

# **Wealth, Conflict and Governance: A Comparative Analysis of the Oil Curse Theory**



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## **Abstract**

Many nations in the Middle East have seen little economic growth, development and peace since the discovery of oil. This phenomenon is known as the Oil Curse, a paradox that states that countries with oil are more likely to be ruled by autocratic rulers, suffer from civil war, have worse governmental institutions and civil liberties, as well as less economic and political opportunities. This thesis is aimed to look at existing theories used to explain the curse, such as the Dutch Disease, rent-seeking, and flawed institutions, as well as by analyzing secondary data. The study shows that there is not a correlation between the number of official conflicts and oil production per capita. However, the data does show that oil-rich nations in the Middle East lack civil liberties and functioning institutions and are therefore more prone to conflict. By using the works of well-known scholars in the field, I have shown there are limitations to the secondary data, and therefore that oil does in fact lead to conflict and worse governmental institutions.

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# 1. Introduction

An abundance of oil has previously been seen as a source of wealth that would promote good economic growth (Ross, 2013). Mineral rich states were believed to have a promising future, a belief that quickly faded. In the Middle East, the spectacular growth up until the 1970s came to a halt. By 2005, approximately half of the OPEC countries were worse off than they had been thirty years earlier (Ross, 2013). This is why the term “resource curse” first emerged (Auty, 1993). Resource wealth could paradoxically reduce economic growth in the developing world by triggering weak governance, corruption, rent-seeking and possibly conflict (Sala-i-Martin & Subramanian, 2003). Oil is a constant source of income for the governments that control production and distribution; however, it seems that a range of countries, such as many Middle Eastern countries, experience this curse through little economic growth, poor living standards and more conflict and violence. The continual flow of oil revenue provides little incentive for the government to invest in other forms of economic development (Karl 1997; Lane & Tornell, 1999; Parra 2004; Ross 2013). Adding to that, these governments do not feel accountable to their citizens, as they are not dependent on taxes (Ross, 2013).

The increasing dependency on oil and other fossil fuels in the Middle East requires further analysis of the relationship between oil, democracy and conflict. Oil played a major role in conflicts such as the Iran-Iraq war, Iraq's invasion of Kuwait, and the overall tension in the Middle East (Parra, 2004; Yergin 2009). Natural resources, in this case oil, have fueled and complicated wars, militarized border disputes and political unrest. Dominant actors, such as the United States and Great Britain, saw oil as imperative from early on, securing territory as quickly and efficiently as possible (Parra, 2004). The United States discovered oil reserves in Saudi Arabia and Kuwait, while Great Britain had much control over Iran's oil fields (Parra, 2004). According to the oil curse theory, oil has driven most of the conflict in the Middle East. There are other underlying factors that trigger conflicts in the Middle East (i.e. religion, tribes, ideology, etc.), but I will not be mentioning them in this thesis (Parra, 2004; Ross, 2013).

In this thesis I will be discussing how the Middle East is under the *Oil Curse*, a theory used to explain the consequences of natural resources, in this case oil, in developing countries. The term *oil curse* will be used instead of the more well-known term *resource curse*. Furthermore, the term oil will be used to describe all petroleum and natural gas. The curse

premise is that countries that are rich in oil have less economic stability, democracy, innovation, and peace (Karl, 1997; Ross 2013). There are countries which have managed to avoid this curse, such as Norway and the United States; however, these countries were already developed when they discovered oil.

## **2. Aim of Research and Methods**

My aim for this thesis is to identify if oil and oil wealth hurts the citizens of oil nations through conflict and governance by using the Oil Curse Theory. In this thesis I use quantitative data to descriptively analyze oil and gas production, wealth and levels of democracy in the Middle East (Kuwait, Qatar, United Arab Emirates, Saudi Arabia, Oman, Iraq, Iran, Syria, Turkey, Yemen and Bahrain). The choice of methods was determined by the research questions. As I am looking at the countries within the Middle East, the comparative design will be used. I will present a literature study and use five secondary datasets to compare the different countries. I will then conclude my thesis by cross-checking the data with the theoretical framework provided by the literature study. The research for this thesis was gathered mostly through literature reviews. The Oil Curse Theory is a widely discussed discourse, with material collected, analyzed and discussed with multiple different angles. I have based most of my thesis on the works of Arzeki & Brückner (2009), Karl (1997, 2007), Parra (2004), Ross (2001a, 2001b, 2003, 2004, 2011, 2013) and Sachs & Warner (2001) among multiple other scholars in the field. All the data for this article was collected by official agencies (Freedom House, 2021; Our World in Data, 2019; ACLED, 2021; WGI, 2019; NRG, 2017).

My research question, *does oil and oil wealth hurt the citizens of oil nations through conflict and governance*, has four terms that must be defined. First, oil is mentioned along with oil wealth because oil must be present in the country, since other countries can earn revenue off of international oil. Oil wealth will be discussed most throughout this thesis, as I, and multiple other scholars in this field have expressed that oil wealth is the reason for the problems that occur in oil rich nations. The term governance includes a country's electoral process, political freedom, functioning of government, civil liberties, rule of law and individual rights. The term conflict

includes political violence and protests around the world. Political violence includes battles, explosions/remote violence, violence against civilians and mob violence.

I will answer the following questions throughout this thesis before concluding my research question:

- 1) How has the history of oil shaped the political sphere in the Middle East?
- 2) What theoretical framework and theory is used to explain the Oil Curse?
- 3) Does the data show a significant correlation between oil production per capita, conflict and fatalities, and governance indicators?

