Neo-rentier theory: The case of Saudi Arabia (1950-2000)

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Neo-Rentier Theory: The Case of Saudi Arabia (1950-2000)

PROEFSCHRIFT

ter verkrijging van
de graad van Doctor aan de Universiteit Leiden,
op gezag van Rector Magnificus Prof.mr. P.F. van der Heijden,
volgens besluit van het College voor Promoties
te verdedigen op dinsdag 16 februari 2010,
klokke 15:00 uur

door

Islam Yasin Qasem

Geboren te Damascus (Syrië)

in 1973

Promotiecommissie

Promotors

Prof. Dr. Madeleine Hosli	(Universiteit Leiden)
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The author is grateful to the Generalitat de Catalunya for partly funding this research.

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To my mother and the memory of my father

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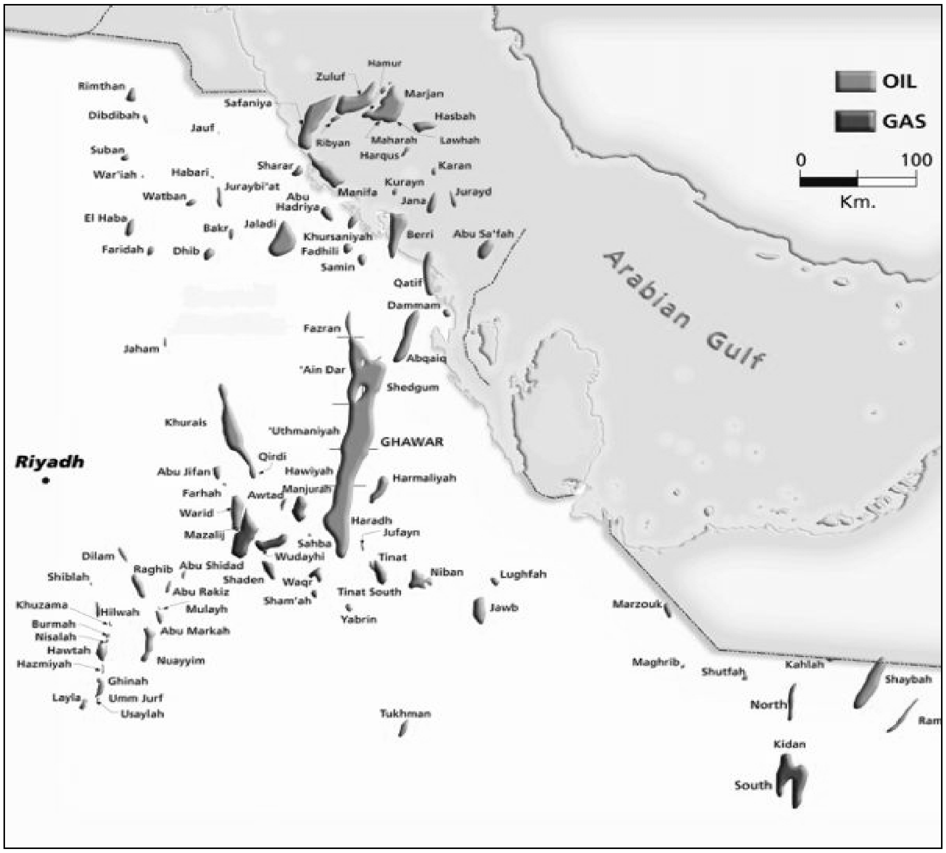
A NOTE ON TRANSLITERATION

As a guideline for transliterating Arabic words I closely adopted the format used by the *International Journal of Middle Eastern Studies* (*IJMES*), which follows a modified form of the *Encyclopedia of Islam* transliteration system. The advantage of this system is that words are rendered in format readily intelligible to both Arabic and non-Arabic readers. Names of places and political leaders and cultural figures, as well as words which appear in the *Webster's Collegiate Dictionary* are spelled in accordance with the most common English spelling. Thus, these words are stripped from diacriticals marks and are not italicized. For instance, I adopted the format Gamal Abdel Nasser (not Jamāl ‘Abd al-Nāsir), jihad (not *jihād*). For names and place names that do not have a common English spelling, I added [`] and [′] to mark the ayn and hamza, respectively. For Arabic words which are not in the *Webster's Collegiate Dictionary* I applied diacritical marks and italics. Finally, certain words were spelled in accordance with the format found in the *IJMES's* word list.

ABBREVIATIONS

AOI	Arab Organization Industrialization
ARAMCO	Arabian American Oil Company
AWCS	Airborne warning and control system
b/d	barrels per day
BP	British Petroleum
EIA	Energy Information Administration
GDP	Gross Domestic Product
IMF	International Monetary Fund
IPC	Iraq Petroleum Company
mbd	Million barrels per day
MDAA	Mutual Defense Assistance Agreement
MEES	Middle East Economic Survey
NATO	North Atlantic Treaty Organization
OAPEC	Arab Petroleum Exporting Countries. Members: Algeria (1970), Bahrain (1970), Kuwait (1968), Libya (1968), Syria (1972), UAE (1970), Egypt (1973), Iraq (1972), Qatar (1970), Saudi Arabia (1968), Tunis (1982)
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of the Petroleum Exporting Countries. Members: Algeria (1969), Indonesia (1962), the Islamic Republic of Iran (1960), Iraq (1960), Libya (1962), Nigeria (1971), Qatar (1961), Saudi Arabia (1960), United Arab Emirates (1967), Venezuela (1960)
PLO	Palestinian Liberation Organization
SABIC	Saudi Arabian Basic Industries Corporation
SAMA	Saudi Arabian Monetary Agency
SOCAL	Standard Oil Company of California
SR	Saudi Riyal
UN	United Nations
USMTIM	United States Military Training Mission

Map1. The Kingdom of Saudi Arabia



Map 2. Saudi Oil and Gas Fields. Source: Energy Information Administration (EIA).

CHAPTER ONE: DEPENDENCE AND SECURITY

1.1 Introduction

Global trade in oil has fundamentally changed the conditions of world politics. It has provided consumers and producers with new sources of power, but also increased their vulnerability. This dissertation investigates the effects of relations of oil dependence on the internal and external security strategies of oil-producing countries known as rentier states.[1] The main research question is: how and under what conditions do relations of oil dependence influence the security behavior of rentier states?

Questions pertaining to security and economic welfare are probably as old as recorded history. The two histories have been interrelated, but how are they entangled in modern world politics? The literature on economic interdependence offers two opposite views about security.[2] The first argument underlines the effect of economics on politics. The underlying logic of this argument is that different specialization or division of labor implies that countries are better off when they trade with each other, which in turn increases the political/economic cost of interstate conflict and enhances the opportunity for cooperation.[3] In line with this logic, liberal scholars have elaborated various mechanisms that connect interdependence to security. Trading systems based on interdependence provide access to needed resources, and hence render the conditions for

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[1] The concept of rentier state is fully explored in chapter two. In short the definition of the rentier state is based on three conditions: first, state revenue is highly based on oil sales abroad or other foreign sources; second, public expenditures represent a significant share of GDP; and third, only a small fraction of the population is responsible for the generation of rent (state revenue). My definition is based on earlier scholarly work on the rentier state; a few among the most important works include: Hazem Beblawi and Giacomo Luciani, eds., *The Rentier State* (New York: Croom Helm, 1987); Jill Crystal, "Coalitions in Oil Monarchies: Kuwait and Qatar," *Comparative Politics* 21 (July 1989), 427-443; Ghassan Salame, "Political Power and the Saudi State," *MERIP Reports* (October 1980), 5-22; Jacques Delacroix, "The Distributive State in the World System," *Studies in Comparative International Development* 15 (1980), 3-21; and Lisa Anderson, *The State and Social Transformation in Tunisia and Libya, 1880-1980* (Princeton: Princeton University Press, 1986).

[2] Economic interdependence in the field of international relations is commonly understood in the sense of "sensitivity" and "vulnerability." See Richard N. Cooper, "Economic Interdependence and Foreign Policy in the Seventies," *World Politics* 24 (January 1972),159-181; Robert O. Keohane and Joseph S. Nye, *Power and Interdependence: World Politics in Transition,* 3rd ed. (New York: Longman, 2001); Robert O. Keohane and Joseph S. Nye, "Power and Interdependence," *International Organizations* 41 (Autumn 1987), 513-530; David A. Baldwin, "Interdependence and Power: A Conceptual Analysis," *International Organization* 34 (Autumn, 1980), 471-506. For an insightful discussion on the interaction between economic interdependence and national security see Michael Mastanduno, "Economic Statecraft, Interdependence, and national security: Agenda for research," *Security Studies* 9 (September 1999), 288-316; and Mastanduno, "Economics and Security in Statecraft and Scholarship" *International Organization*, 52, 4 (Autumn, 1998), 828-854.

[3] The economic interdependence argument is built on the premise of comparative advantage. According to Adam Smith, "Whether the advantages which one country has over another, be natural or acquired, is in this respect of no consequence. As long as one country has those advantages, and the other wants them, it will always be more advantageous for the latter, rather to buy of the former than to make." See Adam Smith, *The Wealth of Nations*, ed., Edwin Cannan (New York: The Modern Library, 1994), 487.

wars over resources obsolete.[4] Conversely, international trade and transnational transactions initiated by foreign and domestic actors confront governments with a multitude of issues in the areas of economics and finance. To meet domestic needs and cope with the impact of transnational interactions, governments are induced to cooperate.[5]

In contrast, the second argument approaches interdependence from the viewpoint of the politics of economics.[6] Economics is treated as no more than an extension of power politics. Relations of economic interdependence are considered opportunities for power to be flexed in the form of economic pressure to achieve certain political goals.[7] Beyond coercion, the liberal economic structure also incorporates the risk of using force. According to Buzan, the economic liberal order rests on the security order provided by a hegemonic leader. The demise of this leadership leads to dramatic disruptions in international relations, which increases the risk of armed conflicts.[8]

In light of these two arguments, relations of oil dependence are a puzzling phenomenon. Considering the oil embargos of 1956, 1967, and 1973, the evidence seems to support the view that advocates the politics of economics.[9] Yet this finding stands at odds with the fact that the Saudi royal family in rhetoric and deed repeatedly asserted that oil interests and international welfare go hand-in-hand. In the words of Prince Fahd: "We are a part of the world, and we see our oil interests linked to the question of economic peace."[10] The link between oil policies and economic peace clearly represents the liberal view of economic interdependence as a catalyst for cooperation in world politics. To resolve this seemingly puzzling contradiction between the two scenarios, this dissertation takes a different approach. Rather than making the case for cooperation or conflict in world politics, it investigates the role of oil dependence in the formulation of domestic and international security strategies of rentier states.

Such an approach allows for generating explanations that contribute to theoretical scholarship, but also informs policymaking. Theoretically, this dissertation provides a

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[4] Richard Rosecrance, *The Rise of Trading State: Commerce and Conquest in the Modern World* (New York: Basic Books, Inc., 1986).

[5] Richard Rosecrance and Arthur Stein, "Interdependence: Myth or Reality," *World Politics* 26 (October 1973): 1-27. Other arguments contend that trade increases communication between trading partners and contact between peoples in different countries, and therefore reduces the possibility of war. See Dale Copeland, "Economic Interdependence and the Outbreak of War," paper presented to University of Virginia Department of Government's faculty workshop (March 1995).

[6] Barry Buzan, "Economic Structure and International Security: The Limits of the Liberal Case," *International Organization* 38 (Autumn, 1984), 597-624.

[7] This effect of trade is called by Hirschman the "influence effect." See Albert O. Hirschman, *National Power and the Structure of Foreign Trade*, expanded edition 1980 (Berkeley: University of California Press, 1945), 15.

[8] Barry Buzan, "Economic Structure and International Security: The Limits of the Liberal Case." For an opposite view, see Robert Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton: Princeton University Press, 1984).

[9] One can also consider the use of oil dependence as a political weapon deployed by importing countries. For example, oil sanctions have been used by the United States against Libya, Iran, and Iraq.

[10] Quoted in Added Dawisha, "Saudi Arabia's Search for Security," *Adelphi Papers* 158 (London: International Institute for Strategic Studies, 1979), 8.

model for hypothesizing the effect of changes in the pattern of dependence on security behavior. Oil dependence is defined by the opportunity costs of severing or altering the relationship between consumers and producers. As opportunity costs vary, they create different patterns of dependence. High opportunity costs for consumers and producers implies symmetric dependence (or interdependence), while high opportunity costs for either consumers or producers implies asymmetric dependence.[11] The model specifies the domain and characteristics of different patterns of dependence, and consequently how oil price and revenue affect security strategies in the domestic and international arenas. Moreover, it addresses how domestic and international politics are linked – for example, under what conditions economic instruments are triggered in the international arena to serve a domestic security purpose.

Empirically the dissertation explores the different strategies adopted by Saudi Arabia under various patterns of oil dependence. Drawing on the history of Saudi Arabia over the second half of the twentieth century, the journey of analysis passes through various stages of oil dependence and is intended to answer the following questions: How did Saudi Arabia respond to security imperatives at different times? How did different patterns of oil dependence affect the availability and intensity of security strategies? Under what conditions did oil dependence serve as a type of power resource? These questions are not only central to demystifying the survival of the Saudi state, but also shed light on the broader relationship between economic dependence and security.

The dissertation also provides significant insights for policymakers. The centrality of oil for economic development and growth has pushed the issue of oil dependence to the top of national security agendas. Instances of oil embargos have intensified concerns of consumers over security of supplies and moderation of prices, while sanctions have endangered the flow of oil revenues to rentier states. Thus, it is of great value for policymakers to gain knowledge about the ways in which and circumstances under which oil resources (supplies and prices) have been applied for security purposes. Such understanding enables policymakers to enact policies that are attuned to the conditions of dependence.

1.2 Theoretical Framework

Because this dissertation aims to explain how oil dependence affects the security strategies of Saudi Arabia, it is imperative first to define the meaning of security. In this dissertation security is defined as any threat from inside and outside Saudi Arabia that is perceived to undermine regime stability, violate territorial integrity, or infringe upon sovereignty, or a combination of these.[12] The inclusion of internal threats significantly approximates the reality of insecurity in Saudi Arabia. Without taking into account

[11] Throughout the dissertation I use the terms “dependence” and “asymmetric interdependence” interchangeably, and similarly the terms “interdependence” and “symmetric interdependence.”

[12] Although “state” and “regime” are analytically two different concepts, clearly demarcated in many democratic countries, in this study I make no distinction between the two. In the case of Saudi Arabia the regime and the state are conflated under the authority of the royal family. Witness the name of the kingdom of Saudi Arabia, which comes from the name of the royal family, Al Sa`ud.

internal threats, not only is there the risk of failure to capture the linkage between domestic threats and foreign policy behavior, but there is also the risk of overlooking the underlying interactions between internal and external threats which often magnify the scope and intensify the level of both threats. "External threat" is broken down into military attack and political interference. As for military power, it is a function of military capabilities, geography, and offensive power, while political threat is defined as ideological warfare. "Internal threat" is conceived of as anything from a lack of obedience to violent opposition.

The dependent variable in this study is the variation in the type and intensity of strategies employed by the Saudi Arabian state in order to ensure survival. Because capabilities of the Saudi state have changed over the course of time and were heavily influenced by the discovery of oil resources, security strategies have varied correspondingly. For instance, because of scarcity of resources in the pre-oil era, the Saudi state's intrusive capability was limited, and therefore it was unable to implement major social and economic transformation. In the oil era, however, due to the growth in worldwide demand for oil, the state has not only gained more strength vis-à-vis society, but also acquired substantial influence and power in international politics. Significantly, the story of Saudi Arabia vindicates the claim that sheer use of military force is not the only way to survive, but only one strategy among others. Other possibilities include economic reward and punishment.[13] Although various strategies are suggested here, including appeasement, bandwagoning, and blackmailing, for the purpose of this study the emphasis is on four: internal and external balancing, as well as internal and external validation. These categories are elaborated in chapter four of this dissertation.

The independent variable is patterns of dependence. Although there are other important variables that could impact on security behavior – for instance, among others, leaders' orientations and perceptions, role of Islam in politics,[14] political culture, and type of political system (democracy/non-democracy), these variables are assumed to be constant. Dependence is defined as a situation in which one or more countries (consumers or producers) are unable to smoothly and rapidly cope with manipulations of supplies and prices of oil. Oil consumers are dependent on producers when the gap between world demand and world supplies is narrow. This implies that oil consumers are vulnerable to disruption of supplies or surges in oil prices, since alternative sources of oil are limited. On the other hand, when world supplies exceed world demand, oil producers are dependent not only on consumers but also on other producers. As oil supplies become readily available for oil consumers, producers are vulnerable to sanctions. At the same time, because oil prices are fixed by demands as much as by supplies, oil producers are also vulnerable to the output level of other oil-producing countries. Therefore, the magnitude of the opportunity costs of altering the relationship determines the pattern of dependence, on the one hand, between consumers and producers, and, on the other hand,

[13] Organski list four ways with which nations exercise power against an opponent: persuasion, rewards, punishments, and force. See A. F. K. Organski, *World Politics*, 2nd edition (New York: Alfred A. Knopf, 1968), 111-115.
[14] In contrast to many studies which tend to credit Islam as the primary causal variable for explaining politics in Muslim countries.

among producers. If the opportunity costs are high for consumers but low for producers, then oil consumers are asymmetrically dependent on producers. If the opportunity costs are low for consumers but high for producers, then oil producers are asymmetrically dependent on consumers. Likewise, producers with high opportunity costs are dependent on producers with low opportunity costs. Finally, if the opportunity costs are high for both, then consumers and producers are interdependent or symmetrically dependent.

