wide identity crisis and intra/interstate conflicts. In the words of Hinnebusch “…identity groups spill across borders – becoming ‘trans-state’ – the lack of correspondence between borders and identity may foster irredentism … may generate inter-state conflicts as states contest each other’s borders or ‘interfere’ in each other’s ‘domestic’ affairs by supporting irredentist groups…” 15

Putting these two characteristic -legitimacy deficit and identity crisis- together, modern state system in the Middle East region was built on a shaky ground of conflict-proneness, irredentism, and social unrest. These historically-embedded characteristics and the legacy of
colonial period still has impacts on domestic and foreign policies of states in the region; the state formation that started in the post-1918 period was intensified and consolidated in the 1950’s and 1960’s and continues to be important for later events. These embedded flows such as legitimacy deficit, contested governance of narrowly-based elites, tribalism and identity crisis have not been effectively resolved by any type of regime even long after the independence. On the other way around, these flaws were in one sense institutionalized with the presence of oil. In other saying, the presence of oil completed the work of colonialism in consolidating the position of illegitimate and contested political elites and in discouraging the transparency and accountability of state institutions.

Oil, Rentierism, and the Political Economy of State System in the Middle East

With the growing share of oil revenues as percentages of government income after 1973 many states in the region, whether monarchies or authoritarian republics, have enjoyed increasing economic benefits and political stability as rentier states. Nothing but oil has been a major export item and income channel of oil producing countries in the Middle East which accounted for 38 per cent of total annual global output, but 65 per cent of world proven reserves with the world’s lowest-cost production. Since the beginning of the 1970’s oil windfall has dominated state revenues and economically strengthened governments’ hands against internal and external threats to regimes. As shown in Table 1, it is evident in the data of the last decade that oil revenues have covered ever-growing percentages of export and government income for most of Middle Eastern countries.

Table 1: Oil And Gas Revenues As Percentages Of Export Earnings And Government Revenues, 1997 And 2007

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<tr>
<td>Algeria</td>
<td></td>
<td>96</td>
<td>98.4</td>
<td>62</td>
<td>75.8</td>
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<tr>
<td>Bahrain</td>
<td></td>
<td>52</td>
<td>80.8</td>
<td>59</td>
<td>80.1</td>
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<tr>
<td>Egypt</td>
<td></td>
<td>43</td>
<td>52.2</td>
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<td>23.2</td>
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<td>Iran</td>
<td></td>
<td>79</td>
<td>83.3</td>
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<td>Iraq</td>
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<td>99.6</td>
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<td>Kuwait</td>
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<td>85</td>
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<td>81</td>
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<td>Libya</td>
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<td>95</td>
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<td>-</td>
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<tr>
<td>Oman</td>
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<td>29</td>
<td>89.1</td>
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<td>Qatar</td>
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<td>60</td>
<td>90.9</td>
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<tr>
<td>Saudi Arabia</td>
<td></td>
<td>90</td>
<td>90.1</td>
<td>75</td>
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<tr>
<td>Syria</td>
<td></td>
<td>63</td>
<td>40.3</td>
<td>38</td>
<td>22</td>
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<tr>
<td>Tunisia</td>
<td></td>
<td>9</td>
<td>16.2</td>
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<tr>
<td>UAE</td>
<td></td>
<td>38</td>
<td>62.3</td>
<td>70</td>
<td>70.2</td>
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<tr>
<td>Yemen</td>
<td></td>
<td>95</td>
<td>93.3</td>
<td>68</td>
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Source: Henry and Springborg, 2010, p.45
While growing oil revenues seemingly strengthened the state, and profoundly shaped the socio-political order and state structure within oil producing countries, this reliance led to several negative international and domestic consequences for Middle East states. In the first place, rather than reducing the dependence of the regimes to external powers the presence of oil has been strengthen clientilist ties of regimes and deepened the dependency of the region. It is historically evident that preoccupation of the UK, and later the USA with the secure and stable flow of oil to international markets has been essential in formulating their foreign policy towards the region. As Luciani exemplifies in the independence of Iraq the final granting was subject to the interest of the Iraq’s Petroleum company; the overthrow of Mosaddegh in a coup d’état orchestrated by British and US intelligence services was primarily linked to the nationalization of Anglo-Iranian Oil Company; or close alliance between the US and Saudi Arabia remains inescapable due to oil and strategic interest even though it was and continues to be problematic on many aspects. Especially, the oil boom stimulated the external penetration of Saudi Arabia and the Gulf region, engendering domestic interests with a stake in contact to the West. In the words of Hinnebusch “the ruling families in the oil monarchies, with their major assets held abroad, arguably became junior partners of a ‘global bourgeoisie’.”