The article has multiple limitations. The study is not capable of covering all the existing models that can explain the Oil Curse Theory, thus the literature review is limited. The models and theories chosen are used to show a general and simplified summary of a very complex case. Furthermore, there are limitations regarding the data's validity. This article includes conflict data that is reported by the country's own government, and therefore lacks credibility and validity. This article utilizes a comparative approach involving multiple different countries in the Middle East (Kuwait, Qatar, United Arab Emirates, Saudi Arabia, Oman, Iraq, Iran, Syria, Turkey, Bahrain and Yemen) where data might often come from different sources and the population might have a varying degree of access to answer polls.

### **3. Conflict in the Middle East: A Brief Historical Overview**

Estimates assume that the Middle East holds around  $\frac{1}{3}$  of the world's recoverable oil (Sorkhabi, 2014). For oil to be successfully generated and accumulated, all elements of the natural process (organically rich and thermally matured source rocks and appropriate time relations between oil migration and trap formation) should be present (Sorkhabi, 2010). Geographically, the Middle East has all these conditions in a high degree and quality (Sorkhabi, 2010). The first oil-well in the Middle East was discovered in Iran (Persia) in 1908 by the Anglo-Persian oil company (Sorkhabi, 2008). The Kirkuk oil field in Iraq was discovered in 1927, and throughout the 1930s, oil was found in Bahrain, Saudi Arabia and Kuwait (Sorkhabi, 2008).



The discovery of oil led to multinational oil companies buying concessions in the Middle East (Sorkhabi, 2008). Concessions are rental rights to an oil reserve, where the multinational oil company survey and drill in the oil reserve (Parra, 2004). Therefore, it is not always the countries themselves that are drilling for oil, they are renting out their reserves to other oil companies. This is what happened when the United States started drilling for oil in Saudi Arabia. They brought their own American laborers and drilled for oil themselves (Parra, 2004). The Saudi Arabian royalty earned vast amounts of money on American drilling, while the rest of the country saw almost no economic benefits (Parra, 2004). After this discovery of oil in the Middle East, the Seven Sisters, seven of the largest Western oil companies, dominated the world petroleum market (Ross, 2011). The Seven Sisters could be seen as a cartel that controlled oil production and extraction (Parra, 2004). The companies: Exxon, Mobil, Chevron, Gulf Oil, Texaco, BP and Shell, each had several countries from which they extracted their oil (Ross, 2013). This allowed them to easily reduce production in one location or country and raise production in another, giving them an extremely powerful bargaining advantage over individual countries (Parra, 2004). The individual governments knew very little about what the Seven Sisters were doing with their oil (where it was or how much it was sold for). All they knew was what the companies themselves claimed (Parra, 2004). When the host governments gained insight on what the Seven Sisters were doing, they wanted to stray away from the royalties they previously gained, and earn revenue through taxation instead (Parra, 2004). An agreement was put into place, and the Seven Sisters split their profits with the host countries with a fifty-fifty profit sharing through taxation (Ross, 2013).

This eventually led to the creation of OPEC (Organization of the Petroleum Exporting Countries) in 1960 (Schoolland, 2003). OPEC decided to nationalize their oil reserves to stop the multinational companies from dominating in their countries (Ross, 2011). They set in motion the nationalization process and raised oil prices to hold the Western nations hostage (Parra, 2004). The Middle Eastern countries knew that the Western countries needed oil, and they threatened to cut their oil supply, which is known as the Arab Oil Embargo (Parra, 2004). The Arab Oil Embargo has been a catalyst for many changes within the Middle Eastern oil sector (Schoolland, 2003). It led the US to decide that they needed to continue to find more oil, even in more aggressive ways. Some argue that the US launched wars in the Middle East to secure oil supplies, even though it is a controversial statement (Schoolland, 2003).

Iran is another country in the Middle East with large oil reserves. In 1951, Iran democratically elected their first Prime Minister Mohammad Mossaddegh (Schoolland, 2003). He quickly started to nationalize Iranian oil, making it harder for foreign companies to have control over the oil fields. This caused Operation Ajax, the American and British coup d'état that overthrew Mossaddegh (Ross, 2013). The coup led to the reinstatement of the Shah Mohammad Reza Pahlavi, an Iranian monarch. The coup was a major factor in the start of the Iranian revolution in 1979 (Schoolland, 2003). Shortly after the Iranian revolution, Iraq, led by Saddam Hussein, invaded Iran in an attempt to seize Iran's oil (Parra, 2004). This war between Iran and Iraq triggered a substantial destabilization in the Middle East (Parra, 2004). When Iraq was unsuccessful in their attempt to gain control over Iranian oil, Saddam Hussein chose to invade a different oil rich country, Kuwait (Parra, 2004). This invasion caused American intervention, as The United States was at risk of losing access to Kuwaiti oil (Parra, 2004). The modern history of the Middle East is highly dominated by oil, and though there is not always evidence for oil being the root cause, it can be assumed that oil had an indirect effect on a large proportion of conflict in the Middle East.

#### **4. Literature Review & Theoretical Framework**

After an extensive literature review, I have concluded that there are three different outcomes of oil abundance on growth: negative, positive or no effect. Showing the negative effects of oil abundance has dominated the field (Karl, 1997; Ross, 2013; Sachs & Warner; 2001). The theories I have chosen to further elaborate, and the most documented theories used in regard to the oil curse show the negative effects of oil. The second outcome of oil abundance on growth is the positive effect. As I am writing this thesis on the *effects* of oil abundance (through conflict and governance) in the Middle East, I have found very few articles that show the positive effect of oil in the region. However, although Sala-I-Martin & Subramanian (2003) acknowledge the systemic and institutional flaws that most oil-abundant countries have, they propose an alternative that would improve the quality of public institutions and transform the economic landscape, using oil-revenue as a positive. The final outcome is that oil abundance has no effect on growth. According to these studies, there is still too little information and evidence to call oil abundance a curse. As I have found in my literature review, many advocates for the oil curse admit this flaw (Karl 1997, Ross 2013, Sachs & Warner 2001). However, as I will mention later,

the reason for this illusion of abundance causing no effect, is secrecy and corruption (Karl 1997, Ross 2013). Even with all these different outcomes, scholars have had a general conclusion that oil-rich nations perform worse than countries with less or no natural resources.