1.3 Bridging the Scholarly Gap: Middle East Studies and International Relations

This dissertation argues that neither traditional international relations theories nor Middle East scholarship grounded in rentier theory can adequately explain the political behavior of rentier states in general, and Saudi Arabia in particular. The root of the problem seems to lie in the disjunction between the two disciplines.

As an area of study, the Middle East has evolved in isolation from various social science disciplines. In her assessment of Middle East studies in relation to the discipline of political science, Anderson, a prominent political scientist and Middle East scholar, observes: "Much of what passes for political science in Middle East Studies is a theoretical description: modern diplomatic history, journalism, the regional counterpart of Kremlinology sometimes known as 'mullah-watching'. The fundamental questions about the exercise of power and authority which constitute the core and raison d'être of political science as a discipline are infrequently raised in studies of contemporary Middle Eastern politics, and Middle Eastern data rarely contribute to disciplinary theory building."[15] In the same vein, a leading scholar on international politics of the Middle East, Gause, laments "the ad hoc way most regional [Middle East] experts think about how the international politics of the Middle East have changed during the last fifty years."[16]

But the charge of parochialism applies to Middle East studies as much as to international relations scholarship. Likewise, international relations scholars rarely have taken their

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[15] Lisa Anderson, "Policy-making and Theory Building: American Political Science and the Islamic Middle East," in Hisham Sharabi, ed., *Theory, Political and the Arab World: Critical Responses* (Routledge: New York, 1990), 52. A decade later Anderson expressed a similar dissatisfied view on the progress made to engage the Middle East area studies with the wider discipline of political science. See Lisa Anderson, "Politics in the Middle East: Opportunities and Limits in the Quest for Theory," in Mark Tessler, ed., *Area Studies and Social Science: Strategies for Understanding Middle East Politics* (Bloomington: Indiana University Press, 1999), 1-10. Similarly, former president of Middle East Studies Association, Rashid Khalidi, in his 1994 Presidential Address Speech had these words to say: "It is based on my belief that we in Middle East Studies have frequently failed to reach beyond our own area of interest to make connections with those studying other regions, including neighboring ones with characteristics and problems quite similar to those of the Middle East – unlike Central Asia, Africa, South Asia and the Mediterranean. At the same time, many of us have failed to remain in touch with developments within our professional disciplines in the social sciences and the humanities." See Rashid Khalidi, "Is There a future for Middle East Studies?" Middle East Studies Association, (Jul 1995). Available from http://fp.arizona.edu/mesassoc/Bulletin/Pres%20Addresses/khalidi.htm. (January 2009).
Similarly see James A. Bill, "The Study of Middle East Politics, 1946-1996: A Stocktaking," *Middle East Journal* 50 (Autumn 1996), 501-512.
[16] F. Gregory Gause III, "Systemic Approaches to Middle East International Relations," *International Studies Review* 1 (Spring 1999), 11-31.

clues from Middle East Studies for theory building or testing.[17] The charge that the Middle East is *sui generis*, and therefore any results derived from the region cannot be applied to other regions, is symptomatic of the ethnocentricity that characterizes the study of international relations. Indeed, it is fair to say that international relations scholarship remains largely European-American centric. And yet, as Walt observes, such scholarship is never charged with "a narrow geographic, temporal, or cultural focus."[18]

The disconnection of the Middle East area study and international relations is unfortunate; for both disciplines have valuable insight to offer for the development and enrichment of each other, as this study aspires to demonstrate.[19] One clear example of how both disciplines can benefit from each other is found in the conception of the "rentier state." Middle East scholars have shown great talent and capabilities in capturing the economic and political nuances as well as idiosyncratic political behaviors in the region. Rentier theory is a classic example. Since its arrival on the scene of Middle Eastern studies, it has generated a rich and lively debate about domestic politics of oil-producing countries. Many of these studies are either an argument for or against the supposed negative correlation between oil resources and democracy.[20] In sum, the concept of "rentier state"[21] led to a proliferation of studies on how oil rents affect the domestic politics and economics of oil-producing countries in the region.[22] In the realm of international politics, however, despite its recognized linkage to the international political system, rentier theory is paradoxically silent. No efforts have been made by Middle East scholars to equip rentier theory with logic for interpreting rentier state foreign politics.

For their part, international relations scholars have largely ignored the concept of the rentier state. Using a Weberian/neo-Weberian approach, mainstream international relations scholarship has taken for granted that taxation is the primary means for raising revenues. In doing so, international relations scholars have discounted the rentier states from the analysis, and therefore overlooked valuable insights into the conception of oil dependence as a type of power resource. Yet, the proposition that dependence on resources can serve as a source of power is of high relevance to the theories of international relations. Since the rentier state is tied in oil relations to states that might be enemies or friends, powerful or weak, rentier theory offers a useful starting point for

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[17] One clear exception is the work of Walt on formation of alliances. His theory of balance of threat is largely derived from Middle Eastern politics. See Stephen M. Walt, *The Origins of Alliances* (Ithaca: Cornel University Press, 1990).

[18] Ibid., 15.

[19] Also see Laurie A. Brand, *Jordan's Inter-Arab Relations: The Political Economy of Alliance Making* (New York: Columbia University Press, 1994).

[20] The works of Ross and Smith are examples of how Middle East studies have contributed to the field of comparative politics in the area of democratization. See Michael L. Ross, "Does Oil Hinder Democracy?" *World Politics* 53 (April 2001), 325-361. For a critique of this literature see Benjamin Smith, "Oil Wealth and Regime Survival in the Developing World, 1960-1999," *American Journal of Political Science* 48 (April 2004), 232-246.

[21] It should be noted that the term *rentier state* throughout the dissertation refers to the Gulf oil-producing countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates) and Iran.

[22] See, for example, Kiren Aziz Chaudhry, *The Price of Wealth* (Ithaca: Cornell University Press, 1997); Jill Crystal, *Oil and Politics in the Gulf* (Cambridge: Cambridge University Press, 1990).

investigating the importance of oil dependence as a power resource in world politics. Therefore it is perplexing that the rentier theory has not attracted the attention of international relations scholars.

1.4 The Argument

This dissertation hypothesizes that patterns of dependence affect the type and intensity of security strategies rentier states will likely to employ. Defined as the opportunity costs of severing or altering the relationship, oil dependence – I argue – conditions the selection and intensity of security strategies that the rentier state pursues in the domestic and international arenas. This argument is developed in the form of a theory, which I term "neo-rentier" theory. Neo-rentier theory rests on the definition of the rentier state, and retains the logic of buying off legitimacy.[23] But it goes beyond rentier theory in two respects. First, not only does it offer a more accurate account of the wealth distribution mechanism, but it also suggests new types of security strategies. Second, it incorporates assumptions and logic from time-tested classical theories of international relations, namely realism and liberalism.

From realism the principles of relative military capabilities and anarchic order are borrowed,[24] and even extended to the domestic realm. Judging by the pervasiveness and practices of the internal security apparatus in Saudi Arabia, domestic stability and regime survival is far from assured. Hence systemic constraint is treated side-by-side with unit-level domestic security threats. Moreover, while neo-rentier theory affirms the centrality of military threats, it departs from realism on the fungibility of military power. It does not consider military power as fungible as money for every conceivable security situation, nor does it agree with realism on the exclusion of other forms of power. On the contrary, the model incorporates ideas from the liberal tradition of economic interdependence. However, rather than treating economic interdependence as a given force of cooperation or conflict, economic dependence is treated as a potential type of power resource. As a power resource, oil dependence is shown to be a double-edged sword, a source of opportunities for producers and consumers. Depending on the pattern of dependence, the rentier state can either enjoy wealth and influence or suffer financial distress and vulnerability.

The constraints and opportunities generated by the pattern of dependence, in turn, shape the available survival strategies of the rentier state in the domestic and international realms. Such behavior is captured in four strategies which share characteristics with realism and liberalism: internal and external balancing, and internal and external validation. Because these strategies are linked to different patterns of oil dependence, changes in the pattern of dependence can affect the availability of external balancing and external validation, and the intensity of internal balancing and internal validation. Thus, unlike the static logic of the rentier theory, neo-rentier theory offers a dynamic logic capable of explaining changes in the security behavior of the rentier state.

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[23] The rentier theory hints at the issue of internal opposition, claiming that distribution of wealth and absence of taxation mitigate societal pressure.
[24] The anarchy assumption is shared with liberalism.

1.5 Contribution

The main contribution of this dissertation is to provide an accurate explanation of the rentier state's security behavior in the domestic and international systems. Drawing on Saudi Arabia's security strategies during different phases of oil dependence, rentier theory is modified and further developed into an alternative model called "neo-rentier theory." In doing so, the dissertation makes a contribution to four different theoretical debates concerning economic interdependence and security affairs.

First, it provides a systemic, rather than an ad-hoc, understanding of one of the most important aspects of today's politics: the politics of oil dependence. Competition for control over scarce resources is of course an old politics. However, since the mid-twentieth century it has been marked by the fact that both suppliers and producers are party to such power politics, clearly demonstrated in cases of embargos and sanctions. The issue of oil dependence as a power resource is central to international relations theory and current events of world politics.[25] By conceptualizing power relations in terms of patterns of dependence, neo-rentier theory contributes to the rich debate on how dependence can serve as a power resource.

Second, it contributes to the understanding of external security policy of weak states. International relations scholars typically pay more attention to the foreign policy behavior of great powers and much less attention to the behavior of less powerful states. The analysis of oil as a type of power resource, however, provides a venue for theorizing and understanding the interactions between military weak states and the international system. Thus, an explanation of Saudi Arabia's responses to external security challenges casts light on how economic dependence affects interactions between states with major differences in military strength, and between similarly weak states.

Third, the dissertation sheds light on the interrelations between domestic and international security concerns of rentier states. Since the state-society pact in the rentier state is based on wealth generated abroad, international politics can impact domestic politics. Conversely, domestic politics might also influence the relationships connecting the rentier state to other producers and consumers. The dissertation further discusses how foreign policy matters for domestic security, and how domestic security matters for foreign policy.

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[25] The concept of power in social science is highly contested. For a fuller discussion, see Robert A. Dahl, "The Concept of Power," *Behavioral Science* 2 (July 1957), 201-215; Richard M. Emerson, "Power-Dependence," *American Sociological Review* 27 (February 1962): 31-41; Jack Nagel, *The Descriptive Analysis of Power* (New Haven: Yale University Press 1975); David Baldwin, "Power Analysis and World Politics: New Trends versus Old Tendencies," *World Politics* 31 (January 1979), 161-194; David Baldwin, "Interdependence and Power: A Conceptual Analysis"; Alan C. Lamborn, "Power and Politics of Extraction," *International Studies Quarterly* 27 (June 1983), 125-146; Keohane and Nye, *Power and Interdependence*; Lewis W. Snider, "Identifying the Elements of State Power. Where do We Begin?" *Comparative Political Studies* 20 (October 1987), 314-356; Joseph Nye, "The Changing Nature of World Power," *Political Science Quarterly* 105 (Summer 1990): 177-192; and Nicholas Onuf, *World of Our Making. Rules and Rule in Social Theory and International Relations* (Columbia: University of South Carolina Press 1989).

Fourth, the study widens the analysis of security by including internal threat, which is often absent in mainstream international relations studies. The reason for this is presumably, as Waltz puts it, that domestic politics is the realm of order and hierarchy. Yet, internal threat too often constitutes a major security concern for many Third World states, threatening regime stability and sometimes territorial integrity. The built-in bias in international relations studies to do away with domestic threat not only dismisses the linkages between internal and external threats, but also obscures the motive and rationale behind the deployment of certain survival strategies in the international arena. This shortcoming is rectified here by the incorporation of both internal and external threats.

1.6 Research Method and Study Plan

Rentier theory as well as insights from liberalism and realism served to deductively develop neo-rentier theory. In order to establish the plausibility of neo-rentier theory I employ the within-case method. Eckstein has compellingly demonstrated the usefulness of the case study method at all stages of the theory-building process.[26] Its usefulness for theory building covers different stages of inquiry, including the initial stage of formulating questions or constructing puzzles, casting light on potential theoretical solutions, and the multiple stages of theory testing. Among the six different types of case studies identified by Eckstein most relevant to this dissertation is the plausibility probe case study. Probe case study serves the purpose of initial validation, or as Eckstein puts it, "it also means something less than actual validity, for which rigorous testing is required."[27] The plausibility of neo-rentier theory's explanatory power is investigated by applying process tracing in the most-likely case of Saudi Arabia. As a classical rentier state Saudi Arabia represents the minimum requirements needed for neo-rentier theory to pass before it is qualified for further consideration.

Following Eckstein's insight, I employ the case study as a plausibility probe. In doing so, I subject neo-rentier theory to multiple tests drawn from the history of Saudi Arabia. The political history of Saudi Arabia over five decades covers different phases of oil dependence and furnishes a number of security challenges.[28]At the same time other

[26] In his evaluation of the value of case study in theory-building, Eckstein constructs six different options, where the utility of case study progresses from least relevant to extremely relevant. To each option, Eckstein identifies a certain type of case study. These six types are: configurative-idiographic studies, disciplined-configurative studies, heuristic-case studies, case-studies as plausibility probe, and crucial-case studies. See Harry Eckstein, "Case Study and Theory in Political Science," in F.I. Greenstein and N.W. Polsby, eds., *Handbook of Political Science*, Volume II (Reading: Addison-Wesley, 1975), 96-123. Similarly, Lijphart underlines the significance of the case study for theory building. In his words, "Indirectly, however, case studies can make an important contribution to the establishment of general propositions and thus to theory-building in political science." See Arend Lijphart, "Comparative Politics and the Comparative Method," *The American Political Science Review* 65 (September 1971), 691.
[27] Eckstein, "Case Study and Theory in Political Science," 108.
[28] While a case study often refers to the study of a specific instance phenomenon (survival strategies of rentier states) in a specific time (twentieth century) and place (Saudi Arabia), cases can also refer to theoretical or empirical data units (survival strategies at different times). For more information on definition and usage of "case" see C. C. Ragin & H. S. Becker (1992). *What Is a Case?: Exploring the Foundations of Social Inquiry.* Cambridge, England: Cambridge University Press.

factors have remained constant, such as geography, culture, and type of political system. Thus, the case of Saudi Arabia seems to have the necessary characteristics particularly relevant to probe-test neo-rentier theory. Investigating the type and intensity of survival strategies pursued by Saudi Arabia during different periods of oil dependence offers an opportunity to scrutinize the validity of the neo-rentier theory. These tests are meant to be suggestive, and by no means are they conclusive or sufficiently rigorous.[29]

The analysis undertaken here includes three stages in the development of the rentier state: "pre-boom," "oil-boom," and "oil-bust." The three stages represent the variance on the independent variable.[30] The "pre-boom" (1950-1970) era is characterized first by the oil companies holding full control over all decisions related to oil exports and prices, and second by the Saudi state dependence on royalties from the oil companies. In the "oil-boom" period (1970-1985), crucial structural changes took place in the international oil market. The oil companies ceased to be responsible for upward stream (exploration and production of oil), and oil production and prices became the responsibility of the oil-exporting countries. Moreover, major oil-exporting countries, namely the United States, were transformed to net importers. During this period consuming-countries became dependent on producers. In the "oil bust" period (1985-2000), demands for oil dropped significantly, while excess supply increased sharply. As a result producing-countries became dependent on consumers. Over the same period, the Saudi royal family perceived looming domestic and international threats. Certain threats, however, were perceived as more dangerous than others, mainly due to the nature and proximity of the threat. In response to these threats the state adopted various strategies. These different strategies reflect variance on the dependent variable.

The dissertation is organized as follows. In chapter two I introduce rentier theory and Saudi Arabia as a classical example of a rentier state. The chapter is divided into two sections. Section one includes a thorough discussion of the various dimensions of the rentier state, such as the rentier economy, the external source of state revenues, and public expenditures. It concludes with a critique of rentier theory. In the second section, I provide a historical background of Saudi Arabia. The background describes the creation of the Saudi state and politics before the age of oil. It also draws on empirical data of oil revenues and public expenditures in order to demonstrate the emergence of the Saudi rentier state.