More importantly, increasing oil revenues and ever-growing reliance on it has profoundly affected the domestic political order in the region, and rendered oil an explanatory variable in analysing state structure and political dynamics of oil-producing countries. Oil producing states which derived large part of their incomes from outside world, and became dependent largely on oil revenues for well-functioning of their political system, presents a different political dynamics than productive states what was termed as the rentier or, more respectfully, distributive state paradigm. Despite the difficulty of reducing voluminous literature and scholarly findings about rentierism in the Middle East into a set of clear-cut propositions, rentier states of the region, in general terms, show common organizational economic and political characteristics as follows.

In the first place, most of the oil producing countries in the region is heavily dependent on oil exports’ revenues as an external rent. As shown in the table 1 above, oil and gas incomes represent large percentages of export earnings and government revenues of oil producing states of the Middle East except Syria, Tunisia and Egypt. As direct and principle recipients/rentiers of oil revenues, the governments have played a crucial role in the social fabric of economy. As oil rents dominated governments’ revenues, governments have undertook a bunch of internal activities in relation to society through the distribution or allocation of oil rent which brings us to a distinction between production and allocation or distributive states, proposed by Luciani. As he puts forward in a production state where the government economically depends on society as a source of value added, the conventional role of state is to provide public good through taxation which is typical of taxing states of early modern Europe as it has been briefly explained at the very beginning of this article in the introduction part. In contrast, distributive or rentier state does not need to extract resources from society to reallocate them as public good, because it does not rely on taxation for the bulk of its income. Rather, the primary function of distributive state is to decide how to allocate external rent revenue among its population and the favoured social groups as a generosity or benevolence of ruler.

For the most part the emphasis in the distinction between production and rentier state is primarily put on the fiscal function of the state. In fact, being fiscally independent from society has economic and political ramifications which can be historically observed in Middle East oil states where rentier mentalities have existed to various degrees. Whereas, in accordance with well known principle of no taxation without representation, production states need to seek acquiescence of people and political legitimacy through democratic institutions in order to subtract resources from society, in Middle East oil-rentier states citizens are “far less demanding in terms of political participation” due to the loose fiscal association between state and society, and so rentier states enjoy a sort of autonomy, or insulation, from society. In Middle Eastern oil-rentier states, conventional function of state as provider of public good through taxation has also become blurred. As Beblawi argues since social and economic interest are organized to capture a good share of allocation of oil rent “citizenship becomes a source of economic benefit and whole economy is..."
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...arrange as a hierarchy of layers of rentiers with the state or the government at the top of the pyramid.”

The lack of fiscal association with society and allocation of oil rents among the social groups provide ruling elites with a mechanism through which they offset political instability and buy off political consensus. Contested regimes of Middle Eastern rentier states have used oil rents in a proactive manner, engaging in large scale allocative and populist policies such as stimulating public sector employment, distributing subsidies, or ensuring free health service and education. In this way ruling elites may render citizens less motivated to raise a hue and cry against their governments which provide them with free social services, and levy less taxes on their incomes. On that sense, the reduced tax burden and the proactive use of oil rents have undermined the possibilities of democratization from below and obstruct political and economic reforms in the region. Moreover, political elites have also ensured political stability and hold their privileged positions by developing clientelist networks with relatively small part of society through personal ties and distribution of oil rents selectively. By building clientelist ties with key societal actors, such as the military, merchant classes, religious and socially prominent leaders, regional administrators, regimes have also reinforced and legitimized their political centrality and role.