## **4.1 A closer look: Economics**

The oil curse originated from an economic paradox (Auty, 1993). Despite the prospects of wealth, natural resources seem to impede economic development. This chapter will explain the two most discussed economic theories that are used to show how oil rich countries are worse off than resource-poor countries. The issues regarding taxes will be discussed in chapter 4.2 instead of in this chapter, since the issues surrounding taxes can be seen as both economic and political.

### **4.1.1 The Dutch Disease**

The Dutch Disease is often mentioned in regards to the oil curse. The Dutch Disease theory has originated to describe the Netherland's discovery of natural gas (Ebrahim-Zadeh, 2020). The gained wealth resulted in other Dutch exports becoming less competitive, causing the country's income to drop and result in economic stagnation (Ebrahim-Zadeh, 2020). The Dutch Disease model shows the issue with high concentration of one export and a boom in natural resources. The boom will lead to an appreciation of the country's currency, forcing a less competitive manufacturing sector, which would shrink because of the boom (Ebrahim-Zadeh, 2020). Exports are therefore more expensive after the boom, which could lead to *lower* growth (Ebrahim-Zadeh, 2020). Oil rich nations suffer from a double perverse effect (Karl, 2007). A perverse effect is the unforeseen negative consequence of a change in policy that produces the opposite intended effect (Heery, 2008). Oil states are biased by the imperatives of oil extraction, however, the increase of oil dependency produces more dysfunction in other sectors such as non-petroleum-based revenue raising, innovation, entrepreneurship and citizen participation (Karl, 2007).

### 4.1.2 Rents and Rent-seeking

A second economic explanation for the oil curse revolves around rents and rent seeking. Often, when oil revenue is mentioned, it is usually not actually oil itself, but so-called “rents”. Oil rents are the differences between the value of crude oil production at world prices and the total costs of production (Di John, 2007). Arezki & Brückner argue that oil rents are often associated with corruption and instability (2009). However, there is still very little empirical evidence on the link between oil rents, corruption and state stability (Arezki & Brückner, 2009). Oil wealth creates a rentier economy. A rentier oil-state prevents growth and development, because oil wealth enables low taxation, spending effect and preventing opposition group formation (Ipek, 2017; Ross, 2013) This allows leaders in oil states to have more political autonomy, which also allows them to move around the wealth to generate political support (Ipek, 2017). Oil under such circumstances provokes violent behavior and intra-state conflict (Di John, 2007). The political elite have an incentive to reduce political rights to evade a loss of the rent income that arise as a result of oil windfalls (Arezki & Brückner, 2009). Reducing political rights might secure more oil rents for the political elite, but reducing political rights also increases the likelihood of violence and conflict (Arezki & Brückner, 2009). When there is much profit in poor countries with weak institutions, every individual and group try to gain control of the profit, either legally or illegally. When profit is gained illegally based on the laws of the countries involved, it is called corruption. When there are legal ways of capturing those rents, it is often called “rent-seeking”. This demonstrates that there is a fine line between rent-seeking and corruption, and the difference is usually that rent-seeking is done by the country's elites, as they know the rules and laws better than less informed actors (Karl, 2007).

Rent-seeking can be seen as influencing activities (Di John, 2007). These influential activities range from bribing, political lobbying and threatening with violence (Di John, 2007). The presence of rents gives incentives for groups to gain control over the country's wealth through dubious actions. In oil-rich nations, rents create more competition. When there is more competition, there is more need for oil, and oil companies have reason to increase their supply (Kahn 2000, Wadho 2014). The cost of retrieving oil must be equal to, or less than the benefits of leaving the oil in the ground. Therefore, the problem with rent-seeking arises when the extraction costs are higher (Wadho, 2014). This then *crowds out* investment in other fields that

could generate more growth, such as education (Wadho, 2014). Ross (2004) writes that rents can increase violence and cause rebel groups to try to capture the state, while on the other hand, oil-rich states are better able to suppress rebellions. The rent-seeking model demonstrates the role of the political elite and the institutional framework. Lane & Tornell (1999) argue that rent-seeking is more harmful than the “Dutch Disease”. Understanding what oil-rents are, is key to understanding how countries with oil wealth are often corrupt, violent and undemocratic. Ross (2004) argues that the resources themselves are harmful and dangerous because of rents and rent-seeking.

## **4.2 A closer look: Politics**

The oil curse is political, as it consists of flawed institutions that cannot be undone without all parties involved (i.e., governments and citizens of both producing and consuming countries, international oil companies and international financial institutions) (Karl, 2007). The oil-exporting (resource rich) countries of the Middle East have lacked the institutional and political development that the resource *poor* so-called Asian “tigers” (Hong Kong, Korea, Singapore, Taiwan) have had (Karl, 2007). This is why the oil curse is also called the Paradox of the Plenty (Karl, 1997). The result of this paradox is that citizens of oil-dependent nations have a poor quality of life (Karl, 1997). According to Ross (2003) and Gylfason (2000) oil-dependent states have unusually high rates of infant mortality, child malnutrition, low life-expectancy, poor health care and education. Karl (2007) also adds these indicators to the list: higher than average corruption; authoritarian rule; weak rule of law; devastating environmental damage; human rights violations; and a greater risk of conflict and war. In the area of education in OPEC countries, only 57% of all children go to secondary school compared to 64% for the rest of the world (Gylfason, 2000). Only focusing on oil abundance could *crowd-out* innovation and entrepreneurship. This is because wages in the oil sector could rise so high that it forces and tempts innovators and entrepreneurs to work in the oil sector instead (Sachs & Warner, 2001). Oil nations thus experience lower innovation, lower entrepreneurial activity, poorer governments and lower growth (Sachs & Warner, 2001). There is an immense amount of documentation about these poor outcomes. Sachs & Warner (2001) and Ross (2001b, 2013) show evidence of the economic outcomes. Karl (1997, 2007) and Ross (2001a, 2013) write about the political

economic outcomes, which includes democracy and the rule of law. Finally, Collier & Hoeffler (2004, 1998) show the relationship between oil and war.

### **4.2.1 Taxes**

Governments of oil nations are in an unusual position with regard to the sources with which they get their revenue. Most countries rely on taxes from their citizens and businesses that operate in their country. However, this is not the case for oil nations. Governments funded by oil, especially in the Middle East are not financed by taxes from their citizens, but rather from the sales of state-owned petroleum (Ross, 2013). Oil revenue becomes the primary foundation of income instead of tax revenue (Alnasrawi, 2001). The state is no longer financially dependent on its citizens and can now distribute the revenues as they please. As long as oil is available in sufficient quantities, the governments of oil-states can allocate their revenues in a predictable pattern (Karl, 2007). This can be anything from buying off powerful groups or individuals, so they do not become a threat, permitting some degree of trickle-down economics, to building a powerful military to ensure compliance from their citizens (Karl, 2007). Often, citizens support governments with large budgets and low taxes. If a government raises their taxes, it could potentially cause citizens to expect more from their governments (Ross, 2011). Therefore, taxes are inseparable with the transparency of a government. Oil nations are not pressured to have the same type of transparency as governments who rely on taxes instead of oil revenues.

### **4.2.2 Civil War**

The theoretical framework already presented shows how oil revenue causes corruption and violence through rent-seeking, a less accountable government and worse social and civil services. In this section I will look further into how oil (oil revenue) can trigger civil war.

Collier & Hoeffler have the most influential empirical work on the causes of civil war, primarily on the commodity exports as an increasing factor of civil war (1998, 2004). Ross (2013), drawn from Collier & Hoeffler (2004), states that civil wars occur when the government fights a rebel army. The reason a rebel group could potentially take up arms is often due to grievances such as inequality, oppression or discrimination against an ethnic minority (Ross, 2013). However, the economic impact of the rebellion is important for the citizen. A citizen will

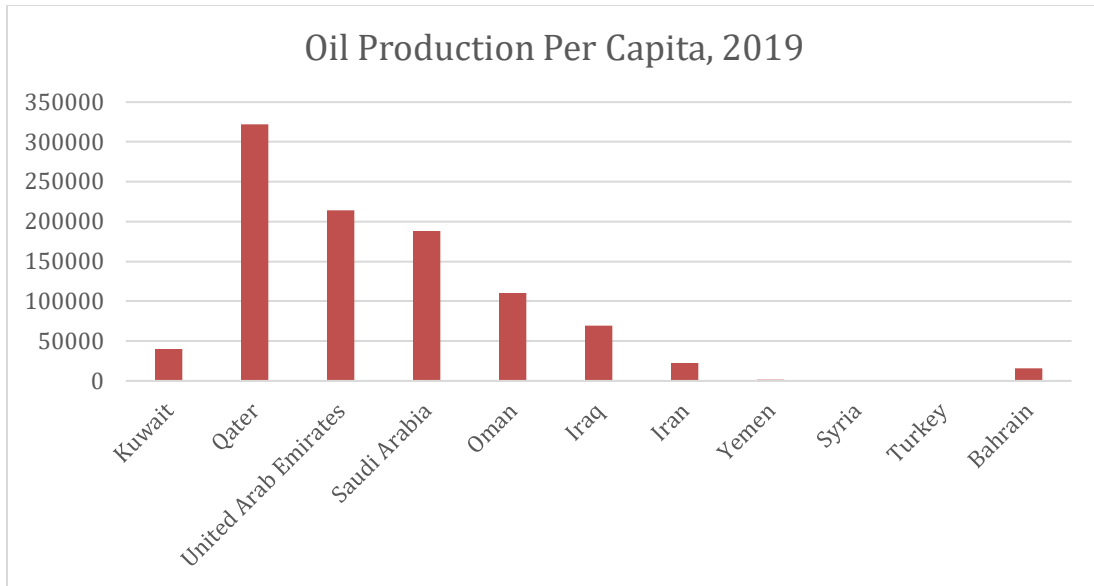
possibly have to give up their job in order to join the rebellion (Ross, 2013). In poor countries where jobs pay little, the likelihood of joining a rebellion is much greater than in a country that has higher wages (Ross, 2013). Additionally, the benefits of the rebellion must be sufficiently high (Ross, 2013). Collier & Hoeffler (1998) propose that resource abundance increases the likelihood of rebellion since it is in these groups interests to extract and sell resources to finance their activities. Natural resources are location-specific and can therefore be a sustainable funding (Di John, 2007). Countries with strong political institutions are able to avoid conflict while countries with weaker institutions tend to have a higher chance of conflict, as the citizens don't feel any loyalty to their government, since they receive so little in return (Collier & Hoeffler 1998, Di John 2007). I will discuss the citizens and governments role in conflict and civil war in oil nations after the analysis.

## **5. Analysis**

### **5.1 An analysis of oil, conflict and governance**

This analysis seeks to demonstrate that the research question for this article; oil (oil wealth) hinders democracy and triggers conflict, is true. In this analysis I will be looking at data gathered by Freedom House (2021), Our World in Data (2019) and ACLED (The Armed Conflict Location & Event Data Project) (2021), Worldwide Governance Indicators (2019) and the Resource Governance Index (2017) to answer my research question. First, as I will be looking at oil and conflict in the Middle East. I will begin with presenting the oil production per capita for the following countries: Kuwait, Qatar, United Arab Emirates, Saudi Arabia, Oman, Iraq, Iran, Syria, Turkey, Yemen and Bahrain. These countries will be used throughout the analysis. Syria and Turkey have very little or no oil, but I have included them anyway because they are important players in the dynamics of the Middle East.

By looking at *Graph 1*, Qatar produces most oil per capita, at a total of 321,953 kWh/per capita (OWID, 2019). Furthermore, the countries of the Gulf Cooperation Council, GCC, (Kuwait, Qatar, UAE, Saudi Arabia, Oman and Bahrain) produce the majority of the oil in the Middle East, as well as globally (GCC, 1981).



**Graph 1.** Oil Production Per Capita, 2019. *Our World in Data (2019).*

The Freedom House Index is an annual report that looks at a country's electoral process, political freedom, functioning of government, civil liberties, rule of law and individual rights. Through this process, each country gets a score in the different categories, which leads to the overall Freedom House Score. The score ranges from 0 (not free) to 100 (free). Globally, Syria ranks at the bottom of the list with a score of 1, while Norway ranks at the top with a score of 100. The Freedom House gives a sense of the tension in the different countries. As seen on *Table 1*, the only country that is rated “Partly Free” of the countries in this analysis is Kuwait, the rest of the countries listed are reported as “Not Free”, meaning all the countries lack basic freedom and rights in different aspects of their society. By looking at *Table 1* it is clear to see that these oil producing countries have massive structural and institutional problems. How does the Freedom House score fit with oil production? Though the GCC countries are not all ranked at the bottom of this table, in a global general they have received some of the worst scores. The countries that scored worst are Syria, Yemen, Bahrain and Saudi Arabia.



Country	Freedom House	Status
Kuwait	37	Partly Free
Qater	25	Not Free
United Arab Emirates	17	Not Free
Saudi Arabia	7	Not Free
Oman	23	Not Free
Iraq	29	Not Free
Iran	16	Not Free
Yemen	11	Not Free
Syria	1	Not Free
Turkey	32	Not Free
Bahrain	12	Not Free

*Table 1. Freedom House, 2021*

The Freedom House score includes much of what I base my thesis on. However, looking at the number of conflicts and fatalities is also of great importance. The ACLED is a data collection of global conflict at a national level. The ACLED tracks political violence and protests around the world. Political violence includes battles, explosions/remote violence, violence against civilians and mob violence (ACLED, 2021). This category of analysis is the most challenging, as it is hard to trust that the data is correct. Governments have incentives to report fewer events or fatalities, and there can be major differences across conflict datasets (ACLED, 2019). Of the data available, the ACLED included the widest specter of analysis and compared and cross-checked data to UCDP, GDELT, ICEWS and Phoenix (ACLED, 2019). According to *Table 2*, Yemen and Syria have the greatest number of events and reported fatalities in 2020, both these countries have little/no oil. The GCC countries have a low number of conflicts, and even lower number of reported fatalities. Of the GCC countries, Saudi Arabia and Bahrain have the greatest number of events.

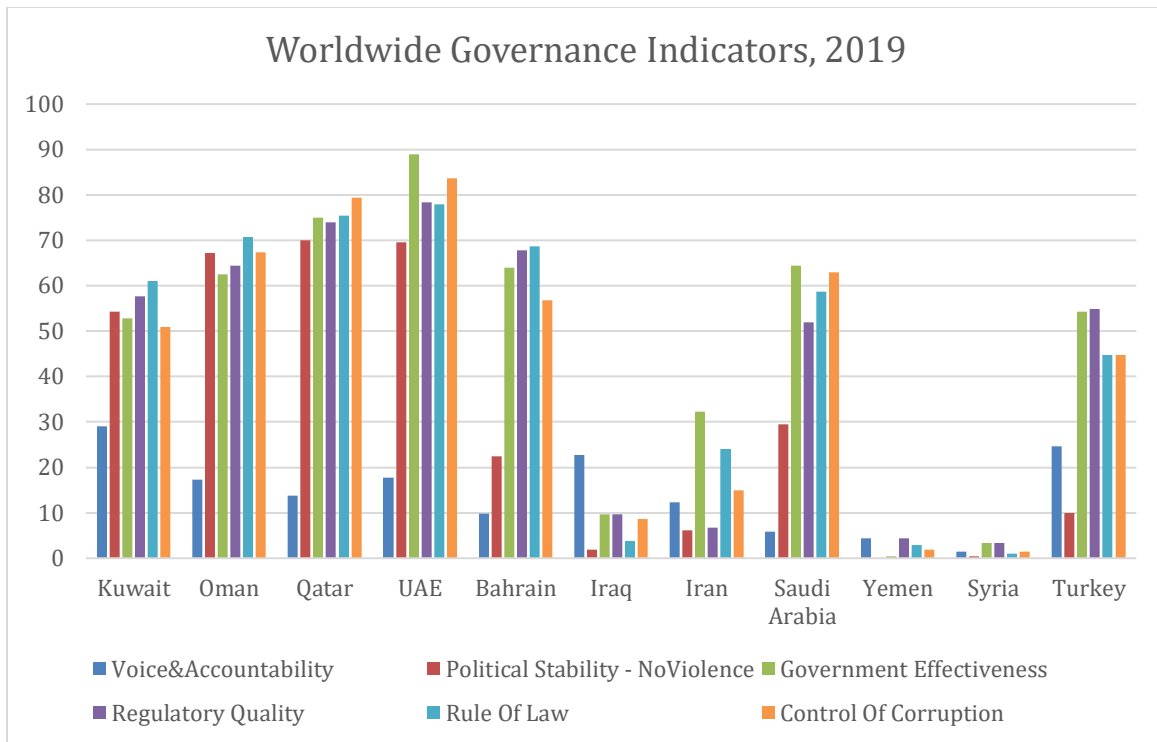
By looking at the ACLED dataset alone, I would conclude that the answer to my research question is that oil does not lead to conflict. The numbers on *Table 2* are low and does not seem to show that oil significantly affects conflict in oil nations. Therefore, I will be analyzing institutions and governance to cross-check if this statement is true.