Chapter three evaluates the explanatory power of realism and liberalism with respect to the rentier state. I examine these two prominent theories because they embody competing assumptions and different conceptions of power. The first section explores diverse

[29] According to Eckstein, theory has the following attributes: regularity, reliability, validity, foreknowledge, and parsimony. See Eckstein, "Case Study and Theory in Political Science," 86-92. Additional tests are required from different cases before judging whether or not these attributes apply to neo-rentier theory.

[30] As George points out, "The desideratum that guides selection of cases in the controlled comparison approach is not numbers but *variety*, that is, cases belonging to the same class either seek cases in which the outcome of the dependent variable differed or cases having the same outcome but a different explanation for it." Alexander L. George, "Case Studies and Theory Development: The Method of Structured, Focused Comparison," in Paul Gordon Lauren, ed., *Diplomacy: New Approaches in History, Theory, and Policy* (New York: The Free Press, 1979), 60.

theories of realism (classical, structural, and neoclassical) and liberalism (economic interdependence and complex interdependence), explaining their conceptions of world politics. In section two, I discuss why the logics of these theories are unsatisfactory in the context of the rentier state, but I also highlight assumptions and ideas that are applicable to the rentier state.[31]

Having discussed pros and cons of rentier theory, liberalism, and realism, in chapter four I present an alternative model in order to account for how oil dependence affects security behavior of rentier states. The chapter is divided into four sections. Section one discusses the vulnerability of weak states/powers and describes three types of threats that could undermine the stability of the Saudi regime and the territorial integrity of Saudi Arabia. Section two examines the rationale and motivation behind neo-rentier theory. Section three details more fully the different security strategies (dependent variable) that can be employed by the rentier state in order to maintain internal stability and territorial integrity. In section four I elaborate the neo-rentier theory framework, by discussing the centrality of patterns and domain of dependence (independent variable). The section also provides the measures of dependence, and concludes with a number of hypotheses linking patterns of dependence to survival strategies. These hypotheses are then scrutinized in the next three chapters.

Chapters five, six, and seven are devoted to case study investigation, analyzing the effects of shifting patterns of oil dependence on Saudi Arabia's internal and external survival strategies in the second half of the twentieth century. The chapters are divided along the eras of pre-boom, oil-boom, and oil-bust, which coincided with different patterns of dependence. The three chapters are organized in the same manner, consisting of four sections. Section one describes the pattern of dependence that existed at that time. To do so, in this section I discuss the two measures of dependence, world consumption and world production, and, second, Saudi Arabia's exports capacity and proven reserves. Section two formulates how the pattern of dependence is expected to impact internal and external security strategies. These hypotheses are then evaluated in sections three and four. In section three, I consider the effects of patterns of dependence on the intensity of internal validation and internal balancing. Section four discusses Saudi Arabia's responses to specific threatening situations, in which a combination of internal and external strategies were deployed. Chapter eight offers a conclusion by way of summarizing the evidence for neo-rentier theory that emerged from chapters five, six, and seven. Based on the forecasted changes in demands and supplies for oil during the next two decades, the chapter also predicts the future security behavior of Saudi Arabia. The chapter concludes with a statement on the application of neo-rentier theory to other rentier states, as well as to future research.

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[31] The aim of the chapter is not to serve as a testing ground for liberalism or realism. Instead its purpose is to highlight a significant difference between the Weberian state of mainstream IR theories and the rentier state. Unlike the Weberian state, rentier states, as Chaudry observes, "not only . . . do not tax as much as often, but they do not tax at all." See Kiren Aziz Chaudhry, *The Price of Wealth: Economies And Institutions in the Middle East* (Ithaca: Cornell University Press, 1997), p. 146.

CHAPTER TWO: RENTIER THEORY AND SAUDI ARABIA

This chapter provides background information on the concept of rentier theory and describes the rentier characteristics of the Saudi state. In the first section I review the primary literature on rentier theory and relate the meaning of essential concepts, such as rentier economy and rentier state. In addition, section one describes the two most important indicators that define a rentier state: revenue is accrued directly to the state from oil sales in the international market, and public expenditures account for a significant portion of the GDP. Finally, this section highlights the limitations of rentier theory. It demonstrates that in its current form rentier theory provides neither a satisfactory explanation for domestic security behavior nor an insight into international security behavior. Section two provides a historical background of Saudi Arabia. In this section, I describe the creation of the Saudi state as well as politics in the era before the discovery of oil. This section concludes with a description of Saudi Arabia as a rentier state.

2.1 What is a Rentier State?

The concept of the "rentier state" was first proposed by the economist Hossein Mahdavy to identify the effects of oil nationalization on the structure and source of economic growth in the Middle East, especially in the case of Iran after the mid-1950s. Rentier states are defined by Mahdavy as "those countries that receive on a regular basis substantial amounts of external rent. External rents are in turn defined as rentals paid by foreign individuals, concerns, or governments to individuals, concerns or governments of a given country."[32] External rents are distinguished from foreign grants, because the latter are often of a temporary nature and uncertain. During the Cold War era, for example, several Middle Eastern states, notably Israel, Jordan and Egypt, received so-called "strategic rents" which are often listed as development aid in the World Bank statistics.[33] Although Madavy's definition of external rent could also include labor remittances, foreign direct investment, and other capital flows, his main concern is oil rent. Being mainly interested in the economic development of Middle Eastern countries before 1970, Mahdavy's examples of external rent include payments for the passage of ships through the Suez Canal, payments to oil transit countries, and oil revenue received by governments of exporting countries in the form of royalties from oil companies who were still in charge of oil exploration and development. The nature and amount of rent, however, was radically modified by the unfolding of the nationalization movements which swept through many oil-exporting countries in the early 1970s. Consequently the nature of oil revenue was transformed from royalties and taxes into revenues extracted by exporting countries from selling oil abroad directly.[34]

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[32] Hossein Mahdavy, "The Pattern and Problems of Economic Development in Rentier States: The Case of Iran," in *Studies in the Economic History of the Middle East,* M.A. Cook, ed. (Oxford: Oxford University Press, 1970), 428.
[33] Alan Richards and John Waterbury, *A Political Economy of the Middle East* (Boulder: Westview Press, 1996), 17.
[34] Mahdavy, "The Pattern and Problems of Economic Development in Rentier States: The Case of Iran," 428-429.

While all countries in the Middle East in the 1960s received external rent, the variation in added value it constituted to their GNP and the percentage it represented of their total government revenue varied significantly across countries. Therefore, "the stage at which a country can be called a rentier state is determined arbitrarily," and Mahdavy is mainly interested in those cases where "the effects of the oil sector are significant and yet the rest of the economy is not of secondary importance."[35] The crucial point for Mahdavy is that rapidly increasing oil revenues transform governments into decisive players in the economy. Without resorting to taxation the state relies on oil revenues to finance large public projects and programmes. Such dramatic increases in government expenditures, Mahdavy reasoned, would stimulate production by increasing demand. Higher demand, however, does not necessarily stimulate the productive sector of the economy, because oil revenues are largely used to import consumption goods, which can not be produced at home. Therefore, oil revenues end up stimulating the productive sectors of countries from where goods are imported, not the local economy. The end result is that domestic economic growth remains unimpressive. A corollary of the rentier state economy is that social and political relations are also distorted by government expenditures and the absence of taxation. While small segments of the society greatly prosper from oil revenues, the rest of the society dwells in a state of underdevelopment. This situation of inequality, according to Mahdavy, does not necessarily provoke great friction because the elites are exploiting natural resources, not the people.

2.1.1 The Rentier State as a Sub-system of the Rentier Economy

The concept of the rentier state was developed further in the 1980s by Hazim Beblawi and Giacomo Luciani, who were interested in the effects of massive oil wealth on the nature of Arab states. In *The Rentier State* Beblawi and Luciani refine the concept of the rentier state in several ways. First, the concept of state is redefined in a manner which reflects the prevailing literature in social sciences of the 1980s on "bringing the state back in." Unlike Mahdavy's definition of the state, which seems to make it synonymous with "country," Beblawi and Luciani define the nature of the state as "the combination of essential indicators describing the relationship between the state and the economy."[36] The term "state" is given a dual meaning. First, by state is meant "the apparatus or organization of government or power that exercises the monopoly of the legal use of violence."[37] Second, the state is seen as being "synonymous with that of society and indicates the overall social system subject to government or power."[38] The first definition of state as "government," however, is the dominant usage in Beblawi and Luciani's writings. Second, they offer a distinction between what is meant by a "rentier state" and "rentier economy." The definition of rentier state as a state that derives a significant portion of its income in the form of rent from abroad is rejected, because it is regarded as

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[35] Ibid., 431.

[36] Hazem Beblawi and Giacomo Luciani, "Introduction" in Hazem Beblawi and Giacomo Luciani, eds., *The Rentier State* (New York: Croom Helm, 1987), 4. For a critique of the rentier theory see Michael Herb, *All in the Family: Absolutism, Revolution, and Democracy in the Middle Eastern Monarchies* (New York: State University of New York Press, 1999).

[37] Ibid.

[38] Ibid.

restrictive and does take into consideration the role of the economy. Instead, Beblawi and Luciani prefer to view the rentier state from an economic prism, embedding their definition of the rentier state within a broader definition of the "rentier economy." Thus they write: "an economy substantially supported by expenditure from the state, while the state itself is supported from rent accruing from abroad; or more generally an economy in which rent plays a major role. A rentier state is then a sub-system associated with a rentier economy."[39]

According to Beblawi, four conditions should be present in order to classify a state as rentier. First, the situation of rent dominates the economy. In actuality, as Beblawi points out, there is no such thing as a pure rentier economy. "Each and every economy has some elements of rent."[40] A rentier economy, therefore, is characterized by the existence of substantial rent. The exact level of rent, according to Beblawi, "is a matter for judgment."[41] Second, not only does the rent need to be predominant but also external. Beblawi states: "The externality of the rent origin is crucial to the concept of a rentier economy. The existence of an internal rent, even substantial, is not sufficient to characterize a *rentier economy*, though it could indicate the existence of a strong *rentier class* or group."[42] A rentier economy based on internal rent does not exist without an internal productive sector. As such, domestic rent is nothing more than transfer of domestic payments. A substantial external rent, on the other hand, can sustain the economy without a productive domestic sector.

Third, only a small segment of the society is involved in the creation of wealth, while the rest is engaged in the utilization and distribution of the wealth. The division of roles between the few as wealth creators and the many as wealth consumers differentiates the rentier from an open economy. For Beblawi an open economy with high foreign trade is not a rentier economy, because the majority – not the few – is engaged in the creation of wealth. Fourth, in a rentier economy the government is the principle recipient of external rent, and therefore control of rent is in the hands of the few. Because a portion of the rent inevitably has to be distributed among the population, the state becomes the most important actor in the economy. Not only does it provide public goods and services, but the state also becomes a distributor of benefits and favors. In other words, a sub-system of the rentier economy emerges which Beblawi calls "the rentier state."[43]

Based on the above analysis, Luciani defines rentier states as "all those states whose revenue derives predominantly (more than 40 per cent) from oil or other foreign sources and whose expenditure is a substantial share of GDP."[44] Next I will further clarify the two main characteristics of the rentier state: external rent and public expenditures.

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[39] Ibid., 11.
[40] Ibid., 51.
[41] Ibid.
[42] Ibid.
[43] Hazem Beblawi, "The Rentier State in the Arab World," in Beblawi in Hazem Beblawi and Giacomo Luciani, eds., *The Rentier State* (New York: Croom Helm, 1987), 49-62.
[44] Ibid., 70.

2.1.2 The Source of State Revenue

While Beblawi draws significant attention to the rent feature of the rentier state, Luciani, on other hand, stresses the question of whether the origin of state revenue is domestic or foreign. The fiscal sociological approach adopted by Luciani leads him to focus on the origin of revenue and the amount of public expenditures. In contrast to the tax state or what Luciani calls "esoteric states," which depend on domestic revenue and taxation, rentier states or "exoteric states" accrue revenue directly from abroad. Oil export is one way of receiving revenues from abroad, but is not the only one. Non-tax revenue also includes foreign aid and transit fees.

In the case of oil-exporting states what matters is not only production, but also the amount of export. In some oil-producing countries huge domestic consumption diminishes the amount of export, despite the voluminous production. Consider for example the case of the United States, especially since the early 1970s. The average total oil production of the United States in 1973 reached almost 9.2 mbd, but only a small portion of 231 thousand million barrels was exported. In other words only 0.25 percent of total production was destined for the outside market. In fact in 1973 the amount of imports reached 6.25 mbd.[45] In contrast, in 1973 Saudi Arabia produced 7.59 mbd but consumed about half a million barrels per day.[46] The lion's share of its production was exported, providing the state with a significant amount of wealth. The accruing wealth in turn freed the Saudi state from the constraints of domestic revenue and taxation. As Chaudhry writes, "Most of the taxes on Saudis and fees on resident foreigners were withdrawn; foreign companies were given five-year tax holidays (and extensions granted thereafter); and personal income taxes on foreign workers were eliminated."[47] In other words, the external origin of revenue substitutes for taxation and transforms the tax state into a non-tax state or an "exoteric state."[48]

2.1.3 Public Expenditure

According to Luciani, the primary concern for the rentier state is wealth allocation. In rentier states, public expenditure represents a significant share of GDP, entailing expenditures on various welfare programs such as health, education, and infrastructure. Besides providing favors and benefits, the government also assumes the role of an important and ultimate employer in the economy. Civil employment, in other words, is transformed into nothing less than another channel for the government to distribute wealth and benefits. As Ayubi put it, "The creation of jobs in the oil state becomes almost an objective of its own right, with little regards for what these recruits should (or can) do."[49] This novel role of the government as the central distributor of wealth also sharpens

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[45] EIA, *Annual Energy Review 2006,* report no. DOE/IEA-0384.
[46] OPEC, *Annual Statistical Bulletin 2005*.
[47] Kiren Aziz Chaudhry, *The Price of Wealth: Economies and Institutions in the Middle East*, 144.
[48] Luciani, "Allocation vs. Production States: A Theoretical Framework," in Beblawi in Hazem Beblawi and Giacomo Luciani, ed., *The Rentier State* (New York: Croom Helm, 1987), 69-71.
[49] Nazih Ayubi, "Arab Bureaucracies: Expanding Size, Changing Roles," in Adeed Dawisha and I. William Zartman, eds., *Beyond Coercion: The Durability of the Arab State* (New York: Croom Helm, 1988), 22.

the difference between what Luciani calls the allocation and the production (tax) state.[50] Take, for example, the case of the Arab Gulf countries. Oil income in Kuwait accounted for 84 percent and 62 percent of total revenue in 1980 and 1982, respectively, while government expenditure reached 53 percent of GDP in 1982. Oil and foreign grants accounted for 90 percent of total Omani state revenue in 1982. The Omani government expenditures were 55.5 percent and 47.3 percent of GDP in 1978 and 1982, respectively.

High public expenditures alone, however, are not enough to distinguish the rentier state from other states. All states, rentier and non-rentier, Luciani points out, perform to different degrees the task of wealth distribution. Consider, for example, the case of Norway. Although Norway is one of the largest net exporters and the Norwegian government owns a majority share of Statoil (Norway's largest oil company), Norway does not meet the criteria of a rentier state. Neither government expenditure as percentage of GDP nor oil-gas revenue as percentage of total revenues meets Luciani's definition of a rentier state. As table one shows, despite the oil price peak in the late 1970s and early 1980s, oil revenues did not reach the threshold of 40 percent of total revenue. Likewise, although Norway is considered an example of a generous welfare state, its government expenditures do not rival the expenditures of rentier states found in the Persian Gulf.

[50] Ibid., 63-82.

Table 1. Norway Oil Revenues (Percentage of Total Revenue) and Government Expenditures (Percentage of GDP)

Year	Oil Revenues as Percentage of Government Revenue[1]	Governments Expenditure as Percentage of GDP[2]
1977	8.32	22.38
1978	12.34	24.01
1979	17.89	24.44
1980	26.90	20.79
1981	27.99	21.22
1982	28.14	21.46
1983	30.37	21.25
1984	32.40	20.72
1985	30.69	21.93
1986	18.61	22.86
1987	16.89	24.62
1988	14.61	25.69
1989	21.30	25.75
1990	23.56	25.86
1991	25.19	26.26

Source: 1) Statistics Norway (Statistisk sentralbyrå), Historical Statistics 1994. 2) For GDP: United Nations Statistics Division, National Accounts Main Aggregates Database.

2.2 The Limitations of Rentier Theory

As has been pointed out above, in its basic form rentier theory is grounded in the principles of economic reasoning. Although proponents of this theory have attempted to interpret the domestic political dynamics of oil-producing countries, their analyses have been partially simplistic and ambiguous. In most cases the analysis of the rentier state did not go beyond conceptualization and descriptive analyses of the alleged correlation between rent and stability of an authoritarian regime (or lack of democratization). Its lack of sophistication has cast doubt on its utility as a framework for analyzing the domestic politics of oil-exporting states. Indeed in its present form rentier theory has a hard time explaining political implications under conditions of fluctuation in the oil market, which is not an unusual phenomenon in the daily life of the international political economy.

This shortcoming has left the model vulnerable to criticism.[51] In his analysis of the oil wealth effect on regime failure for 107 developing countries between 1960 and 1999, Smith concluded: "More importantly, despite what Beblawi and Luciani (1987) and others have argued, the durability effect appears to have been independent of consistent access to rents with which regimes can buy legitimacy, since the busts created no trend toward regime crisis or instability in exporting states."[52] Focusing on Saudi Arabia, Fandy observes that "Had the assumption of the rentier model been sound, this period [referring to 1986 when oil price plunged] should have witnessed political turmoil. Because of the relative stability of the Saudi polity during that period and the rise of opposition at times of greater increase in oil prices, we must look beyond the rentier model when analyzing Saudi resistance."[53]

These charges and others mainly underline the inadequacy of the causal mechanism – buying off legitimacy – which lies at the heart of rentier theory. Failure to provide deeper insights into the operation of this mechanism has been the cause of much confusion. The mechanism vaguely relies on oil revenues, but does not explicitly address the effect of fluctuation in oil prices and levels of expenditures. Nor does the model distinguish between types of government expenditures (current and capital); and therefore it misses the opportunity of examining corresponding political consequences. These unresolved issues are not the only shortcoming, as there is also the omission of other oil-based mechanisms, such as the buildup of repressive apparatuses for internal and external security, and strategies of external validation and external balancing.

Besides these drawbacks, insofar as international relations of oil-producing states are concerned, the theory is ironically silent. Although by definition the international economic system is vital for the survival of the rentier state, the theory does not offer insights into how to interpret its international politics. Luciani has alluded to how oil rent can affect foreign behavior: "Allocation states . . . naturally tend to project internationally their characteristic pattern of buying consensus at home: thus they propose themselves as sources of income to the neighboring production states, and in doing so, initiate a process that may turn the latter into allocation states."[54] But no efforts have been made to systemically theorize the conditions under which oil revenues or supplies could be incorporated in the analysis of foreign policy.[55] Even more striking, to my knowledge, is that no systemic analysis has been carried out on the linkage between domestic and

[51] Among the various scholars who questioned the simplicity of the present rentier paradigm is Luciani himself. In his words: "The connection between the rentier nature of the state, economic reform and the path to democracy is therefore more complex than initially expected." See Giacomo Luciani, "Oil and Political Economy in the International Relations of the Middle East," in Louise Facwcett, ed., *International Relations of the Middle East* (New York: Oxford University Press, 2005), 95.
[52] Smith, "Oil Wealth and Regime Survival in the Developing World, 1960-1999," 242.
[53] Fandy, *Saudi Arabia and The Politics of Dissent*, 26-29.
[54] Luciani, "Allocation vs. Production States: A Theoretical Framework," 78.
[55] In recent work Gerd Nonneman has attempted to link domestic an international politics of Saudi Arabia by employing the theory of omnibalancing. His work however pays insignificant attention to the security role of oil resources under changing market conditions. For more information see Gerd Nonneman "Determinants and Patterns of Saudi Foreign Policy: 'Omnibalancing' and 'Relative Autonomy' in Multiple Environments," in Paul Aarts and Gerd Nonneman eds., *Saudi Arabia in the Balance: Political Economy, Society, Foreign Affairs* (London: Hurst and Company, 2005).

international politics, despite their apparent connection. Indeed, this is quite perplexing, given the fact that the ability of the rentier state to survive domestically and internationally hinges on its linkages to the international political economy.

Despite these limitations, the explanatory power of rentier theory has the virtue of parsimony. However, to give a better understanding of the relationship between politics and oil resources, rentier theory's static logic can be refined in two ways: first, by connecting the behavior of the rentier state to the international oil market dynamics of demand and supply; and second, by considering not only the narrow usage of oil revenues for buying support at home, but also the ability to use oil supplies and prices as \ resources of power at home and abroad. These modifications will be considered in detail in chapter four of this dissertation.

2.3 Saudi Arabia: Historical Background

2.3.1 Conquests and State-Making

Not so different from its European counterparts, the formation of the Saudi Arabian state followed a course of organized violence. Military organization and deployment served multiple and complementary purposes, including the protection of constituencies, obtaining of fresh sources of revenue, and elimination of rivals.[56] As early as 1900, motivated by the necessity of securing the trading routes, Najd's merchants began to support Ibn Saud's military expansion.[57] Advancement of loans from the merchants helped facilitate Ibn Saud's war-making effort, which successfully checked nomadic raids but also eliminated the influence of his main rival Al Rashids in Najd. By 1906 the conquest of Najd was completed. Yet Ibn Saud devoted two more decades to war-making, expanding his military adventures throughout Arabia to redeem what, by his account, belonged to him and his household. Throughout these military adventures his economic position was precarious and his military capabilities were rudimentary.

The military capabilities improved with the creation of the *Ikhwān* in 1912 (discussed in more detail in the following section).[58] Before the *Ikhwān* was created Ibn Saud had no standing army; his regiment was a contingent of sedentary people (*hadar)* made up of villagers and merchants from Central Arabia. Although the villagers and townsmen were the most loyal to Ibn Saud, they were ill-suited for rapid mobilization and extended warfare activities. With the creation of the *Ikhwān*, however, Ibn Saud acquired not exactly a standing army, but a dependable force, highly mobilized, loyal, and courageous. They were audacious warriors empowered by a religious zeal impelling them to fight and

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[56] Charles Tilly, ed., *The Formation of National States in Western Europe* (Princeton: Princeton University Press, 1975).
[57] Rayed Khalid Krimly, *The Political Economy of the Rentier States: A Case Study of Saudi Arabia (Ph.D. Dissertation: The George Washington University, 1993).*
[58] The meaning of the Arabic word *Ikhwān* is "brethren." It is often used in the context of brethren in religion.

die for the cause of God (*fi sabil Allāh*).[59] Thus, they were highly instrumental in the pursuit of Saudi territorial expansion: namely, the mountain area of Asir in 1920, Hail in 1921, Jauf in 1922, and lastly the Hijaz in 1925.

Like his counterparts in medieval Europe, under dire economic circumstances, Ibn Saud turned to the gains of war to make further war. Protracted battles were financed by the booty taken in raids (*ghanima*), in addition to religious taxation (zakat). Zakat was calculated on the basis of 10 percent of mostly livestock, though as a source of revenue zakat was contingent on the rainfall. The arid climate of Central Arabia brought more drought than rain, and with less rain there was less pasturing and consequently less zakat; As a second source of revenue Ibn Saud was also dependent on *ghanima*. The conquest of al-Hasa or al-Ahsa illustrates the significance of *ghanima* as a source of revenue. Philby observed: "Both here [Qatif] and in the towns and villages of Al Ahsa he [Ibn Saud] was able to replenish his sadly depleted stores and money-bags."[60] Conquest, however, was not financially rewarding only because of *ghanima*; it also increased revenues from taxation.[61] Zakat and *ghanima* continued to be the primary sources of revenue until the annexation of the Hijaz in 1925.[62] With the conquest of Hijaz, Ibn Saud secured a steady source of revenue from pilgrims' fees.[63] In the period of 1926-1929, 130,000 pilgrims generated state revenue equivalent of 4 to 5 million sterling.[64] By 1932, as an outcome of three decades of "war making," Ibn Saud achieved the second part of Tilly's maxim, "state making." His laborious effort, however, was far from over, and the last two decades of his life were dedicated to preventing the dissolution of his dominion under pressure of economic hardship and external threats.

With the rise and fall of the Saudi state twice in earlier times the lesson of history has shown that establishing a reign by no means ensures its survival.[65] His dominion was politically fragile and economically entrenched in chronic financial difficulties until the end of the Second World War. Nature was a key factor behind his economic troubles. Arid climate eroded the conditions for farming and cattle pasturing, with approximately

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[59] For an excellent account of the *Ikhwān* see John S. Habib, *Ibn Sa'ud's Warriors of Islam* (Leiden: E.J Brill, 1978). For an authoritative account of the relationship between Al Wahhab and Al Saud see Christine Moss Helms, *The Cohesion of Saudi Arabia: Evolution of Political Identity* (London: Croom Helm, 1981).
[60] Harry St. John Philby, *S'audi Arabia* (New York: Arno Press, 1972), 268.
[61] Philby adequately summarizes the impact of conquest on revenues: "The great Wahhabi lived to see the meager £50,000 of his first years at Riyadh (1902-12) double itself to £100,000 with the conquest of al Ahsa (1913/25), and rise steeply to an average of about four to five millions after the occupation of the Hijaz (1926/37)." Philby, *S'audi Arabia,* 333.
[62] British subsidies also contributed to the revenue of Ibn Saud.
[63] Hijaz is the home to the holiest and second holiest places in Islam, Mecca and Medina. The pilgrimage to Mecca is one of the five pillars of Islam. Every able Muslim with financial means is obliged to perform the Hajj once in a lifetime. The other four pillars are 1) declaration of faith (*shahāda*), 2) five times daily prayer (*salāa*), 3) fasting the month of Ramadan (*sawm*), 4) alms (zakat), which is required once a year.
[64] Before the fall of the Hijaz the main sources of revenue were subsidy from Britain (5,000 pounds per month), tithe, and the booty.
[65] The First Saudi Ream (1744 -1818) and the second Saudi Realm (1824-1891) were short-lived and confined to the region of Najd. The first Realm was defeated by the Egyptian army, while the second Saudi state was overthrown by the Al Rashid family of Hail.

only 0.2 percent of the total area of the country representing cultivated land.[66] Low precipitation jeopardized taxes on oasis farming and nomadic pastoralism, one of the main sources of state revenue.[67] To makes matters worse, not only were nomadic tribes an unstable source of revenue, but they were also a heavy financial liability, as state grants and subsidies were used to buy their loyalty and discourage tribal raiding.[68]

But nature wasn't entirely unkind to Ibn Saud. Notwithstanding the forbidding climate, there was plenty of oil. The signing of the oil concession between Ibn Saud and Standard Oil California (SOCAL) in 1933 unlocked the financial constraints and charted, from an economic viewpoint, a prosperous future that hardly seemed imaginable at that time. In the immediate term, especially after the Second World War, oil money armed Ibn Saud with the financial means to prevent the disparate parts of his kingdom from disintegration and to lubricate the administrative apparatus. Had oil not been discovered and royalties poured into Ibn Saud's pouch, it is unlikely that an intact dominion would have been bequeathed to his oldest son Saud. King Saud inherited a financially viable but a minimal state, as its function hardly exceeded order and security, and its institutional structure was no more than the court of the king (*majlis*).

2.3.2 Domestic Politics in the Pre-Oil Era

By and large, Ibn Saud was an absolute monarch. His source of legitimacy was based on two modes of authority, tradition and charisma.[69] Ibn Saud possessed the leadership qualities characterizing what Max Weber identified as "charismatic" authority. Not only was Ibn Saud hailed from the well-known Anaza clan, but he also combined characteristics that are highly praised among tribesmen. These are piousness, tribalcraft,[70] and military prowess.[71]A demonstration of his leadership was staged at a conference of

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[66] Cultivated area is only a little over 0.2 percent of the total area of the country, and about 85 percent of the cultivated area relies on irrigation. See Peter Beaumont, "Water and Development in Saudi Arabia," *The Geographical Journal* 143 (March 1977): 42-60. See also Daniel Schofield, ed., *The Kingdom of Saudi Arabia* (London: Stacey International, 1986).

[67] Ibn Saud himself put to Rihani: "When we get enough rain . . . the flocks are doubled and the people of Najd are happy. But in years of drought they are poor and wretched." See Ameen Rihani, *Ibn Sa'oud of Arabia: His People and His Land* (London: Constable & Co., 1928), 223.

[68] The climate influenced the revenue, but also caused inter-tribal wars. In times of long drought, nomadic tribes were forced to leave the Dirah and head toward wherever there was green pasture. Occasionally, however, when grassing is a matter of life or death, infringing on another Dirah becomes a source of conflict. Dira is an Arabic word for a delimited territorial domain under the control of a tribe, and where access to pasture and water in this domain is sanctioned to tribal members and protected against other tribes.

[69] Although these two concepts were analytically separated by Weber in the way that charismatic authority was defined in contrast to traditional as well as bureaucratic authority, in the case of Saudi Arabia these two concepts coexisted and reinforced each other, forming a cohesive authority structure. Max Weber, *The Theory of Social and Economic Organization*, trans.,A. M. Henderson and Talcott Parsons (New York: The Free Press, 1964), 364.

[70] By tribalcraft I mean having knowledge of tribal affairs and mastery of the art of dealing with them.

[71] Many of the qualities possessed by Ibn Saud were also found in medieval kings; Bendix observed that " A ruler's function was at once military, political, and religious: He was expected to lead in war, settle disputes, and make sacrifices for victory, good crops, and peace." See Reinhard Bendix, *Kings or People: Power and the Mandate to Rule* (Berkeley: University of California Press, 1974), 25. For an examination of

notables held in Riyadh in 1928 and attended by eight hundred delegates. The conference was called by Ibn Saud ostensibly to settle his dispute with *Ikhwān* chiefs, but the underlying goal was to secure tribal support and isolate his opponents. Ibn Saud raised the question of rulership, offering to abdicate if the delegates preferred to elect a new leader from the royal family. The crowd, however, rejected his resignation with cries that "we'll have no one else than you to rule us,"[72] reaffirming their allegiance.

By a combination of charisma and institutionalization of Wahhabism, Ibn Saud held in his hand a monopoly over religion, the most undisputed societal norm, turning Islam into a mechanism of coercion and mobilization preached through the Wahhabi ideology.[73] In his own words, Ibn Saud claimed that "Government . . . has been established in this wide desert, which with its power, brought all forces that are in it under its control and managed its administration by the virtue of the social teachings of the religion."[74] More than just for coercion purpose religion was equally fundamental in legitimizing Ibn Saud's authority.[75] Religion provided Ibn Saud with the moral and legal ground to justify obedience and obligations from his society, in exchange for his adherence to the strict teachings and to defend the causes of Islam. Such a social contract espoused by the Wahhabi was based on the views of the thirteenth-century jurist of the Hanbali tradition, Ibn Taimiya. In line with the view of Ibn Taimiya, as Helms noted, "a government was considered Islamic by virtue of the support it gave Islam and to the *umma* [an Arabic word for a universal Islamic community, my translation]; it was perfectly legitimate to accept the rule of anyone who followed the Sharia [an Arabic word for Islamic law, my translation]." Therefore, "The Wahhabis accepted the Al Saud as a legitimate and hereditary Islamic government and, notably, had referred to them as Imams ever since the mid-eighteenth century."[76] In this manner, as in medieval Christian kingship, religion played a key role in the establishment of an Islamic kingship in Saudi Arabia under the command of Ibn Saud.[77]

The tale of the *Ikhwān* exemplifies Ibn Saud's usage of religion as a force of legitimacy and mobilization. In order to proselytize the Bedouin into "a true believer" there was no force involved except the power of the Qur′anic text based on the exegesis of `Abd al-

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Ibn Saud leadership and qualities see Rihani, *Ibn Sa'ud of Arabia: His People and His Land*; Philby, *S'audi Arabia*; Philby, *Arabian Days: An Autobiography*; and Harry St. John Philby*, The Heart of Arabia: A Record of Travel and Exploration*, volume II (London: Constable & Company, 1922).

[72] For a fuller discussion of this episode see Habib, *Ibn Sa'ud's Warriors of Islam: The Ikhwan of Najd and Their Role in the Creation of the Sa'udi Kingdom, 1910-1930,* 121-135.

[73] Helm summarizes the importance of "Wahhabiism has clearly influenced all aspects of social, economic and political life in Saudi Arabia, particularly in Najd where it was conceived and nurtured." See Helms, *The Cohesion of Saudi Arabia: Evolution of Political Identity,* 78.

[74] Quoted in Helms, *The Cohesion of Saudi Arabia: Evolution of Political Identity*, 78.

[75] Ibn Saud, of course, was not the first to use religion to justify his authority, either in Islam or other traditions. For instance, in the sixteenth century, the House of Hohenzollern used the Lutheran faith to justify their authority. See Bendix, *Kings or People: Power and the Mandate to Rule*, 157.

[76] Helms, *The Cohesion of Saudi Arabia*, 81.

[77] There are striking similarities between Lutheranism and Islam. One may even argue that Luther and Taimiya's view of state and religion were similar. Both sought to maintain the supremacy of religion above the secular rulers, but had to compromise with kings who were willing to demonstrate reverence to religion, though they upheld political exigencies above all.

Wahhab. To become "a true believer," one would have to abandon the nomadic lifestyle and settle in *Hijar* to pursue an ascetic life centered on the learning and observing of Wahhabi Islam.[78] With this power in his hand Ibn Saud succeeded in disciplining the conflicting tribes into a standing and loyal religious militia called *Ikhwān*. Exploiting the *Ikhwān*'s enthusiasm for battling the "infidels,"[79] Ibn Saud expanded the frontier of his kingdom, enhancing the security of his emerging kingdom by eliminating the two primary rivals, the Rashids and Hashemites. First, Ibn Saud with the help of the *Ikhwān* defeated the Al Rashids at Ha'il, employing religion as the principal motive behind his conquest. "He rallied all his wisdom in handling men and set out to convince the assembly that only by attacking the Rashids at Ha'il, could they serve their religion and country."[80] With the fall of the Rashids, Ibn Saud then directed the sword of the *Ikhwān* toward the conquest of Jauf in 1922 and, lastly, Hijaz in 1925. Beyond the conquest of Hijaz were two overlapping incentives, the collection of pilgrimage tax and elimination of his second archrival, the Hashemite dynasty.

Although religion was highly effective as an instrument of mobilization, it was a means rather than an end. Ibn Said himself had said: "Politics and religion are not the same. But we the people of Najd desire naught that is not sanctioned by religion. Therefore, if religion sanctions our desire, the political measures we adopt for its realization must be lawful. If politics fail, then, war. And everything in war is permissible."[81] Having indoctrinated the *Ikhwān* with a holy militancy, their allegiance served Ibn Saud's purpose in times of war; but the zeal of the *Ikhwān* did not differentiate between religion and politics, especially in times of peace. For the *Ikhwān* making war against the infidels at all times and places constituted the sine qua non of the "true believer." As the rift with the *Ikhwān* began to widen, Ibn Saud "threatened them not with religion but with force, asking, "Are there not a number of you upon whose fathers' and grandfathers' necks my sword and that of my fathers and grandfathers made play?'"[82] The *Ikhwān*, however, hardened by the dogma of faith, would not retreat, and instead intensified their raiding against towns and tribes under the Ibn Saud's jurisdiction, thereby undermining his authority. Having failed to restrain the *Ikhwān*, Ibn Saud was caught between losing his throne, if not his life, and the destruction of the *Ikhwān*. Now that his holy warriors had turned against him, Ibn Saud turned to the townsmen for recruits. His charismatic authority allowed him to raise an army of 30,000 fighters to confront the *Ikhwān* in March 1929 in the battle of Sibila, where the rebels were defeated decisively.

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[78] The process by which Ibn Saud re-Islamised the Bedouin was quite simple, according to Dickson, the British political officer at Kuwait in that time: "He [Ibn Saud] would send for the Shaikh and tell him in blunt terms that his tribe had no religion and that they were all "Juhl" [meaning ignorance in Arabic – a term frequently used before the arrival of Islam]. He next ordered the Shaikh to attend the local school of '`ulama′, which was attached to the great mosque of Riyadh, and there undergo a course of instruction in religion. At the same time half a dozen '`ulama′, attended by some genuinely fanatical Akhwan, such as Al Duwaish the Shaikh of the Mutair were sent off to the tribe itself." Quoted in Habib, *Ibn Saud's Warriors of Islam*, 30.

[79] Infidels are not only the non-Muslims, but also Muslims who did not follow Wahhabi orthodoxy, such as the Hashemite in the Hajz (Western Province) and the Shi`a in the Eastern Province.

[80] Habib, *Ibn Saud's Warriors of Islam*, 85.

[81] Quoted in Rihani, *Ibn Sa'ud of Arabia: His People and His Land*, 235.

[82] Helm, *The Cohesion of Saudi Arabia: Evolution of Political Identity*, 114.

Aside from security and order Ibn Saud set no other societal goals for his state. The figures in table two exhibit a minimal state, lacking the apparatuses to penetrate and transform the society. Until 1950, there were four ministries: Foreign Affairs, Finance, Interior, and Defense. [83] The four ministries reflected concerns and objectives of the pre-oil state. Ministries of Finance and Foreign Affairs were to tackle the financial problems of the kingdom, while the latter two ministries were in charge of security and order. For these ministries was assigned a sizable portion of the budget; in combination with the budgets of tribal annuities and royal cabinet, the allocation reached 67 percent of total revenue and 103 percent of oil revenue. By contrast, the sum allocation to health, education, agriculture, and public work amounted to 22 percent of total revenue.

Table 2. Saudi Arabia Revenues (Million Dollars), 1938-1944

Year	Pilgrimage	Customs	Other Local	Total Except Oil	Oil	Total
1938	2.63	3.67	0.53	6.83	0.34	7.17
1939	1.31	2.31	0.56	4.18	3.21	7.39
1940	1.31	2.31	0.62	4.24	4.79	9.03
1941	-	-	-	2.2	3.45	5.65
1942	-	-	-	1.9	3.41	5.31
1943	-	1.8	2.39	4.19	1.32	5.51
1944	3	1.5	3	7.5	1.66	9.16

Source: Young*, Saudi Arabia: The Making of a Financial Giant,* 126.

2.3.3 Financial Stress in the Early Years

The zenith of Ibn Saud's political realization, a royal dominion named after his family, however, was eclipsed by the shadow of a worldwide economic crisis. Not even the remote kingdom was able to escape the impact of the economic crisis. As agriculture prices slumped in places from where pilgrims came, such as India and the East Indies, the number of pilgrims to Mecca came to a halt.[84] It was under these dire economic straits that King Ibn Saud signed the historical concession with Standard Oil of California (SOCAL) in 1933, which ran for sixty years and covered a large area of the kingdom's eastern region. SOCAL consequently passed the concession to a wholly-owned subsidiary called California-Arabian Standard Oil Company (CASOC).[85] The commencement of the oil concession ushered in a new era, which altered all aspects of social, economic, and political life in Saudi Arabia. In exchange for the concession, SOCAL agreed to advance an immediate loan of 30,000 gold pounds, and eighteen

[83] Ministry of Foreign Affairs was established in 1930, Finance in 1932, Interior in 1933, and Defense in 1946.
[84] According to Philby, Ibn Saud confided to him: "that if anyone were to offer me a million pounds now he would be welcome to all the concessions he wants in my country." Harry St. John Philby, *Arabian Days: An Autobiography* (London: Robert Hale Limited, 1948), 291.
[85] The name was changed in 1944 from CASOC to Arabian-American Oil Company (ARAMCO).

months later a second loan of 20,000 gold pounds, plus an annual rental fee of 5,000 gold pounds.[86] Five years later, in 1938, when oil was discovered in large quantities, the Saudi government collected its first oil royalty of 340,000 dollars.[87] As shown in table two, in 1940 oil revenue reached 4.79 million dollars, constituting roughly half of the total revenues. But the oil fortune lasted only until the outbreak of the Second World War. The war hostility curtailed not only oil production but also pilgrimage rent. The figures in table two show that total revenue dropped from 9 million dollars in 1940 to 5.5 million dollars in 1943.

As the two primary sources of revenue dwindled, the state once again plunged into a financial crisis that threatened to disintegrate the kingdom. To that effect the American vice-consul in Yemen wrote to the Secretary of State: "Neither he [Ibn Saud] nor his government can be expected to last much longer without money."[88] By that time, however, the oil concession was of a significant value not only to the oil companies, but also to the United States government. Moreover, the prospect of discovering a large quantity of oil turned the desert kingdom into an invaluable prize that could be ignored neither by the British nor the Americans. In turn, the *raison d'état* of oil pitted old allies against one another in Arabia. In response to the king's plea for financial aid, both Britain and the United States devised various financial rescue schemes. Aid from Britain during the period of 1943-44 reached 37 million dollars.[89] On the other hand, in an effort to undermine the British from winning ground with Ibn Saud at the cost of American interest, in February 1943, President Roosevelt declared that Saudi Arabia was vital to the interest of the United States, and therefore authorized the lend-lease aid for Ibn Saud.[90] It was a turning point marking the decline of British influence and the rise of American supremacy in Arabia.[91] From the Saudi perspective, the arrival of the American

[86] Arthur N. Young, *Saudi Arabia: The Making of a Financial Giant* (New York: New York University Press, 1983), 8.
[87] The concession set a fixed royalty to the government to about $1.65 per ton or 22 cents a barrel. See Seymour, *OPEC Instrument of Change*, 13.
[88] Quoted in Nadav Safran, *Saudi Arabia: The Ceaseless Quest for Security* (Ithaca: Cornell University Press, 1988), 58.
[89] Young, *Saudi Arabia: The Making of a Financial Giant*, 12. According to Young, SOCAL advances to Ibn Saud reached 12 million dollars by 1944. Ibid., 12. In addition to the aid, the oil companies, SOCAL and Texaco, were deeply concerned about British influence in Saudi Arabia; therefore they lobbied the United States Government to subsidy Ibn Saud in order to thwart the British ambitions. For its part, the British government considered Saudi Arabia under its sphere of influence in the Middle East. Therefore, the British were suspicious of the American oil companies and the ambitions of the United States government in the kingdom. The mistrust between the two countries reached the point where Churchill himself protested in writing to President Roosevelt "that the United States has a desire to deprive us of our oil assets in the Middle East on which among other things, the whole supply of our Navy depends." In response, Roosevelt wrote "that the British wish to horn in on Saudi Arabian oil reserves." See David Holden and Richard Johns, *The House of Saud* (London: Pan Books Ltd, 1982), 128-130.
[90] See Irvine H. Anderson, *Aramco, the United States, and Saudi Arabia: a Study of the Dynamics of Foreign Oil Policy, 1933-1950* (Princeton: Princeton University Press, 1981). See Holden and Johns, *The House of Saud*, 128.
[91] Since then Saudi-American relations have evolved over the years into complex multilevel relations. There is an extensive literature in the canon of regional studies, and less in international relations, which attempts to analyze this relationship.

influence in the region opened up the possibility of improving both the security of the regime and the territorial integrity.

With British and American financial aid, Ibn Saud managed to ride out the financial crisis. The end of the war facilitated an increase in oil revenues many thousand-fold. Oil production resumed, rising from 21 million barrels in 1945 to 200 million barrels in 1949; correspondingly, Arabian American Oil Company (ARAMCO) royalties to the Saudi government increased from 4.3 to 39.1 million dollars.[92] The flow of oil in turn had two major security implications for the kingdom. First, oil revenues facilitated higher spending on security imperatives. As shown in table three, budget allocation to defense and security was very high, reflecting the centrality of security concerns. In addition to acquiring modern arms, a significant aspect of internal security was the preservation of tribal allegiance, which also received a significant portion of the security budget.[93] The actual Saudi defense and security establishment was estimated to be less than 20,000, including armed forces, royal body guards, police, and tribal reserves.[94] Besides the insignificant number of the troops, for the most part, the arrival of modern equipment and training was gradual and slow. Taking this into consideration, it can be inferred that the amount of subsidies assigned to the tribes appears to be the most dominant component of the budget. The summation of the allocations to tribal annuities and security amounted to 50 percent of total revenues and 76 percent of oil revenue. Second, oil reserves turned the kingdom into an international asset worthy of protection and support. Although no official defense treaty was signed between the two countries, the United States gave security assurances that affirmed its commitment to the preservation of the kingdom's territorial integrity and sovereignty.

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[92] Young, *Saudi Arabia: The Making of a Financial Giant*, 125-126.

[93] In the 1920s the government pursued a policy of domesticating the tribes. Tribal lands and rights were abolished in 1925, and tribal chiefs were encouraged to settle in Riyadh and live on government grants and subsidies. Krimly, *The Political Economy of the Rentier States: A Case Study of Saudi Arabia,* 150.

[94] This was the estimate given by the American officers in 1953. See Safran, *Saudi Arabia: The Ceaseless Quest for Security,* 68. Another estimate given by Krimly is 44,171 in the year 1937, including the 39,000 "tribal reserves." According to Krimly, tribal reserves were not included in the training and mobilization, and they were merely used as "paper-force" in order to allocate salaries and subsides to tribal masses. Krimly, *The Political Economy of the Rentier States: A Case Study of Saudi Arabia,* 152-153.

Table 3. Saudi Arabia Budget Allocation (Million SR), 1947-48

Revenue & Expenditure	1947-48
Total revenue	215
Oil revenue	141
Expenditures:	
Royal Cabinet	17
Health Directorate	5
Education Directorate	7
Defence & Security	76
Judiciary & Ulama	2
Telegraph & Post	4
Adminstration & Finance	22
Tribes Annuities & Salaries	31
Pilgrimage	5
Agriculture Directorate	6
General Debt	6
Transportation and Public Work	30
Region Administration	4

Source: Ministry of Economy and Planning, Annual Statistical Book, 1965.

2.4 The Emergence of the Saudi Arabian Rentier State

As noted above, in May 1933 the first oil concession was signed between the American oil company SOCAL and the Saudi Arabian government. Despite his reluctance, king Ibn Saud authorized the concession because of financial hardship. The terms of the concession were favorable for both parties. Five years after the concession was signed, oil was discovered in Dammam in commercial quantities.[95] In 1939 King Ibn Saud turned the valve which delivered the first Saudi oil to the world, marking the birth of the Saudi oil rentier state. The flow of oil brought unprecedented cash to the newly born state. Although the cash flow was disrupted by the Second World War, it was resumed thereafter on an even greater scale. Next I consider the two main characteristics of the rentier state, the externality of state revenue and the centrality of government expenditures.[96]

2.4.1 Externality of State Revenue

[95] In 1936 SOCAL invited another American oil company, Texaco, to join the concession on the basis of 50 percent partnership. In return, Texaco provided SOCAL with financial support and additional distribution outlets. In 1948 two other American oil companies joined the concession, Standard Oil Company of New Jersey (Exxon) and Socony-Vacum Oil (Mobil).

[96] For a general background information on Saudi Arabia political economy see Tim Niblock, ed., State, Society and Economy in Saudi Arabia (London: Croom Helm Ltd, 1983); Daivd E. Long, Kingdom of Saudi Arabia (Florida: University Press of Florida, 1997); Tim Niblock and Monica Malik, The Political Economy of Saudi Arabia (London: Routledge, 2007).

Immediately after the Second World War ended, global demand for oil erupted at a pace in which supply exceeded demand. In the postwar recovery era European demand for oil surged, and much of the oil supplies had to be imported into European markets.[97] Middle Eastern oil, including Saudi Arabia, became the primary source of supply. In response to the high demand, ARAMCO increased production, especially after the completion of the Tapline oil pipeline, which runs from the Abqaiq oil fields in Saudi Arabia to the port of Sidon in Lebanon. Figures in table four show the steady increase in oil exports. The majority of Saudi oil was exported to three destinations: North America, Europe, and Asia and the Far East. In the early years, 1955-1986, Saudi oil exports to North America rarely exceeded 14 percent of total exports. After 1986, however, Saudi oil exports to North America as a percentage of total exports climbed and stayed somewhere in the range of 22-30 percent.[98] This increase was due to higher demand from the United States. The United States increased its imports from Saudi Arabia to 1 mbd, almost 47 percent over the previous years. In fact since 1988 the United States maintained this course of importing between 1 mbd toand 2 mbd from Saudi Arabia.[99] Unlike North America, which became an important importer in the mid-1980s, Europe was an important destination of Saudi oil since the early 1950s. From 1955 to 1986, Europe received from 38 percent to 57 percent of total Saudi oil exports. After 1986, however, Europe imports from Saudi Arabia substantially declined in the last fifteen years (in contrast, the United States increased its oil imports from Saudi Arabia). Like Europe, Asia and the Far East were also important destinations of Saudi oil exports. From 1955 to 2000, Asia and the Far East received from 30 percent to 60 percent of total Saudi oil exports.[100]

Unlike the steady rise in oil exports, oil revenues show a greater degree of fluctuation because of various factors such as fluctuations in oil prices, changes in the terms of the agreement between ARAMCO and the Saudi Arabian government, and currency evaluation. Notwithstanding the swings in oil revenues, the centrality of oil for development and economic growth is evident in the substantial percentages relative to total exports and total revenues. Based on the domination of oil in exports, the economy of Saudi Arabia typifies what is known as a single commodity exporter. Such countries rely heavily on a single or few commodities for a substantial share of their revenues, and therefore they are vulnerable to price volatility. In the case of Saudi Arabia, the effect of price volatility is compounded by the so-called "resource curse."[101] Among the various

[97] In the immediate years after the Second World War, due to extreme shortage of coal supplies, Europe experienced an energy crisis, which posed serious threats to the European recovery efforts. See Daniel Yergin, *The Prize: The Epic Quest for Oil, Money, and Power* (New York: Simon & Schuster), 422-424.

[98] Saudi Arabian Monetary Agency (SAMA), *Annual Statistical Bulletin*, Various Years.

[99] See EIA, *Annual Energy Review*, 2007.

[100] The percentages are based on data from various annual statistical books available from the Kingdom of Saudi Arabia, Ministry of Economy and Planning.

[101] The term "resource curse" is widely used to describe the negative effects of resource abundance on economic and political development. The term encompasses several mechanisms that show how the export of natural resources cause negative economic growth and distort domestic politics (for example, corruption, conflict, and undermining transition to democracy). The literature on the resource curse has been the subject of extensive research by economists and political scientists. See, for example, Jeffrey D. Sachs and Warner M. Andrew, "The Curse of Natural Resources," *European Economic Review* 45 (2001):827-838; Michael L. Ross, "Review: The Political Economy of the Resource Curse," *World Politics* 51 (January,

deleterious effects of the resource curse is the failure to develop industries that produce goods for exports. The failure of Saudi Arabia to diversify away from oil can be seen by the fact that oil exports as a percentage of total exports did not decline, despite the ambitious development projects pursued by the state in the mid-1970s and thereafter.[102]

1999): 297-322. For recent work on this subject see Macartan Humphreys, Jeffrey D. Sachs, and Joseph E. Stiglitz, *Escaping the Resource Curse* (New York: Columbia University Press, 2007).

[102] For a useful discussion on industrialization in the Middle East see Michel Chatelus and Yves Schemeil, "Towards a New Political Economy of State Industrialization in the Arab Middle East," *International Journal of Middle East Studies* 16 (May 1984): 251-265.

Table 4. Saudi Arabia Oil Revenues as a Percentage of Total Exports and Total Revenues, 1947-2000

Year	Total Exports (Million barrels)[1]	Oil Exports as Percentage of of Total Exports[2]	Oil Revenue as Percentage of Total Revenues[3]
1947	--	--	66
1951	--	--	49
1952	--	--	--
1954	--	93	71
1956	360	100	--
1958	378	69	81
1960	471	77	79
1962	577	77	80
1964	653	78	84
1966	944	79	78
1968	1123	104	76
1970	1174	102	90
1972	1993	115	88
1974	2892	100	94
1976	2940	101	89
1978	2813	92	88
1980	3376	93	92
1982	2058	93	76
1984	1168	97	71
1986	1190	90	56
1988	1245	83	57
1990	1642	90	78
1992	2409	93	76
1994	2275	90	74
1996	2236	89	76
1998	2332	84	56
2000	2282	92	83

Sources: Compiled by the author from 1)1950-1969, Ministry of Economy and Planning, Annual Statistical Book, 1965, 1970; 1970-2000, Saudi Arabian Monetary Agency (SAMA), Statistical Bulletin, Various Years.2) International Monetary Fund (IMF), International Financial Statistics Yearbook, Various Years. 3) For Total Revenues: same as Total Exports.

2.4.2 Centrality of Government Expenditures

As already indicated above, high government expenditure is considered to be the second important characteristic of the rentier state. The data in table five show the changes in the level of expenditures during different stages of oil extractions. In absolute terms the data indicate a steady increase in government expenditure starting in early 1960s, reaching a peak in the early 1980s before beginning to decline in the mid-1980. Starting in 1985, government expenditure experienced fluctuation due to changes in oil prices. As oil prices sunk, oil revenues drastically declined. For instance, as shown in table five, the expenditure was halved in 1986, in comparison with 1981.

Close examination of the expenditure trend raises several noteworthy issues. Although declines in oil revenues reduced the amount of expenditure relative to the boom period, it did not fundamentally alter the expenditure behavior of the state. Consider, for instance, that when oil prices bottomed in 1986 and 1988, the level of government expenditure remained high in absolute terms, consuming 43 percent of GDP. In order to accurately explain spending behavior, it is necessary to break government expenditure into its two parts, capital and current expenditure. Commentators on Saudi Arabia have often compared government expenditure of the boom and the bust in order to draw conclusions on domestic politics. The comparison, however, is misleading. In many of these studies government expenditure is treated as a whole – no efforts have been made to consider the composition of spending. To make an accurate assessment regarding the effects of expenditure it is necessary to compare the parts, and not just the whole. Without specifying the target category of expenditure, one may jump to quick conclusions – refuting rentier theory.

As shown in table five, except for certain years when spending was especially high, government expenditure during the so-called bust phase was not significantly different than in other years of boom. The reason is that current expenditure remained significantly high even during the bust. To be sure, current expenditure for the year 1981 when oil price reached 34 dollars per barrel was about 113 trillion SR. It dropped to 98 trillion SR for the year 1986 when oil prices sank to 13 dollars per barrel. However, capital expenditure was drastically reduced. In 1981, capital expenditures reached 171 trillion SR, and by the year 1986 declined by 75 percent to only 38 trillion SR.

Table 5. Current and Capital Government Expenditure as Percentage of GDP, 1963-2000

Year	Total Expenditure[1]			GDP (Million SR[2])	Total Expenditure as Percentage of GDP
	Current Expenditure	Capital Expenditure	Total		
1963	-	-	2686	8670	31
1964	-	-	3112	9320	33
1965	-	-	3961	10400	38
1966	-	-	5025	11940	42
1967	-	-	4937	13140	38
1968	-	-	5535	18840	29
1969	3853	2175	6028	20190	30
1970	3989	2304	6293	22570	28
1971	4756	3374	8130	30500	27
1972	5654	4504	10158	38260	27
1973	8470	10125	18595	53530	35
1974	15207	19832	35039	159720	22
1975	37931	43304	81235	163670	50
1976	73621	54652	128273	225350	57
1977	71417	66631	138048	260960	53
1978	83488	64484	147972	272270	54
1979	102447	83277	185724	375470	49
1980	132661	104094	236755	546600	43
1981	113636	171014	284650	622180	46
1982	102248	142664	244912	524200	47
1983	124052	106134	230186	445210	52
1984	121696	94667	216363	420390	51
1985	119865	64139	184004	376320	49
1986	98894	38528	137422	322020	43
1987	134419	50500	184919	320930	58
1988	116283	24573	140856	330520	43
1989	118303	36567	154870	357060	43
1992	162350	76637	238987	510460	47
1993	184878	3012	187890	494910	38
1994	161380	2396	163776	503050	33
1995	148776	25167	173943	533500	33
1996	171258	26859	198117	590750	34
1997	218880	2392	221272	617900	36
1998	171163	18897	190060	546650	35
1999	167195	16646	183841	603590	30
2000	216958	18364	235322	706660	33

Sources: Compiled by author from 1) 1963-69, Ministry of Economy and Planning,Annual Statistical Book, 1965, 1970; 197-2000, Saudi Arabian Monetary Agency, Tables of Annual Report. 2) International Monetary Fund (IMF), International Financial Statistics Yearbook, Various Years.

2.5 Conclusion

This chapter introduced the concept of rentier theory. It detailed the two conditions that are essential for defining a rentier state: external source of revenue and allocation of wealth. Unlike the so-called productive state which relies on taxation, rentier states directly derive the majority of revenues from abroad in the form of rent (payments from selling oil in the international market). Relieving the society from the burden of taxation, domestic politics of the rentier state, it is argued, can be summed by the maxim "no representation without taxation." Not only does not the state fiscally coerce its population, but it also engages in generous wealth distribution. As the second part of the definition stresses, the state provides a wide range of free services and subsidies. Although rentier theory has been a popular analytical tool in the Middle East area studies, recent scholarship has questioned its explanatory power for interpreting domestic politics. Lacking sufficient sophistication for dealing with periods of boom and bust, critics have discredited the mechanism that wealth allocation ensures regime survival. In addition to its weakness in the domestic realm, the theory is mute on international politics – even though rentier theory is based on wealth transfer from the international economy. Notwithstanding its limited explanatory capability, the theory offers an underdeveloped but powerful theoretical framework. Such a framework is refined in chapter four of this dissertation to make it a more accurate theory for explaining internal and external security behaviors of rentier states.

In the second part of the chapter I provided a historical overview of Saudi Arabia. It outlined the process by which the Saudi state came to exist and described the political and financial situations before the arrival of oil wealth. The section concluded with an empirical description of the rentier nature of the Saudi state which came to exist, especially since the early 1950s. In terms of the magnitude of oil revenues and the portion of public spending as percentage of GDP, the data demonstrated that the Saudi state for half a century has been a rentier state *par excellence.*

CHAPTER THREE: INTERNATIONAL RELATIONS THEORIES

Liberalism and Realism are two prominent theories that purport to explain states' survival strategies. In this chapter I examine to what extent these two theories are capable of providing an explanation for the rentier state's international security behavior. In section one I consider three different versions of realism: classical, structural, and neoclassical. Similarly, in section two I examine the two liberal theories most relevant for this study, economic interdependence and complex interdependence. Section three underlines why and how the assumptions and logic of various versions of realism and liberalism come short of taking into account the rentier state, concluding that neither realism nor liberalism provides an accurate explanation for the rentier state's behavior in the international system.

3.1 Realism

Realism is one of the dominant theories in international relations scholarship. It has distinguished pedigrees, extending from Thucydides, Niccoló Machiavelli, Thomas Hobbes, and Jean Jacques Rousseau to Winston Churchill, Henry Kissinger, Hans Morgenthau, Kenneth Waltz and John Mearsheimer. As realists they paid great attention to the concept of power and shared a pessimistic view on human nature and the precarious nature of the international political system. Machiavelli writes, "And truly it is a very natural and ordinary thing to desire to acquire, and always, when men do it who can, they will be praised or not blamed."[103] In *Leviathan* Hobbes writes "that during the time men live without a common Power to keep them all in awe, they are in that condition which is called Warre; and such a warre, as is of every man, against every man."[104]Mearsheimer writes "In contrast to liberals, realists are pessimists when it comes to international politics."[105]

As a research paradigm, realism has evolved and produced various theories; the most cited are classical realism, structural realism, and neoclassical realism. All three theories are part of the realist research program because they share common assumptions about world politics. These assumptions are the following: states are central units in the international system; states are rational actors; states are power-seeking as a means to an end; states live in an anarchic international system. Not withstanding these similarities, each theory maintains a different research program, including divergent explanations and assumptions. One of the most important issues where all three theories part company is on the role of the state in international politics. While classical realism provides a murky account of the state, the minimal role of the state in structural realism contrasts with the central role of the state in neoclassical realism.

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[103] Niccoló Machiavelli, *The Prince*, 2nd edition (Chicago: The University of Chicago Press, 1998), 14.
[104] Thomas Hobbes, *Leviathan* (London: Penguin Books, reprinted 1985), 185.
[105] John J. Mearsheimer, *The Tragedy of Great Power Politics* (New York: W.W. Norton Company, 2001), 17.

3.1.1 Classical Realism

Although for the twentieth-century classical realists the state and the nation are central in international politics, the state was considered to be the only actor responsible of charting and enacting the foreign policy of the nation. However, without fully constructing and advocating a theory of state, Morgenthau acknowledges the effect of domestic factors on foreign policy.[106] Morgenthau writes: “A nation pursues foreign policy as a legal organization called a state, whose agents act as representatives of the nation in international affairs. They speak for it, negotiate treaties in its name, define its objectives, choose the means for achieving them, and try to maintain, increase, and demonstrate its power.”[107]The nation, on other hand, provides an important source of material and human resources for the execution of foreign policy. Consider some of the elements of national power enumerated by Morgenthau – industrial capacity, natural resources, population, military preparedness, national character, national morals, and quality of diplomacy. As a state chooses goals and methods of its foreign policy in accordance with available societal resources, in effect these resources function as constraints on foreign policy. By furnishing resources to the state, the nation may not influence the foreign policy course of actions pursued by the state. On the contrary, classical realists ascribe high degree of autonomy to the state. Morgenthau, for instance, considers autonomy an important requirement for ensuring the successful outcome of foreign policies. For Morgenthau, autonomy implies compliance with three requirements: resistance of domestic opposition, assertion of state leadership, and avoidance of compromise over essential foreign policy issues. The state, in other words, does not alter foreign policy actions according to domestic pressure or demand of interest groups within society. Ultimately, statesmen define national interest according to the amount of resources that can be extracted from the society, and their assessment of relative distribution of capabilities.

Because elements of power are unevenly distributed among nations and extraction from society varies across space and time, classical realists do not assume that national power is synonymous with state power or international influence. Thus, classical realism predicts that some nations have no choice but to yield to a nation whose leaders are willing and able to transform potential power into actual power. Classical realism, however, doesn’t tell us why some states are likely to extract societal resources more effectively than other states. The closest link Morgenthau makes to the conditions which may affect the ability of the government to marshal national power for foreign policy goals is public opinion. Unless the government is able to win domestic support for its policies, Morgenthau argues, the national sources of power are unlikely to be fully harnessed.[108] But there is no systemic analysis to specify the conditions under which

[106] His classical realism is constructed on six principles: 1) politics is governed by “objective law[s] that have their roots in human nature.” 2) national interest is defined as power, 3) the conception of interest as power applies to all nations, 4) morality and international politics are distinct spheres, 5) identification 6) the conduct of international politics should not subordinated to “legalist-moralistic approach.” See Hans J. Morgenthau, *Politics Among Nations: The Struggle for Power and Peace*, 5th edition (New York: Alfred A. Knopf, 1973), 4 -15.

[107] Ibid., 102.

[108] Morgenthau, *Politics Among Nations*, 148.

national power is transformed into state power or public opinion is mobilized.[109]As a result critics have charged classical realism with a lack of explicit theory of state, forsaking the opportunity of explaining change caused by political economy or domestic structures.[110]

3.1.2 Structural Realism

Structural realism is exemplified by Kenneth Waltz's *Theory of International Politics* and John J. Mearsheimer's *The Tragedy of Great Power Politics*.[111] Like Waltz's theory, Mearsheimer's theory of international politics claims that structure matters most for international politics.[112] Waltz constructs a theory of international politics based on three principles: ordering, differentiation of units, and distribution of capabilities. The ordering principle dictates the order of structure, distinguishing between hierarchy and anarchy. Unlike domestic politics which is the realm of order and hierarchy, international politics is without order and organization. The structure is populated with units different in their characteristics but alike in functions. States are different in many aspects including wealth, size, and political regime, but they are alike in the sense that they are responsible for the same tasks. The distribution of capabilities principle determines the prevailing arrangement among units of the structure.[113] These principles provide the definition of an international structure, which Waltz posits as the only independent variable.

By locating the cause for international outcome at the international level, structural realists subtract the internal characteristics of the state from the analysis. Except for relative capabilities there is no account of the necessity to develop national resources or to mobilize public support by state officials for the ends of foreign policy. Unlike classical realists who maintain that internal policies are not divorced from external policies, their structuralist counterparts pay far less attention to the state and its relation to society. The reason for ignoring domestic variables, according to Waltz, is that theory of international politics is concerned with explaining continuity and repetitions in the international system, not foreign policies. Waltz, in other words, draws a clear distinction between theory of international politics and theory of foreign policy. In his words: "System theories explain why different units behave similarly and, despite their variations, produce outcomes that fall within expected ranges. Conversely, theories at the unit level tell us why different units behave differently despite their similar placement in a system."[114] Therefore attempts to account for international outcomes by domestic

[109] Michael Mastanduno, David A. Lake, and G. John Ikenberry, "Toward a Realist Theory of State Action," *International Studies Quarterly* 33 (December, 1989): 457-474.
[110] Robert O. Keohane, "Realism, Neorealism and the Study of World Politics," in Robert O, Keohane, ed., *Neorealism and Its Critics* (New York: Columbia University Press, 1986), 10-13.
[111] Waltz, *Theory of International Politics*; Mearsheimer, *The Tragedy of Great Power Politics.*
[112]Mearsheimer differs with Waltz on the issue of how much power states want. On the one hand, Waltz argues that "the concern of states is not to maximize power but to maintain their position in the system." Waltz*, Theory of International Politics*, 126. On the other hand, Mearsheimer writes that "the international system forces great powers to maximize their relative power because that is the optimal way to maximize their security." Mearsheimer, *The Tragedy of Great Power Politics,* 21.
[113] Waltz, *Theory of International Politics*, 88-101.
[114] Waltz, *Theory of International Politics*, 72. For a critique of Waltz's distinction between theory of foreign policy and systemic theory of international politics see James D. Fearon, "Domestic Politics,

factors are misleading and doomed as reductionist. According to Waltz, they are insensitive to the level of analysis; they account for international outcomes by locating their independent variables at the national or sub-national levels.[115] Many of these theories which attempt to explain international outcomes without referencing the international system are in effect, Zakaria concludes, "theories of foreign policy that have exaggerated their explanatory claims."[116]

3.1.3 Neoclassical Realism

Proponents of neoclassical realism not only sought to "bring the state back in," but also not to kick out systemic factors from international politics.[117] They are unsatisfied with the explanatory power of an either-or choice between domestic and international variables. They challenge domestic explanation by asking "why countries with similar domestic factors behave differently in the international system" and "why dissimilar states confronted with similar situations react similarly." At the same time they cast doubt on structural realism's assumption that states are alike and unitary. Since in actuality statesmen can't mobilize national resources all in the same way for foreign policy ends, the unit-like assumption constitutes a major limitation on the explanatory power of realism. Thus their answer for explaining a country's foreign policy is to synthesize domestic and systemic factors into a single approach.