A corollary of such distributive and patrimonial policies is that neither type of regime, neither monarchies nor republics, has effectively resolved embedded flaws in the earlier stage of state formation. The legitimacy deficit and identity crisis have remained as chronic diseases of political landscape. Rather than bringing citizens to trade political rights and enabling their participation in political life, Middle Eastern regimes, relying on oil rents, have tended to centre on ethnic, tribal or personalistic ruling cores and reconstructed new state-dependent classes, clientilistic and patrimonial ties. On that sense political stability and societal peace within these state, to some extent, has linked to the flow of oil rents on a regular basis. However, what the last several decades also revealed was an ephemerality of oil rents due to external shocks or constrains on steady stream of oil rents and prices as well. To give an example, after enjoying high oil prices during the 1970’s oil-rentier states in the region experience drastic shortfalls in oil revenues by the early to mid-1980’s. Oil output fell from a high of 31 million barrels per day in 1979 to 18 million in 1982, while the price of oil fell by 50 percent. Given the growing vulnerability of rentier economies to world markets (vulnerability of oil-rentier economies to the world market rose from 50 to 84 per cent in the 1970–82 period, as measured by foreign trade/GDP), oil-rentier economies and corporatist system of patron-client bonds tended to fall into political crisis in the time of low oil rents which triggered political conflicts between state, its societal constituents and society. This brings us to the link between declining rentierism and the rise of civil unrest in the context of falling state capacity in fulfilling its conventional function and ever-growing political illegitimacy in turn.

The Decline of Rentier State and the Patterns of Conflict in the Middle East: The Case of Algeria

When the oil prices declined, rentier state confronted several troubles. The economic downturn troubling the Middle Eastern oil-rentier economies exacerbated societal tensions. With the decline in public jobs, and proactive rent distributions to society, citizens putted pressure on their government, and the in-built potential for societal conflicts tended to come to surface. For rentier mentality, sustaining the status quo has corresponded to finding new sources of rent. Reluctant to change the political bargains, ruling elites initially applied to barrow heavily from international lenders. Therefore, accumulated debt of the Arab countries rose from $80 billion in to $144 billion by the end of 1986. As rentier state continued to pay for their pre-existing social obligations in the bust years, budget deficits rose and economic indicators were adversely affected. Socially isolated rentier states, in general, could not effectively absorbed political tensions due to the lack of credible institutions for quelling the violence. Rather, most of them applied repressive means to ensure political stability.
Algeria seems to be a caricature of rentier theory of petro state. During the boom years in oil prices, Algeria used oil rents to ensure a modicum of political stability and development. After a stabilization phase during the 1960’s and the 1970’s, Algerian economy became to worsen as export revenues collapsed due to the steep decline in oil prices. With the 40 per cent decline in Oil prices in 1985-1986 Algerians external income fell by 55 per cent. While real GNP decreased at an average rate of 0.1 per cent every year between 1985 and 1995, real GNP per capita fell at 2.5 per cent annually. \(^{36}\) As the oil revenues decline the menu of state service diminished, and delivering rents and development to its constituencies became difficult. In parallel to all these, the domestic political tensions and conflicts sharpened that brings us to what Kaldor, et al. \(^{37}\) calls predatory phase of the oil/rent-seeking/conflict cycle in which violence and repression become more important tools than patronage, and non-state actors engage in political struggles (sometimes even with violent means) with state in the name of identity politics depending on ethnic, tribal, religious reasons.

As such Kaldor, et al. \(^{38}\) observes a shift from a stabilization phase to more conflict-ridden predatory phase in Saddam Hussein’s Iraq due to the volatility of oil prices, and unsustainability of patronage and oppression, the failure of state to meet pre-existing rentier role and seemingly perpetual domestic conflicts in the 1980’s and the 1990’s gave rise to a sort of predatory phase in Algeria where popular disgust with state became widespread, and state violence against civilians increased in the context of failing state capacity. Domestic political unrest took place in Kabylia where Berbers demanded recognition of their identity and language, resulting in an official toll of 52 dead and more than 1,300 wounded. \(^{39}\) In fact, Kablylia riots in 1980 were the precursor of the October Riots where state’s attempt to quell demonstrations with military means resulted in death of 600 people in several cities. \(^{40}\) With the Army-backed coup in 1992 and succeeding civil war between state and various Islamic groups, the rift between state and society has steadily grown and hundreds of thousands people lost their lives.