Country	Number of events	Reported fatalities
Kuwait	21	1
Qater	4	0
United Arab Emirates	4	2
Saudi Arabia	119	74
Oman	6	0
Iraq	5866	2723
Iran	2272	370
Yemen	11,816	19,798
Syria	12,089	7992
Turkey	4234	544
Bahrain	253	0

*Table 2. Data gathered by the ACLED from January 2020 – January 2021.*

## 5.2 Analysis of institutions and governance

In order to further understand the negative effects oil has on conflicts, it is useful to understand whether oil has a significant effect on political institutions. To analyze the institution's quality in the Middle East, two datasets will be used: WGI (Worldwide Governance Indicators) and RGI (Revenue Governance Index). The WGI a commonly used institutional quality index which is produced and researched by the World Banks research programs and affiliated institutions. The dataset is produced by survey institutions, non-governmental organizations, private sector firms and international organizations. It is important to note that this data might have flaws as it is hard to gather accurate data in countries where there is poverty, conflict and war- such as in many of the Middle Eastern countries I am looking at in this thesis. The WGI Project includes six indicators of governance: Voice and Accountability, Rule of Law, Political Stability and Absence of Violence, Regulatory Quality, and Control of Corruption. A score of 0 corresponds to the lowest possible ranking, while 100 corresponds with the highest possible ranking. The data presented is from 2019. Overall, we see in *Graph 2* that Yemen and Syria score lowest in the WGI, while Qatar and UAE have the highest percentile score. It is worth mentioning that though they score highest on most sections, they both score poorly on the category of Voice and Accountability.



**Graph 2.** Worldwide Governance Indicators, 2019.

To present further evidence of the institutional flaws in the Middle East, *Table 3* is presented and covers the 2017 Resource Governance Index produced by the NRGI (Natural Resource Governance Institute). In particular, the RGI covers the allocation of extraction rights through the management of the revenue generated by oil, gas and mining sectors (NRGI, 2017). This index shows that the effective governance of oil and gas is not an insurmountable challenge, but that many countries will still struggle to adequately govern their natural resource wealth (NRGI, 2017). The Index Rank shows where the country is at on a global level and the Index score shows if the country is succeeding (see *Table 4*). The Value Realization Score covers the governance of licensing, taxation, local impacts, revenue collection and state-owned enterprises (NRGI, 2017). The Revenue Management Score covers national budgeting, subnational resource revenue sharing and sovereign wealth funds (NRGI, 2017). The final component is Enabling Environment Score which draws on pre-existing research to measure the broader governance context (NRGI, 2017). The scores are grouped into performance bands as seen on *Table 4*: good, satisfactory, weak, poor and failing (NRGI, 2017).

As seen on *Table 3*, of all the oil producing countries in the Middle East, Yemen is ranked at the bottom, while Kuwait is ranked at the top, though none of the Middle Eastern countries surpass the category “Weak” on the global Index Score. The same can be seen in the components “Value Realization Score” and “Revenue Management Score”. Bahrain and Saudi Arabia are ranked at the bottom of the VRS, and Qatar and the UAE are ranked at the bottom of the RMS. However, there are good scores in the category “Enabling Environment Score”, with three countries categorized as good and two as satisfactory. In this category, Yemen is ranked at the bottom, with Iraq next to last.

Country	Index Rank	Index Score	Value Realization Score	Revenue Management Score	Enabling Environment Score
Kuwait	33	54	44	51	67
Oman	39	50	32	43	76
Qatar	53	43	33	19	77
UAE	54	32	32	16	78
Bahrain	59	39	27	26	63
Iraq	61	38	52	47	16
Iran	62	38	36	45	34
Saudi Arabia	69	36	23	24	60
Yemen	78	30	50	28	11
Syria	N/D	N/D		N/D	N/D
Turkey	N/D	N/D		N/D	N/D

*Table 3. Resource Governance Index, 2017. Natural Resource Governance Institute, 2017.*

Good	>75	A country has established laws and practices that are likely to result in extractive resource wealth benefiting citizens, although there may be some costs to society
Satisfactory	60-74	A country has some strong governance procedures and practices, but some areas need improvement. It is reasonably likely that extractive resource wealth benefits citizens, but there may be costs to society
Weak	45-59	A country has a mix of strong and problematic areas of governance. Results indicate that resource extraction can help society, but it is likely that the eventual benefits are weak.
Poor	30-44	A country has established some minimal procedures and practices to govern resources, but most elements are necessary to ensure society benefits are missing.
Failing	<30	A country has almost no governance framework to ensure resource extraction benefits society. It is highly likely that benefits flow only to some companies and elites.

