**The Double-Edged Impact of Oil in the Middle East**

The early 20th century was a pivotal point for the development of the Middle East. Before 1950, the Middle East witnessed low levels of socioeconomic development; yet, some Arab-oil exporting economies have become completely dependent on oil for achieving the fast establishment of wealth. Due to this dependence, it is not astonishing that the economies of these countries are crucially attached to the price of the oil itself (Hoffman, 2017 citied as Feinstein, 2017). It can be said that oil has been one of the most powerful forces, which contributed to shape the political economy in a region (Alnasrawi, 1987, p. 327). According to Ulrichsen, political economy in the Middle East is a definition link between the economic reforms and the wider operation of the social and political system, which show how government organize and distribute the nation’s wealth.

The Middle East is positively and negatively affected by changes in oil prices and global demand. Most of the successes in recent years are due to positive developments in the oil sector, and negative developments are causing a large part of the failure. For many oil producing countries in the middle east oil is blessing, but ‘’the blessing has often turned out to be a curse, an invitation to major power intervention, political corruption, militarization and, paradoxically given its income value, foreign debt’’ (Tétreault, 2004, P.1). Therefore, this paper will argue the double-edged impact of the oil especially its prices on the political economy in Saudi Arabia’s domestic policy in 20th century.

This paper will be divided into four sections; the first section will be the conceptual framework, the second one will be literature review about the impact of the oil in the Middle East, the third one will discuss the impact of oil in the domestic policy in Saudi Arabia, and the last one will be conclusion. This study will provide a clear explanation for the experiences of the Middle East after the discovery of oil. This study will serve as a reference for knowing of the optimal use of oil to stabilize the social and political stability of the country by avoiding the bad experiences of the political economy in the Middle East after being affected by oil.

**First section: the conceptual framework:**

In order to understand the definition of the rentier state, it is necessary to know the origins of the concept. It was first postulated by Hussein Mahadavi with regard to pre-revolutionary Iran in 1970, and then it has been defined by Middle East specialist when examining the Arab world. Mahadavi stated that ‘’a rentier state receives substantial rents from foreign individuals, concerns or governments’’ (Mahadavi, 1970). Later this definition was redefined by Hazem Beblawi, who stated that ‘’ rentier state is one whose rents are paid by foreign actors, accrue directly to the state, and where only a few are engaged in the generation of this rent’’ such as those derived from oil (Beblawi, 1987 citied as Albonico, p.1-2). This rentier state involves a lot of aspects and features:

**Survival strategy:** is implemented by authoritarian regime to maintain the authoritarian leaders in the office and preserving the non-democratic relationship between state and society by depend on the rent of oil (Windsor, Dowell & Kaltner, 2017, p.1-4).

**Central planning:** the rentier state adopt this state-led type to achieve the economic development. It characterize by heavy dependence of planning of the state, nationalization of private sector, heavy spending on the public sector for instance, ruling bargain (Ramady, 2010, p.19-23).

**Ruling bargain:** it is the social contract between the state elite and the society in which state has provide the physical, economic, and emotional needs for public in return for consent and compliance. In another word, it can be used as a source of legitimacy in authoritarian regime such as, what is called the authoritarian-redistributive social contract. These bargains are strong in some states and weak in others because the strength of the bargain depend on, agendas of the state and goals of the social group and actors within this state. The most important factor that strength this bargain is the resources especially oil such as ruling bargain in oil monarchies (Kamrava, 2013, p.9-11).

**Authoritarian-redistributive social contract:** type of ruling bargains is adopted by most of Middle Eastern countries in 1950s. It means ‘’trading socio-economic security’’ through high redistribution, low taxes, low level of pluralism, and for political authoritarianism. For instance, the food and fuel subsidies in return for political support for authoritarian regime among the poor and low middle classes (Desai, Olofsgard & Yousef, 2011).

**Patrimonialism:** it is Weberian concept which highly relevant to Middle East. It is a system of ruling in which land, people and government power are treated as private advantages or rights of ruler. This system relies on ‘’clientalism’’, which means that respect and support are given in return for public office, protection and resources. In addition, it relies on what is called ‘’cronyism’’, which means unfair practice by the ruler for giving favours and jobs to friends (Binkerhoff & Goldsmith, 2002, p.6-14).