In many aspects, Algerian civil war and its relation with the declining oil revenues is typical of what Kaldor, et al. \(^{41}\) calls New Oil Wars which are associated with falling state capacity and declining political legitimacy when conflicts involve a combination of state and non-state actors, whose activities increase civilian casualties and the general sense of disorder. As can be observed in Algerian civil war, since petro-state had difficulties to maintain its distributive state function, political disgust with illegitimate ruling elites showed itself in the form of identity politics, leading to spread of insecurity and disorder in which violence is directed against civilians and symbols of order. However, oil was not the only explanatory variable for the Algerian political crisis whose origins, as Henry \(^{42}\) discusses, lie in the earlier phases of state formation and French colonialism in Algeria. In fact, as has been discussed in second section of this article, dynamics of political conflicts in Middle Eastern rentier states have deeper roots in the earlier state formation process long before the advent of oil. The presence of oil merely completed the work of colonialism in solidifying the pre-existing flaws of political landscape, and exacerbated the conflict proneness of the region as a triggering factor in addition to previously embedded ones, so oil per se cannot be regarded as the only precipitating cause of conflicts or category of analysis in examining the political conflicts within the declining oil-rentier states, but it works in a complementary manner with historically and socio-politically constructed conflict-triggering factors such as legitimacy and democracy deficit, identity crisis, clientilism, tribalism, political repression, most of which to a large extent shaped in the historical trajectory of state formation of the modern Middle East.

**Conclusion**

To sum up, unlike the state formation experience of the early modern Europe, two main phases, colonialism and rent-dependent state formation process, have played determinant role in shaping the state structures and state-society relations in the Middle East. Broadly speaking, colonialism left the Middle East a legacy of disputed governance of semi-independent and narrowly-based political elites that generates privileged, state-dependent classes, tribalism and kinship relations. In addition to this, instead of delineation boundaries of states through the natural process of wars and
political struggles, the boundaries of modern Middle East was artificially drawn by colonial powers at the expense of pre-existing cultural unity of a mosaic of identities. These embedded flows in the earlier phase of state formation have afflicted the state in the region with two chronic problems - legitimacy deficits and identity crisis- which put state-society relations into fragile and conflict prone political context.

Depending on the dramatic increase in oil revenues after the first oil crisis of 1973-1974 contested regimes in the region has tended to consolidate their privileged political positions through buying off political stability and societal peace via patronage, repression and distributive policies. While increasing oil revenues seemingly strengthened the state structure and positions of ruling elites, the growing reliance on it has in fact led to several drawbacks such as lack of political accountability, undemocratic governance, unwillingness for further political and economic reforms, and vulnerability to fluctuations in oil prices. Therefore, in the time of bust in oil revenues Middle East petro-states have had difficulty to meet their pre-existing functions, which in turn triggered social unrest and political disgust with state. As has been examined in the case of Algeria, this led to widespread political struggle between society and state in which historically embedded flaws in political landscape come to surface in the form of identity politics and civil wars. As a pattern, these conflicts, in large part, were typical of new oil wars in which violence is mainly directed against civilians and symbols of order in context of falling state capacity and hence ever-growing political illegitimacy. However, despite the mainstream approach of taking oil as the only category of analysis in examining the causality between declining rentierism and outbreaks of these conflicts, declining oil revenues cannot be regarded as the only explanatory variable, considering the deeply-rooted underlying problems long before the advent of the oil in the earlier phase of state formation.

Notes

14 Hinnebusch, *The International Politics of the Middle East*, 73.
17 Ibid., 47-65.
References:


