



## Middle East Oil Exporters: What Happened to Economic Development?

*Author: Hossein Askari*

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Over the years, Hossein Askari has provided some of the most accurate assessments of economic developments in the Middle East. In many respects, *Middle East Oil Exporters* represents the culmination of that research. Here, Askari integrates many previously developed themes into a comprehensive framework capable of providing deeper insights as to the causes of the dire plight facing many of region's key economies.

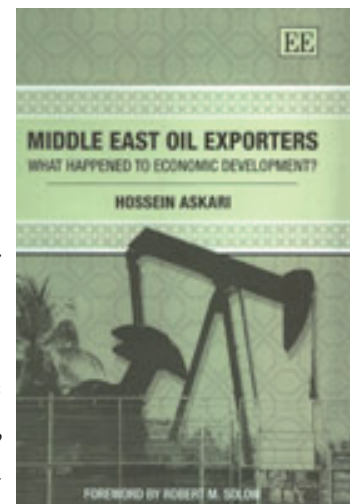
The volume is built around three related themes. First, Askari provides a detailed picture of the economic structure and a critical survey of the recent economic performance of the Middle East and North Africa (MENA) region. The focus is primarily on the large oil-exporting nations – Iran, Iraq and Saudi Arabia, with somewhat less attention devoted to several Gulf Cooperation Council (GCC) countries – Kuwait, Qatar and the UAE. To show how the patterns of development of these countries are unique in the developing world he makes a number of comparisons of their patterns of growth with a sample of non-oil countries of the region (Egypt, Jordan, Morocco, Syria and

Tunisia), together with an appropriate group of countries from outside the region (Chile, Korea, Malaysia and Singapore).

Second, he presents a strong and uncompromising argument about what these countries must do, and what the West must do to improve their economic performance and social fabric.

Askari's third theme centers on the social, economic and political implications of Islamic doctrine. Significantly, his interpretation of Islamic teaching is dramatically different from the conventional picture propagated today by interested parties inside and outside the Middle East.

These three components are then woven into a tight framework focused on the problems created by abundant oil resources. The question is simple: Why has oil been more of a curse than a blessing for the region? In contrast to many other works on the subject, Askari notes from the beginning that



the reasons for economic and social failure in the Middle East are far deeper than simple shortcomings in the quality of economic policies adopted, availability of financial resources and governance. Instead, political, legal, social, cultural and religious factors, regional conflicts and instability, and external meddling in the region have also shaped the economic landscape. Specifically, Askari believes that the explanation for the region's underperformance lies in what has happened in the region since World War II and especially over the past 30 to 35 years.

His analysis leads to the logical conclusion that there can be no sustained economic growth, development and prosperity in the Middle East without peace and stability. On the other hand, he notes there can be no stability without economic prosperity. Unfortunately, the major powers instead of supporting social, political and economic progress have made matters worse by focusing on their own narrow short-term interests and at times even fueling conflicts. (p.1)

While extremely critical of the role played by the western powers, Askari admits much of the region's problems can be simply traced to oil. Petroleum became the crutch to avoid policy reform and to keep unpopular governments in power. "Oil has destroyed the work ethic of the region, fueled corruption and poisoned the cultural and social fabric of society. Islam has been invoked to garner legitimacy for illegitimate regimes and to gain support where support has not been earned. Islamic teachings have been perverted and conveniently adapted and adopted to support the dictator of the day, with concessions to the religious establishment to gain their backing."(p.1-2).

From a purely economic perspective, a responsible oil policy is easy to conceptualize. Since oil is not a renewable resource, using oil revenues, as many countries do simply to subsidize current consumption is a way of cheating future generations out of their share of the natural inheritance. Instead an adequate share of current revenues

should be invested in earning assets. These will increasingly substitute for oil as it runs out or becomes high cost and less profitable or faces competition from alternative fuels. The generations to come in a post-oil future thus share indirectly in the country's natural legacy.

It is in this regard that Islamic practices provide one of Askari's main ironies – by simply following Islam's main teachings, the countries could have avoided many of their self-inflicted problems. As Askari notes, the clear message of Islam is that all current and future citizens must reap the same real benefit from resource depletion. Oil resources must thus be used in a just and efficient manner. One possible solution would be to give each member of the current and future generations a sum of money with the same real purchasing power by doing the following: (1) placing all oil revenues into a fund; (2) investing the resources of the fund; (3) issuing a check to every citizen from this fund (the amount calculated in a conservative manner and subject to change annually in order to ensure the same real benefit to all future generations); and (4) allowing the government to borrow up to a fixed maximum percentage of the fund at an annual cost to be paid to the fund.

In addition to the creation of oil funds for the direct distribution of revenues to the population, Askari feels governments must undertake a number of reforms to escape the vicious circles entrapping progress. Here he directs most of his attention to the larger countries. To achieve more dynamic economic performance and sustain growth during periods of slack oil markets these countries need to adopt policy packages built around the principles laid down by the World Bank and IMF (the so-called Washington Consensus).

A partial list of reforms would include relaxing economic controls, reducing the role of government and creating an environment where the private sector can thrive. This would entail elimination (or at least a dramatic reduction) of explicit and implicit subsidies, effective privatization of

state enterprises (including commercial banks and foundations in the case of Iran), elimination of remaining price and financial controls, creation of an effective and equitable tax system, reduction in tariffs and non-tariff barriers to promote domestic competition. Of course, many of these would be politically difficult in the short run. Historically the oil-exporters have backed off of them during times of abundant oil revenues.

The book ends with an ominous warning (p. 333-334):

The governments of these larger countries have little choice. If they do not institute reforms more rapidly, they will be swept aside by growing discontent among the needy and the unemployed, especially the young. To have a reasonable chance of success governments must adopt policy reforms and ensure during the transition phase the majority of their citizens (the less well-off economically) see and believe themselves to be better off than before the reforms. This will require a well-designed safety net based on Islamic principles (affording everyone necessities in food, shelter, healthcare and education).

Writing books on the Middle East is a hazardous endeavor. Often they become caught up in events and dated before their ink has had a chance to dry. In a sense *Middle East Oil Exporters* suffers the same fate. Most of the data forming the basis

of Askari's analysis ends at 2002. The progress made during the prolonged oil boom continuing to transform the region does not enter into his assessment.

How would the book differ if it was written in light of recent developments in the world-wide oil markets? No doubt Askari would contend that all the current influx of revenues has done is conceal the problems carefully documented throughout his study – these impediments to growth and development will again surface once the boom subsides. Simply put, the dire warnings noted above still hold. This is certainly true of Iraq and Iran, although the Iranians are making some progress in reducing gasoline subsidies and there is talk of privatization of some of the state enterprises. An oil fund has been set up, although far from the model suggested by Askari.

Saudi Arabia may be a different case – the Kingdom has apparently learned from its past mistakes and while economic and political reforms appear on hold, there is more of a concerted effort to better manage the influx of wealth. The Dubai miracle and perhaps a similar boom underway in Qatar would have to be addressed – does Dubai's dramatic success show that a little oil may be better than an abundant amount? Or, does it represent a non-Washington Consensus, new wave of the future perhaps to be widely emulated by the other oil exporters?