**Legitimacy:** means the right to rule. It is psychological relationship between the citizen and the ruler, which contributed to belief that exercised authority over state is the right of the state leaders and institutions. This belief relies on the ability of the system to prove that this institution is the most appropriate to represent the society and to maintain its values and needs. According to Max Weber, there are three pure sources for legitimacy; legal-rational authority, charismatic, and traditional. However, sources of legitimacy are different in the Middle East especially after the independence and controlling their oil production. For instance, the economic reforms as a source of legitimacy by depending on social reforms and wealth redistribution due to the rentier nature of the Arab states. In addition to, the democracy and popular consent as a source of legitimacy by transparency and accountability. This recreate a civil society with political participation (Hof, 2015) (Murphy, 1998, p73-77).

**Second section: the literature review:**

Some scholars see that oil has mixed or double-edged impact and others see the negative impact only. Firstly, the mixed affect, according to Anastasija Malachova (2012), ‘’the vast oil reserves in the region have indeed encouraged the economic modernization but led to political stagnation’’. Economically, the oil revenues in rentier state lead to economic development, which leads to increased GDP and more government expenditure as well. There are ‘’large oil revenues sustained the boom in 1970s’’ this rapid economic growth led to economic modernization by infrastructure programmes, the amelioration of housing conditions for citizens, the development of tourism, and massive expansion in the public sector employment.

On the other hand, she stated that the economic development in the rentier states is short term and does not ensure the stable successful economy due to high reliance on oil revenues. This economy completely relying on fluctuating oil prices and external shocks. For instance, oil decreased prices lead to decreased revenues, decreased government spending, lower investment, lower employment and infrastructure. Politically, she stated that most of rentier states suffer from ‘’political stagnation’’, which referred to lack of democracy and more authoritarian regime. For instance, the lack of government accountability because government excuse the citizens from the burden of taxes in return for no demand of representation or accountability of government. On the other hand, oil revenues may lead to more stable society; when citizens get enough welfare to meet their needs, they do not have motives to rebel against government to make political change.

In addition. Middle Eastern countries manipulated the production of oil as international strategy for instance, the OPEC oil embargo by Arab nations in 1973 showed a new way to influence Europe and Americans policy. Accordingly, the Arab nation’s sovereignty and unity are supported. Otherwise, unequal distribution of deposits of oil in Middle East has generated inequality of power and wealth among Arab nations leading to conflict over resources with weak unity and sovereignty such as, Gulf war in 1990 ( Global connections, 2002).

Secondly, the negative effects of the oil in Middle East. According to Marie-claire Aoun (2013), this windfall wealth of oil is unequally allocated and does not lead to economic development automatically. Actually, many of these rentier states suffer from what is called ‘’resources curse’’ or ‘’oil curse’’. This curse leads to economic distortion. Dependence on oil have a negative effect on the quality of institutions, especially when it concerns democracy and corruption. In addition, Mary Ann Tétreault mentioned that oil money changed the balance of power between society and the state in these rentier countries. For instance, giving many rulers the ability to repress public institutions, therefore oil decreased legitimate political participation in the Middle East leads to undermined democracy.

**Third section: oil impact in Saudi’s domestic policy:**

Saudi Arabia is the world’s largest exporter of petroleum and the homeland of 18% of the oil revenues around the world depends extremely on the oil prices. Its domestic and economic politics are nearly connected with petroleum and are effected by oil prices negatively and positively (Ahmed, Cohen & Trivedi, 2017). positively, ‘’ Saudi Arabia oil wealth is a major reason the ruling system has been stable for so long’’ (Elmeshad, 2017). Oil rent contributes in consolidating the political regime by strengthening and reinforcement of legitimacy. As it mentioned before that the sources of legitimacy in the Middle East is through economic reforms or democracy and the popular consent.

**The economic reform and positive impact of the oil:**

Firstly, the economic reforms as a source of legitimacy. In Saudi Arabia the royal family controls the entire economy and prevents the public sector from participate in the economic process. Saudi Arabia adopts ‘’the central planning program’’ in which state takes over oil revenues. State uses this program as ‘’survival strategy’’ to ensure the continuity of this authoritarian regime. For instance, oil rent leads to what is called ‘’ ruling bargain’’ or ‘’ social contract’’ between Saudi citizen and the royal family. In this contract government completely control economy and appointed two-third of workers, providing extravagant jobs and subsidies in return of compliance and consent of authoritarian regime (El Meshad, 2017) (Cooper, 2016).

These ruling bargains can maintain the legitimacy when the oil prices are high. For instance, between 2003 and 2013 there was a boom in oil prices so the government was able to invest in infrastructure health, education, and employment to keep locals quiet (El meshad, 2017). In 2011, the Arab spring against authoritarian regimes instigated the fear of Saudi government from people’s revolution against it. Therefore, the king Abdallah paid out cash handout worth a reported $37 billion to population in order to ensure their compliance and consent (El Meshad, 2017). Hence, in return of this social contract and welfare the legitimacy of regime would be supported by people leading to stable and peace society.

**The economic reform and the negative impact of oil:**

On the other hand, consolidation of regime would not have survived in absence of oil rent or decreasing in its prices. Saudi Arabia is economically dependent on oil, oil accounts 85% of Saudi exporters earning about 31% of GDP. This cause failure of government in achieving the diversity of economy. Therefore, when the reduction of oil prices in Saudi Arabia in 2015-2015 created many problems which threated the society (Khatib, 2012, p.72-76). The oil wealth in Saudi Arabia makes the social contracts possible as long as the price of oil stay high. Furthermore, reduction in oil prices in 2014-2015 led to defect on budget, increased government borrowing, and decreased government spending on ‘’ruling bargains’’ beside imposing taxes by government ( Sen & Fattouch, 2015, p.5-24).

As a result, people would lose their confidence on government and start to rebel. After the collapse of oil price in 2014-2015 the kingdom become unable to pay the private companies, which the kingdom contracted with to undertake the building projects. For instance, in 2016 the vastly wealthy Binladin Company in Saudi Arabia cannot afford to pay wages for its workers as a result, the workers rebelled and set a fire to more than seven company buses (England, 2017). Thus, inability of the government to achieving the economic prosperity may threats its legitimacy.

**The democracy, popular consent and the positive impact of oil:**

Secondly, the democracy and popular consent as a source of legitimacy. When state loses its ability to maintain the economic welfare through social contracts due to the fluctuating of oil prices, it tends to open the door for more democratic rights to its citizens in order to avoid the revolution against the regime. For instance, Saudi Arabia started to empower the role of women by giving them the right to participate in the economic process, rights to vote, and allowing them to drive cars (Waldman, 2016). In addition, the municipal election, the most important new features of democracy in Saudi Arabia. It is an election hold every 4 years, which enabling and allowing Saudi citizens to participate in management municipal services and choosing the most efficient candidates (Saudi national portals, 2018). Hence, this open the door of democracy in this authoritarian regime and enhances democracy.

**The democracy, popular consent and the negative impact of oil:**

This economic crisis may a chance for democracy in authoritarian regime as latest solution to maintain the legitimacy of regime. Yet, there remain serious limitation to the real democracy in Saudi Arabia due to their old political culture with oil as rentier state which based on patrimonialism, clientalism, and cronyism. In addition, this democratic values may does not work to keep people quiet because they may prefer the economic welfare rather than democracy. For instance, the conservative clerics in Saudi Arabia do not like the suggestion for an increased role of women also according to Saudi citizens, they dislike reduction in government-provided jobs and subsides (Feinstein, 2017).

**The last section: conclusion:**

Finally, to know the impact of the oil on political economy in domestic policy, the relation between the economic development and the political system should be considered. On another word, how this political system use the wealth of oil. In rentier state, oil prices shape the political system by adding some negative or positive aspects to this system. In Saudi Arabia, there is a homogenous relationship between prices fluctuation and the legitimacy. When the prices of oil increase, the economic development increases, and government ability to pay for ruling bargains increases, which leads to stable and welfare society supports the government legitimacy.

Nevertheless with lower prices, the opposite happens; there are an economic crisis, lower spending of government on ruling bargains, more poverty, more unemployment rate, and more suffering of publics so, there will be unsatisfied people who may rebel against the regime to downgrade its legitimacy. At the same time, decreased oil prices may lead to positive impact. When the government be unable to achieve the economic development and welfare, it tends to add some democratic features to its regime to keep people quiet and maintain its legitimacy.

On the other hand, it stiles authoritarian regime and this democratic features is not considered as real democracy due to the state patrimonial political culture. Even if there is a real democracy, people may not prefer it due to their materialist values for achieving the economic prosperity so, in this case democracy may not be enough as source of legitimacy to this regime.

Hence, it is said the oil is double-edged weapon as well as being blessing and curse at the same time. This determined by the state; if the state wants to benefit from the oil as blessing, it should diverse its economy and does not completely dependent on oil. So, as not to be prey or a victim for the monster of fluctuating oil prices.

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