*Table 4. Resource Governance Index scores, 2017.*

## 6. Discussion

Having an enormous wealth from oil and gas would suggest that the citizens in a country should be well off, but still the economies of resource rich countries have grown more slowly than the economies of countries that are resource poor (Warner, 2015). The data presented has shown that one reason for this is the quality of governance. Most countries face major governance challenges. The worst-performing high-income country is Saudi Arabia, which scores only 36 points in the RGI (2017). The Freedom House scores also show that the oil-rich nations of the Middle East are not free. However, the same can be said for the countries in the Middle East without oil. Regarding conflict events and fatalities, the numbers shown by the ACLED are also quite low. The countries with very little oil have the most fatalities and events (Yemen and Syria), while the GCC nations have an arguably insignificantly low number of events and fatalities.

Arezki & Brückner examine this matter (2009). They state that there is little to no empirical evidence that can prove the legitimacy of the oil curse (2009). Most literature, according to Arezki & Brückner, has been either anecdotal or is ruined by endogeneity biases related to unobservable variables (2009). One could argue that this can be seen with the data that I have presented in this article. However, in their research, they also examine a variety of political measures responses to oil revenue (2009). The main goal of their research was to see if oil directly undermines political procedures, such as competitiveness, number of veto players and electoral rules, or if oil only affects political outcomes for political and civil liberties (Arezki & Brückner, 2009). Interestingly, they do find a significant effect on oil revenue and political and civil liberties. Arezki & Brückner argue that the main reason for this is the distributional conflict between the political elite and the masses (2009). As seen on both the RGI and the WGI, there are still massive governance issues in oil nations that could potentially lead to the civilian population taking up arms. Collier and Hoeffler (1998) confirm this statement through their Civil War Model. 25 countries account for approximately 95% of all known reserves (OWID, 2019). Of these, only five countries rank at the top of a variety of governance indicators, such as the WGI. However, these countries hold only 5% of all proven reserves. These five countries are Australia, Canada, Norway, the UK and the US. On the other hand, 12 countries (including four countries in this analysis, Iran, Iraq, Saudi Arabia and Yemen) rank at the very bottom of these

governance indicators. Yet these 12 countries hold more than 68% of the world's proven reserves (OWID, 2019). It is therefore correct to assume that countries with oil have very bad governance indicators. Furthermore, the issue of the legitimacy of the conflict dataset arrives. The ACLED reported 19,798 fatalities in Yemen in 2020. However, the United Nations reported 233,000 deaths in 2020. Amnesty International has released several reports on Iran stating the secret execution of political prisoners, blocked access to media, ill-treatment of women and girls, torture and deaths, and there is likely evidence of more violence and fatalities in the other countries (2021). Furthermore, a limitation to this study is that oil is treated as a dichotomy, by looking at states as either oil states or non-oil states. Additionally, conflict is either seen as present or not present. As seen, these variables do not seem to be influencing each other, and the graphs seem to lose a significant number of observations due to missing data (Ross, 2003). Data can be missing for reasons that are correlated with one of the variables, for example if the country is suffering from civil war or extreme poverty when the data was collected (Ross, 2003).

## **6.1 The Poor and the Corrupt**

Ross (2003) argues that mineral wealth will hurt the poor, a statement that can prove that although there is a low number of fatalities in countries with oil, it can still be extremely harmful. As there are massive economic gaps in most of the Middle Eastern oil nations, I further argue that if oil wealth hurts the poor, it will hurt a big part of the population, and eventually lead to conflict. First, the volatility of oil prices is more harmful for the poor than the middle and upper class (Ross, 2003). Economies have grown more dependent on oil exports and are therefore more likely to face economic shocks (Ross, 2003). The poor are less able to guard themselves against negative shocks, and it is the government's role to buffer these shocks by implementing stabilizing taxes and funds (Ross, 2003). However, Ross argues that in reality, such stabilization measures work poorly (2003). When economies are strong, governments typically use their stabilization funds on spending sprees, so when prices drop again, there is little money left to buffer the economy and protect the poor citizens (Ross, 2003). Subsequently, the oil sector might lead to higher inequality. The rents produced by oil generate substantial wealth for governments or investors while the citizens working in the oil sector generate very little wealth (Ross, 2003). The oil sector has a staggering high-income inequality (Ross, 2003). Oil dependency hurts economic growth, which in turn hurts the poor. Sachs and Warner (2001)

have shown that a country's dependence on primary commodities, such as oil tend to reduce GDP growth. Therefore, if growth is good for the poor, and oil dependency reduces growth, it is correct to assume that oil dependency in a country would hurt the poor. A booming sector, as previously mentioned, tends to either crowd out or fail to produce alternative jobs. The Dutch Disease will often be manifested in oil dependent nations, specifically in the agriculture sector, a sector that often creates jobs for the poor.