Such an approach draws insight from Thucydides' famous dictum that "the strong do what they can and the weak suffer what they must." In keeping with the tradition of realism, neoclassical realists continue to regard the notion that relative capabilities shape the intension of states. But they do not place the burden of actions on human nature's lust for power, as classical realists do. Rather, in a similar vein as the structure realists, neoclassical realists contend that states seek power because anarchy bedevils the international system. But they do not assume an immediate link between relative capabilities and foreign policy. Instead they bring the state back in as an intervening variable between national power and foreign policy.

The state enters the analysis by way of explicit division between state and society. Neoclassical realists draw a clear distinction between the state as the central government and the nation as a society, because as Zakaria puts it: "Foreign policy is made not by the nation as a whole but by its government."[118] This is a distinction which they charge has been overlooked by classical realism, but is essential for explaining different foreign policy behaviors. They charge that classical realism's national power obscures the view that what ultimately matters is not the amount of national power available, but the

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Foreign Policy, and Theories of International Relations," *Annual Review of Political Science* 1 (1998): 139-165.

[115] Waltz, *Theory of International Politics*, 60.

[116] Fareed Zakaria, *From Wealth to Power: the Unusual Origins of America's World Role* (Princeton: Princeton University Press, 1998), 15.

[117] Gideon Rose coined the term "neoclassical realism" in reference to the work of Michael E. Brown et al., Thomas J. Christens, Randall L. Schweller, William Curti Wohlforth, and Fareed Zakaria. See Gideon Rose, "Neoclassical Realism and Theories of Foreign Policy," *World Politics* 51 (October 1998), 144-172.

[118] Zakaria, *From Wealth to Power*, 9.

amount of state power. State power, they suggest, depends not only on national power, but also on statesmen who are in charge of foreign policy.[119] They clarify the indirect influence of statesmen on the link between relative power and policy by introducing two state-level variables. The first variable is statesmen's perception and misperception of power distribution; the second variable is the strength of the state's institutions in relation to its society.[120]

Neoclassical realists argue that one can't assume as given that relative material capabilities are accurately assessed or similarly perceived by statesmen. Discrepancies arise in the assessment of relative power due to variance in statesmen's perceptions, which in turn affects the decision-making process and outcomes. The issue of perception has been neglected largely by systemic theorists, tucked under the rubric of rationality assumptions. Keohane has made the same point, arguing that for most systemic theorists "the link between system structure and actor behavior is forged by the rationality assumption, which enables the theorist to predict that leaders will respond to the incentives and constraints imposed by their environments. Taking rationality as a constant permits one to attribute variations in state behavior to various characteristics of the international system."[121] The issue of perception, for instance, is central in Wohlforth's analysis of the two superpowers during the Cold War. Wohlforth notes that "rapid shifts in behavior may be related to perceived shifts in the distribution of power which are not captured by typical measures of capabilities."[122]

The second dimension is also concerned with statesmen, especially with their ability to extract material capabilities from domestic society for the purpose of foreign policy. The degree of ease by which statesmen can extract resources from the society is largely shaped by the strength of the state vis-à-vis its society. To capture the strength of the state Zakaria examines the impact of specific attributes, such as structure, autonomy, and scope. These dimensions are composed into a continuum variable called state strength. On one end of the spectrum lie states which have a high level of autonomy, and are cohesive, wealthy, and maximal. These are strong states. On other end lie the weak states, which are divided, poor, society-penetrated, and minimal. Consequently Zakaria writes: "The stronger the state, the greater its ability to extract national power for its ends." With more extracted power, the state has a higher degree of what Zakaria calls "state power," which is what matters most for achieving foreign policy goals.

3.2 Liberalism

Just as realism is rich and diverse, the tradition of liberalism enjoys an equally important tradition of theoretical scholarship. Its core ideas and principles were laid down by

[119] Ibid., 8-9.
[120] Rose, "Neoclassical Realism and Theories of Foreign Policy."
[121] Robert O. Keohane, "Theory of World Politics," in Robert O. Keohane, ed., *Neorealism and Its Critics* (New York: Columbia University Press, 1986), 167.
[122] William Curti Wohlforth., *The Elusive Balance: Power and Perceptions during the Cold War* (Ithaca, N.Y.: Cornell University Press, 1993), 294.

classical theorists, such as John Locke, Immanuel Kant, Adam Smith, and John Stuart Mill. Fundamentally, the liberal approach is based on specific ideals; these are individual freedom, international law, protection of human rights, and free trade. These ideals are the reason that liberalism's conception of world politics has often been dubbed as "utopian."

Although liberalism and realism share some common ground – namely, both agree on the principle of rationality and consider the state as a primary actor in world politics – their different assumptions about man and the international system produce different conceptions of world politics. In the tradition of liberalism power is conceived by means other than just military capabilities, in terms of economic costs and benefits. More than realism, the paradigm of liberalism is sensitive to the internal characteristics of the state and stresses the link between the characteristics of the unit and its political behavior. Unlike realists, liberals tend to stress not only security but also other goals, such as prosperity and human rights.

Based on its core assumptions three different conceptions of international politics are commonly referenced in the liberal scholarship.[123] The first conception adheres to the belief in international laws and institutions as a major force that regulates the conduct of nations and reduces the risk of war. Their effectiveness does not lie in a single authority commanding the legitimate right to punish aggressors, but in the prescription of peaceful norms and values for states to follow. In doing so, according to this argument, international norms breed among states a political philosophy based on trust, not fear.

The second conception claims that internal characteristics of the unit do matter for war and peace. The basis of this argument is Kant's "Perpetual Peace," which has been recast in contemporary times as Democratic Peace. In its original form, Kant argued that a republican constitution constitutes a primary condition for peace among nations. In its present form, however, the theory has been modified to suggest that democracies do not go to war.[124] The essence of this argument is that while democracies would establish peace and cooperation among themselves, their relations with non-democracies, however, would remain prone to conflict.

The third conception argues that international economic transactions generate effects that foster cooperation and peace among nations. Because of economic transactions states become more prosperous, societal groups are more connected, and scarce resources are

[123] For an insightful discussion on the ideas of different classical theorists within Liberalism, Realism, and Socialism see Michael Doyle, *Ways of War and Peace* (New York: W.W. Norton & Company, Inc., 1997).

[124] The literature on this topic is extensive. For instance, see Bruce Bueno de Mesquita, James D. Morrow, Randolph M. Siverson, and Alastair Smith, "An Institutional Explanation of the Democratic Peace," The *American Political Science Review* 93 (December 1999): pp. 791-807; James Lee Ray, "Does Democracy Cause Peace?" *Annual Review of Political Science* 1 (1998), 27-46; and David A. Lake, "Powerful Pacifists: Democratic States and War," *The American Political Science Review* 86 (March 1992): 24-37. It is noteworthy that democratic peace has been translated into a foreign policy tenet by the United States. In his 1994 State of the Union Address, former president Bill Clinton had these words to say: "Democracies don't attack each other. They make better trading partners and partners in diplomacy." See *The Washington Post*, January 25, 1994. http://www.washingtonpost.com/wp-srv/politics/special/states/docs/sou94.htm.

more readily available for trade. Therefore, in an economically interdependent system, military confrontation becomes obsolete. Since the logic of interdependence is the most relevant to the conception of the rentier state, economic interdependence and complex interdependence are thoroughly discussed in the next section.

3.2.1 Economic Interdependence

It has long been argued by liberal scholars that gains from trade would create conditions for peace and cooperation among nations. John Stuart Mill writes: "It is commerce which is rapidly rendering war obsolete, by strengthening and multiplying the personal interests which are in natural opposition to it."[125] Similar views can be found in the works of Adam Smith, David Hume, and Joseph Schumpeter.[126] The positive correlation between commerce and peace remains a cornerstone in contemporary liberal political thought. Although causal mechanisms have become more sophisticated, the works of contemporary liberal scholars show that the fundamental idea has remained intact. As one contemporary scholar, for instance, has claimed, "Economic development tends to increase the material stake of social actors in *existing* investments, thereby reducing their willingness to assume the cost and risk of coercion through war or sanctions."[127]

Yet not all liberal scholars have been convinced with the pacifism associated with international commerce. In *Power and Interdependence* Keohane and Nye question the usefulness of defining interdependence as "mutual benefit," arguing that such a view assumes conflicts and use of force among nations are secondary and does not account for interdependence as mutual dependence.[128] Instead, Keohane and Nye underline the power implications of differential gains in relations of interdependence. "Less dependent actors can often use the interdependent relationship as a source of power in bargaining over an issue and perhaps to affect other issues."[129]To asses the power significance of interdependence, Keohane and Nye draw a distinction between sensitivity and vulnerability.[130] Whereas sensitivity corresponds to the cost of adjustment, vulnerability involves the opportunity costs of adjustment. Although Keohane and Nye contend that sensitivity is politically important, it is vulnerability interdependence that is most important for understanding power resources. The reason is that, unlike sensitivity, vulnerability suggests that one partner has no means to quickly and smoothly adjust, and therefore is at risk of incurring political and economic costs. It is in this sense that asymmetric interdependence serves as a source of power.

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[125] John Stuart Mill, *Principles of Political Economy*, 4th reprint (Clifton: Kelley, 1973), 582.

[126] Smith, *the Wealth of Nations*, Book III, Chapter IV; Joseph Schumpeter, *Imperialism and Social Classes*, trans., Heinz Norden (Oxford: Blackwell, 1951), 83-130.

[127] Andrew Moravcsik, "Taking Preferences Seriously: A Liberal Theory of International Politics," *International Organization* 51 (Autumn, 1997), 513-553. See also Rosecrance, *The Rise of Trading State: Commerce and Conquest in the Modern*, 1986; John Muller, *Retreat from Doomsday* (New York: Basic Books, 1989).

[128] Keohane and Nye, *Power and Interdependence: World Politics in Transition*, 8-9. For a critique of Keohane and Nye see Baldwin, "Interdependence and Power: A Conceptual Analysis," 482.

[129] Keohane and Nye, *Power and Interdependence: World Politics in Transition*, 9.

[130] The concept of sensitivity as economic interdependence was popularized by Richard Cooper as "the sensitivity of economic transactions between two or more nations to economic developments within those nations." See Richard N. Cooper, "Economic Interdependence and Foreign Policy in the Seventies."

The concept of asymmetric interdependence has found popular currency among Middle East scholars. Arguing against the dependency perspective for analyzing Arab politics,[131] Gause writes: "I do not find the dependency perspective adequate for understanding the relationship between the Middle Eastern system, or even the Arab members of that system, to the global system. More accurately, the relationship is one of *asymmetric interdependence.*"[132] For Gause, the dependency perspective is inadequate, because it does not account for assets that are valuable to the superpowers, such as oil resources and access to strategic locations. In exchange for these assets, according to Gause, the Arab states are able to extract from superpowers security and political support.[133]

As Gause and other scholars have shown, the concept of economic interdependence is useful for analyzing Saudi Arabia's international politics. It is also useful for understanding the link between domestic and international politics. As a rentier state Saudi Arabia by definition is significantly dependent on oil exports for revenues. The extraction of revenues from abroad in the form of pure oil rent in turn has major implications for domestic politics, which have been noted in chapter two. At the same time, the international oil market is driven by market forces of supply and demand. This implies that changes in the international oil market are bound to have an important effect not only on Saudi Arabia but also on other consumers and producers' economies. In fact, because of this link between domestic economies (consumers and producers) and the international oil market, international politics plays a major role in the oil market. Although supply and demand are relevant, interventions by producing and consuming governments in the market are not uncommon. In the case of Saudi Arabia, as in many oil-producing countries of the Third World, the oil company is state-owned. Thus, not only economic but also political imperatives influence decisions concerning production and prices. To be sure, in Saudi Arabia oil decisions are made by the king himself assisted by a small group of technocrats. These decisions, in turn, not only affect his kingdom, but also influence the relationship between Saudi Arabia and other producers and consumers.

3.2.2 Complex Interdependence

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[131] For instance, Korany and Dessouki argue that Arab countries are heavily constrained by the global system. With some modification, much of their argument is based on the concept of *dependencia* popularized by a group of Latin American scholars. See Bahgat Korany and Ali E. Hillal Dessouki, "The Global System and Arab Foreign Policies: The Primacy of Constraints," in Bahgat Korany and Ali E. Hillal Dessouki, eds., *The Foreign Policies of Arab States* (Cairo: The American University Press, 1984), 23-35.

[132] F. Gregory Gause III "Theory and System in Understanding Middle East International Politics," http://www.uvm.edu/~fgause/paul.htm. (March 2009); Gause III, "The Foreign Policy of Saudi Arabia," in Raymond Hinnebusch and Anoushiravan Ehteshami, eds., *The Foreign Policies of Middle East States* (Colorado: Lynne Rienner Publishers, Inc., 2002), 195; M.A. Muqtedar Khan, *Jihad for Jerusalem(*Greenwood Publishing Group, 2004), 168.

[133] A similar argument against the dependency claim was made by Robert Vitalis, "The Closing of the Arabian Oil Frontier," *Middle East Report* 204 (Fall 1997), 15-21.

The basic idea behind complex interdependence, according to Keohane and Nye, is to construct an ideal type of world politics different from that espoused by realism.[134] Although the logic of complex interdependence is based on liberalism, it does not attempt to explain world politics from the prism of asymmetric interdependence. Instead complex interdependence analyzes world politics under three different assumptions.

The first assumption challenges the realist assumption of a unitary state, by claiming the existence of multiple channels connecting societies. In addition to the direct interactions between bureaucrats, there exists a wide range of non-governmental interactions among countries, such as organizations, multinational firms, and banks. As a result of these interactions, countries become more sensitive to the government policies of each. The second assumption challenges the realist assumption of security as the most important goal. The foreign policy agenda, it is claimed, has become a repository for a multitude of issues, with some reflecting interests of different domestic groups, and others pertaining to international commitment of government agencies. The web of issues means that national security no longer dominates the agenda. The third assumption is that military force becomes obsolete where relations of complex interdependence prevail. Keohane and Nye write: "Yet particularly among industrialized, pluralist countries, the perceived margin of safety has widened: fears of attack in general have declined, and fears of attacks *by one another* are virtually nonexistent."[135]

By challenging the realist assumptions, complex interdependence envisages an image of world politics "in which a clear hierarchy of issues does not exist, and in which force is an ineffective instrument of policy."[136] It argues that global economic and ecological interdependence changes the very nature of world politics. "Goals will therefore vary by issue area under complex interdependence, but so will the distribution of power and the typical political process."[137] National interests will be defined differently on different issues. Under conditions of interdependence, neorealism's assumptions of security and force don't dominate the international system. Instead of security or power maximization, the manipulations of economic vulnerabilities are pointed out as the main explanation for conflicts in an era of interdependence.

In the world of complex interdependence, world politics can be understood according to three different political processes: linkage strategies, agenda setting, and transnational and transgovernmental relations. Linkage strategies highlight the importance of the distribution of power resources. Under conditions of low military threats, variation in issues areas would lead to different linkage strategies, which in turn, generate distinct patterns of political process and outcome. Agenda setting refers to the politicization of issues. Because of the absence of issue hierarchy, it is expected that agenda formulation becomes more important. Finally, both transnational and transgovernmental relations are expected to affect interdependence strategies.

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[134] Robert O. Keohane and Joseph S. Nye, *Power and Interdependence: World Politics in Transition,* 20-32.
[135] Ibid., 23.
[136] Ibid., 21.
[137] Ibid., 26.

When applying this approach to some political oil events, complex interdependence provides an eloquent and innovative explanation. Take for example the oil embargo of 1973. An international actor, the Organization of Arab Petroleum Exporting Countries (OAPEC), intervenes economically in the oil market, thereby strategically linking two issues: oil supply and the Israeli-Palestinian conflict. Their power on the issue of global oil supply is therefore used as instrument to extract concessions from more powerful (in economic and military terms) states on another issue: the Israeli-Palestinian conflict. Because of their relative weakness on the issue of oil supply the European Union and Japan modified their positions on the Arab-Israeli conflict, in spite of their relatively powerful position on other issues (e.g., economic and military).

Another example of strategic linkage is the informal alliances formed between the United States and Iran under the Shah, and the United States and Saudi Arabia. The condition of oil interdependence has resulted in a trade-off for the United States between, on one hand, oil interests, and, on the other, democracy and human rights. The weakness of the United States on the first issue has constrained its efforts in spreading democracy and human rights to oil-exporting countries. The Saudi-American relationship is a clear example of linkages.[138] The alliance is important for Saudi Arabia, because the United States is considered a provider of its security and a key player with power to influence peace and war in the Middle East. Yet it has been an uneasy alliance for the Saudi ruling family because the United States' policies are perceived in the region as pro-Israeli and anti-Islam. The alliance shows that international relations are influenced by trade-offs between issues. Although the two countries stand an ocean apart on issues such as democracy, human rights or the Arab-Israeli conflict, their alliance is based on making linkages between different issues.