Secrecy in oil nations is the biggest factor to the oil curse. The nationalization process of oil reserves brought massive influxes of wealth to the governments and political elites, which has also allowed government's to hide revenues and expenditures (Ross, 2011, 2013). The secrecy surrounding oil revenues is why dictators in oil nations can remain in power, why conflict blooms and why development is nowhere near that of developed nations. Oil is also strongly associated with long-lasting autocratic regimes (Ipek, 2017). Karl (1997) shows that there is significant evidence that if countries are in the process of democratization, having oil hinders that process. If there is a ruler of a certain identity, religion, linguistic or tribe leading a country with high revenue flow, that ruler will notoriously share with those who share the same identity (or groups the ruler supports, businesses that will make the ruler richer etc.). This ruler will do what he can to keep his "people" happy, because they will help him stay in power. He will give anything those who will keep him in power. If, in the same country two thirds of the citizens of a different identity, religion or linguistic group are becoming disenchanted with the uneven distribution of benefits, uproar may follow. If citizens living in areas where oil is being extracted and the environment destroyed become increasingly frustrated, they may riot against the leader(s). To stay in power, a leader will typically bribe the leaders of the riots or revolution in order to appease them. If the leaders accept such a bribe, it is likely the riots will stop. If not, the leaders of the uproar will likely be arrested or killed. This example is a very simplified way of understanding how oil governments rule. They rule between a mix of co-optation and repression. Oil governments have a much larger capacity for co-optation than most governments, as well as more repression since they have higher budgets to build strong military apparatus (Karl 1999, Ross 2011).

Furthermore, oil dependency increases the likelihood of civil war, which simultaneously increases poverty rates and hurts the poor (Ross, 2003). As seen in the data presented, there is an

insignificant correlation between conflict and oil, however, scholars have shown evidence for the increasing likelihood of civil war in mineral dependent nations (Collier & Hoeffler, 1998; Karl, 1997; Ross, 2003). Civil war can hurt the citizens in other ways than through violent outbreaks (as shown in *Table 2*), for example by reducing employment, hindering food production and distribution, reducing access to schools and medical facilities, and forcing people to flee their lands and into hiding or refugee camps (Ross, 2003). This would be most harmful for the poor, because those with middle and upper incomes usually have savings or other economic ways to emigrate and survive during a war (Ross, 2003). Oil dependency also makes countries less democratic by reducing the governments dependency on taxes, which gives the government sufficient revenue to bribe or repress potential challenges (Karl, 2007). Ross (2001) has found a strong negative association between a state's dependence on mineral exports and its subsequent democracy level. Governments that are less democratic are also less likely to mitigate poverty (Ross, 2003). Ross (2013) states that for decades, the Middle East has had less democracy than any other world region. Autocrats keep themselves in power, reduce taxes buy loyalty and conceal their corruption through oil revenues (Ross, 2013). The nationalization process that started in the 1960s in the Middle East was seen as a triumph (Ross, 2013). The countries who moved away from the control of multinational companies gained greater control over their national assets and more control over world prices. Since the oligopsony of the Seven Sisters broke, national oil companies have dominated global oil supply (Ross, 2013). In the Middle East national oil companies run all day-to-day operations and only hire international companies on service contracts for specific tasks, something that seems beneficiary for the citizens of the country (Ross, 2013). However, although the size of the governments revenues grew, the citizens gained little from the nationalization of their country's biggest export (Ross, 2013). Instead, the nationalization of oil gave the citizens less democracy.



## 7. Conclusion

Oil might seem like a hopeless case as it plays such a major role in so many parts of our globalized society. However, there are ways to reduce conflict and corruption in oil nations. Governments should focus on strengthening the implementation of laws and regulation in the oil sector. Progress is also needed where such regulations are already in place, however, the ultimate challenge is implementing these laws and regulations. The area of transparency must also be improved. Transparency can also be achieved by implementing taxes so that the government is held accountable by its citizens. The next step is to show who the true beneficial owners of the companies are, the commercial interests of officials and their associates, the deals governments make, and the project-level payments companies make to governments. Furthermore, scholars have argued that bolstering state entrepreneurship and innovation, as well as other sectors such as agriculture and manufacturing, would lead to a better functioning state, less corruption and less poverty (see Lane and Tornell, 1999., Karl., 2007., Ross, 2003). A final alternate point of view that I have not discussed in this thesis is the overall elimination of oil. Environmentalists might argue that moving away from non-renewable energy sources would potentially cease conflict and enhance equality.

This thesis has given an overview of the effect oil has on the citizens of oil nations. As seen, finding evidence for the negative consequences of oil is a challenge. However, I conclude that oil has an indirect effect on conflict. Oil is deeply rooted in the modern history of the Middle East, as shown in the historical overview. Since oil was discovered, there are many parallels to the conflicts and oil, and more often than not, the poorest citizens suffer the most. The Dutch Disease shows that only focusing on one sector hurts the economy more than it helps to build it, as well as hurting the long-term development of the country. Citizens are more likely to take up arms as there are less opportunities for jobs in countries where the government focuses solely on the oil sector. Rent-seeking can also be seen as an indirect effect to conflict and violence. Rents give leaders in oil states more political autonomy as well as giving the incentive to capture more rents, often through dubious actions. Governments who rely on rents and rent-seeking do not need to rely on taxes and are therefore not held accountable by their citizens. Rents, however, do give an incentive to *avoid* raising taxes, as the citizens would demand more from their government. The citizens can be tempted to take up arms if they believe that their leaders aren't

acting in the country's best interest. In my analysis, I find very little evidence that oil production per capita has a direct effect on the number of conflicts. However, the different governance indicators do play a more significant role. The Freedom House Index clearly shows that the Middle Eastern countries in this analysis are at the global bottom, giving their citizens low levels of democracy and civil liberties. The poor are more at risk, as they do not have a buffer to shield from the negative consequences of oil. Furthermore, the oil curse is a complex case which is plagued by secrecy, making evidence hard to find. Oil and oil wealth has become a curse that hurts the citizens of oil nations through bad governance and institutions, lack of innovation and entrepreneurship, and through governments and leaders with corrupt motives. Hopefully, with more transparency, better political and economic systems and possibly a more sustainable future, citizens of oil-rich nations will one day see oil has a blessing rather than a curse.

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