3.3 Realism, Liberalism and the Rentier State

The rentier state is a different kind of state. In contrast to a tax state extracting revenue from domestic sources and by means of fiscal policies, the rentier state extracts wealth from the international system by selling oil. This simple fact entails not only significant domestic but also international implications. The most obvious foreign policies that are directly linked to the characteristics of rentier states are oil embargoes and sanctions. The genius of the oil power lies, on one hand, in the scarcity and inelastic demand for oil, and, on the other hand, in the quintessential need for extracting rent from it.

The first quality renders power to oil-producing and corridor states. Since oil is crucial for national interests of oil-importing countries, it is a potential instrument of power to be exploited by oil-exporting countries. Consider, for example, the Iranian threat to block

[138] For an insightful discussion on the Saudi-American relationship see Paul Aarts, "Events Versus Trends: The Role of Energy and Security in Sustaining the US-Saudi Relationship," in Paul Aarts and Gerd Nonneman eds., *Saudi Arabia in the Balance: Political Economy, Society, Foreign Affairs* (London: Hurst and Company., 2005); Rachel Bronson, "Understanding US-Saudi Relations," Ibid; and Rachel Bronson, *Thicker Than Oil: America's Uneasy Partnership with Saudi Arabia* (Oxford: Oxford University Press, 2006).

the world's most important oil waterway, the Strait Hormuz; or the Arab oil embargos in 1956, 1967, and 1973. The second quality shifts the balance of power from exporting and corridor states to consuming states. By depriving producers and corridor states from oil rent through sanctions or endorsing alternative pipelines routes, oil dependency increases the nonmilitary power of oil consumers. With the objective to weaken "unfriendly" regimes, the United States, for example, placed sanctions in the 1980s and 1990s on Iran, Libya, and Iraq. The three targeted countries are oil rentier states *par excellence*, generating the majority of their income from oil revenues. In agreement with the logic of rentier theory, the sanctions were believed to bankrupt the legitimacy and tarnish support of these regimes by curtailing their ability to buy domestic support.

These two examples highlight in practice the importance of the rentier state for international politics. Practice and theory, however, are not detached. Theories shed light on obscure phenomena, making the complex life of world politics comprehensible to students and practitioners of world politics. In this view, theories of international relations should be mindful of the rentier state. To answer the question to what extent theories of foreign policy account for the behavior of the rentier state, the logics of liberalism and realism are considered next. Along the way I employ examples as trial cases to demonstrate the compatibility between the logic of each theory and the behavior of the rentier state.

3.3.1 The Limitations of Classical Realism

In the case of classical realism, the attention is mainly focused on two critical aspects of the theory: national power and the realm of autonomy. Classical realists claim that the source of power is political, economic, and military. The statesmen must cultivate these three types of capabilities in order to increase power and influence abroad. Yet in the context of the rentier state the source of national power deviates from the classical realism perspective of summing up material and human resources. In a rentier state, power is based primarily on oil reserves and the ability to generate revenue from selling oil in the international economy. Rentier states, in other words, derive their national power from providing other states access to oil resources and accessing other states' resources, not aggregate domestic elements. All else being equal, more oil resources lead to greater national power. This logic is partly exemplified by the Arab oil embargos of 1973.

Consider the embargo of 1973. The weakness of Saudi Arabia, measured in terms of economic and military power, did not prevent the kingdom from wielding oil as a weapon against the United States and Western Europe. Although the oil weapon failed to cause an Israeli withdrawal to 1967 borders and to produce an equitable solution for the Palestinian refugee issue, this outcome is not necessarily a reflection of the uselessness of oil as a weapon. The fact that the embargo did not meet its declared objective is in certain aspects no different than, for example, the United States' experience in Vietnam. While the United States relied on its military power, Saudi Arabia deployed its oil resources. Yet neither country achieved their declared objectives. To equate power with outcome is a subscription to a faulty definition of power. As Waltz points out, "The intention of an act and its result will seldom be identical because the result will be affected by the person or object acted on and conditioned by the environment within which it occurs."[139] Alternatively, by thinking of power in terms of resources, not outcome, it is possible to understand the effective role oil played. As Seymour observes, "the objective being to bring home to western governments and peoples the seriousness of the Middle East problem and the potential strength of the Arab oil producers. And in this a good measure of success was achieved." [140]

The issue of autonomy is also problematic in the context of the rentier state. On the surface of it, rentier states appear highly autonomous, because they do not rely on taxation. Statesmen, in other words, formulate and pursue foreign policies free from domestic pressure and interest groups within the society. Yet the rentier state faces a different type of domestic constraint: the necessity of high public spending, not taxation. One of the main functions of the rentier states as stated above is wealth distribution. Therefore, statesmen have to be mindful of hasty foreign policies that could jeopardize oil revenues.

3.3.2 The Limitations of Structural Realism

The logic of structural realism also fails to capture the idiosyncrasy of the rentier state, since the state is treated as a "black box." Without knowledge of the internal characteristics of the state, the concept of rentier economy, which is the most important aspect of the rentier state, disappears from the analysis. As we have seen above, structural realism is defined by three elements: an ordering principle, differentiation of units, and relative capabilities. The principle of relative capabilities is the most relevant for assessing the compatibility between the rentier theory and the logic of structural realism. By relative capabilities Waltz means aggregate economic, military, and political capabilities, which cannot be separately weighted. Not only does the rentier economy stress oil resources more than other capabilities, it also poses a serious challenge to structural realism's assumption that power is fungible in world politics.[141] Waltz writes: "Power may be only slightly fungible for weak states, but it is highly so for strong ones."[142] Mearsheimer goes further than Waltz by saying: "What money is to economics, power is to international relations."[143] Yet the event of the embargo of 1973 and its aftermath cast doubt on the measure of relative capabilities and fungibility of power.

Saudi Arabia and other Arab oil-exporting countries acted in a way that profoundly contradicted the conventional wisdom of structural realism, as stated by Waltz: "The power of the strong may deter the weak from asserting their claims, not because the weak

[139] Waltz, *Theory of International Politics*, 192.
[140] Ian Seymour, *OPEC Instrument of Change* (London: The Macmillan Press LTD, 1980), 121.
[141] For a critique of the fungibility assumption, see Robert O. Keohane and Joseph Nye, *Power and Interdependence*: *World Politics in Transition*; Robert Keohane, "Theory of World Politics: Structural Realism and Beyond," 184-201; David A. Baldwin, "Power Analysis and World Politics: New Trends Versus Old Tendencies."
[142] Kenneth Waltz, "Reflection on Theory of International Politics: A Response to My Critics," in Robert Keohane, ed., *Neorealism and Its Critics* ((New York: Cambridge University Press, 1986), 333.
[143] Mearsheimer, *The Tragedy of Great Power Politics*, 12.

recognize a kind of rightfulness of rule on the part of the strong, but simply because it is not sensible to tangle with them."[144] And yet weak countries, in terms of economic, military, and political capabilities, exhibited a show of power. The Arab countries were not deterred by the military power of the United States and its allies, and neither did the United States use force to end the embargo – as expected by the logic of structural realism. In fact, European and Japanese political positions toward the Arab-Israel conflict have shifted as a result of the oil embargo. The United States, too, came under severe pressure and was forced to intervene in the Arab-Israel conflict for the purpose of achieving a settlement between the parties.

Waltz, however, assesses the oil crisis differently. He writes that the United States was less dependent than European powers on Arab oil, and therefore was not in the unfortunate position of having to appease Arab countries.[145] To say that the United States was affected less than European countries by the oil embargo is correct. But to state that the United States faced no economic and political crisis as a result of the oil embargo contradicts the facts. In actuality, as a result of the oil embargo, the United States government faced two crises, one domestic and the other international. Neither crisis could have been resolved by military confrontation. Domestically, the oil crisis caused a severe oil shortage.[146] Internationally the oil crisis succeeded in driving discord into the North Atlantic Treaty Organization (NATO), as European countries, one after the other, started to dissociate their Middle East policy from the policy pursued by the United States.[147] Kissinger writes: "With the possible exception of the Netherlands, our European allies were clear about what should follow the cease-fire: American pressure to induce Israel to return immediately to the 1967 borders."[148] Power politics of oil clearly demonstrated the limit of conceiving power as aggregate assets of national resources fungible across an array of international events.

3.3.3 The Limitations of Neoclassical Realism

The return of the state in the analysis of international politics is certainly a step in the right direction toward explaining foreign policies. As stated above, neoclassical realists accept the causal primacy of relative capabilities – especially offensive military capability, and anarchy as the characteristics of the international system – but they also incorporate ideas about statesmen's perception and ability to increase state power. Their state approach is premised on the notion that material capabilities are not synonymous with national power. It is argued that the harnessing of national power depends not only

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[144] Waltz, *Theory of International Politics*, 113.
[145] Ibid., 151-158.
[146] Sampson writes: "By November the filling-stations were beginning to shut down, with signs saying 'Sorry, No Gas'. Cars had to drive for miles to find gasoline, and then to line up for an hour or more, with their engines running, using up more gasoline as they waited." Anthony Sampson, *The Seven Sisters: The Great Oil Companies and the World They Made* (New York: The Viking Press, 1975), 265.
[147] Except for Portugal and the Netherlands, the rest of the NATO members banned the usage of their military bases and airspace for the purpose of the United States providing an airlift to Israel. For more information on the rift between the United States and European allies, see Henry Kissinger, *Years of Upheaval* (Boston: Little, Brown and Company, 1982), 707-746.
[148] Ibid., 717.

on material capability, but also the ability of statesmen to extract and direct the resources of their societies. State power as defined by Zakaria is: "[the] portion of national power the government can extract for its purposes and reflects the ease with which central decision-makers can achieve their ends."[149] Therefore state power depends on national power and state strength. The relative strength of the state vis-à-vis its society reflects the proportion of capabilities dedicated to foreign policy. This straightforward logic, however, breaks down in the context of the rentier state, because the variable state strength matters insignificantly in the accumulation of wealth and power.

The nature of the rentier state undermines neoclassical determinants of state power: taxation, structure, autonomy, and responsibilities. First, taxation plays no role in the generation of wealth for the rentier state. Much of the research on state power has taken for granted that states are alike in as far as the domestic society is a major contributor to state income. Second, state structure matters less in the context of the rentier state, because the ruling elites have direct access to external revenue.[150] Consequently, the availability of revenues generated from the international economy undermines the necessity of bureaucracies in charge of taxation and collection of revenue.[151] Third, the absence of taxation forges a pact between the state and its society, where the society is relieved from the burden of tax and the state is free from societal pressure.[152] This results in almost full autonomy for the state to pursue foreign policy goals, except for the responsibility of domestic wealth distribution. Although the tax-free pact appears to render the state autonomous and thus more capable of formulating and conducting foreign policies free of societal pressure, a closer examination of state-society relations reveals a different type of constraint.

Since it is the nature of the rentier state to engage in wealth distribution, the society grows dependent on state expenditures. The state serves as an instrument of wealth allocation through various welfare programs, such as education, health care, food subsidies, easy loans, and land grants for housing. Consequently the rentier state is constrained by the necessity of high public spending, not by taxation. In Saudi Arabia, for example, state spending accounts for over half of the GDP. Yet the scope of the state hardly exceeds that of distribution. Neither social nor economic development is enlarged by the state or through the distribution of rent. On the contrary, rent money in the hands of the state is turned into a mechanism of control and buying support. As Chatelus and Schemeil put it: "Economic choices are distorted by the contradiction between rent-

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[149] Zakaria, *From Wealth to Power*, 38.

[150] In the case of a productive state, like the United States, state structure plays a larger role in foreign policy. As Zakaria observes, "The structure of the American state ensured that central decision-makers, who respond most directly to the pressures of the international system, were unable to translate national power into national influence because they presided over a weak federal government that had enormous difficulty extracting resources, particularly for expenditures that did not directly benefit congressional constituents." Zakaria, *From Wealth to Power*, 88.

[151] Lisa Anderson, "The State in the Middle East and North Africa," *Comparative Politics*, 20 (October 1987), 1-18.

[152] Autonomous states are insulated from the influence and pressure of the society. See Theda Skocpol, "Bringing the State Back In," in Peter Evans, Dietrich Rueschemeyer and Theda Skocpol, eds*., Bringing the State Back In* (Cambridge: Cambridge University Press, 1985), 9-5.

controlling political strategies which aim at stability and the unavoidable emergence of new social value which a successful economic strategy would necessarily imply."[153] Still, neoclassical realism comes closest to understanding foreign policy of the rentier state, as it does take into account the state ability to mobilize and extract resources from its society.

3.3.4 The Limitations of Economic Interdependence

In contrast to realism, economic interdependence takes into account the centrality of the economic dimension of power, particularly the issue of resource power. As already mentioned above, it is an appropriate framework for analyzing why and how power relations arise from relations of economic interactions among oil producers and consumers. By utilizing the economic interdependence approach it is possible to gain an understanding of how domestic and international politics are linked. Much of the explanatory power of economic interdependence, however, has been diluted by a misconception of "gain from trade." As Baldwin has showed, "gain from trade" is another name for the opportunity costs of breaking or altering the relation between two parties. Therefore, "The 'benefit' of interdependence should be defined in terms of the values of the parties and the likely effects on those values of breaking the relationship."[154]

Yet it is not uncommon in the literature to see the use of the term "economic interdependence" in terms of distribution gains (in the words of Keohane and Nye: "Who gets what?"[155]). In this sense interdependence is understood as the difference in benefits realized by both parties.[156] By knowing just the relative gain, however, there is no telling whether or not an existing relationship is in actuality based on "dependence" (opportunity costs of forgoing the relation for one partner are too high) or just economic linkages. Relative benefit obscures the fact that trading partners could adjust to external economic changes, without enduring a major cost. Without assessing the availability and cost of alternative options, it cannot be determined that "dependence" can serve as a source for power. This oversight is evident in some Middle East scholarship.

As mentioned above, the concept of asymmetries has been adopted by some scholars to explain interactions between Arab oil-producing countries and the international system. But their usages of asymmetric interdependence tend to confuse rather than clarify the reality of the relationship. For instance, Gause writes: "Saudi Arabia's integration into the world economic and strategic system is better understood in terms of asymmetric

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[153] See Chatelus and Schemeil, "Toward a New Political Economy of State Industrialization in the Arab Middle East," 257.

[154] David A. Baldwin, "Interdependence and Power: A Conceptual Analysis," 483.

[155] Keohane and Nye, *Power and Interdependence: World Politics in Transition*, 7.

[156] Gilpin also pointed out the importance of relative gain over mutual gains as one of the primary principles of economic nationalism, which by his account is a potent force in international relations. In his words: "Indeed, economic nationalism is likely to be a significant influence in international relations as long as the state system exists." See Robert Gilpin, *The Political Economy of International Relations* (New Jersey: Princeton University Press, 1987), 34.

interdependence."[157] In a similar view, Muqtedar Khan writes that "Now the relationship has turned into asymmetric interdependence – with U.S. dependence on Saudi oil becoming increasingly lesser and Saudi dependence on the United States for security, from external and internal threats increasingly progressive."[158]

Although neither author defines the meaning of interdependence, their arguments seem to reflect a notion of interdependence in the sense of relative gain, rather than cost associated with forgoing the relationship. For Khan, the Saudi-American relation is asymmetric interdependence because the United States is less dependent on Saudi Arabia. In the case of Gause, there is no clear argument that explicates the relation of asymmetry. His argument is that Saudi Arabia's vast oil resources draw American protection and provide the kingdom with influence in international politics. Although his assessment is valid, it tells us nothing about asymmetric interdependence.

Without a clear definition of the concept of asymmetric dependence, Gause places the burden of determining his argument on the reader. Gause seemed to be suggesting the following: in the context of the Saudi-American relations, it is argued that both countries are dependent on each other (oil for military/political support), but Saudi Arabia is more dependent on the United States. Why? Because, according to Gause, "The power asymmetries between Arab states, and Middle Eastern states more generally, and the great powers are too wide for the relationship to be based on equality."[159] His assessment follows from the logic of relative gain, not the opportunity costs of altering the relationship.

Although neither author provides an explicit definition of the concept, their usage resembles Keohane and Nye's definition of asymmetric dependence, as one partner has more to gain than the other partner. But as we have seen above, neither mutual nor asymmetric benefits are adequate criteria for characterizing a relationship as dependent or interdependent. To claim asymmetric interdependence Khan and Gause should have investigated the cost of forgoing or altering the relationship between Saudi Arabia and the United States. Had they considered the opportunity costs of altering the relationship, they would have reached a different conclusion. Consider the situation in which Saudi Arabia (in concert with other Arab oil-producing countries) placed an embargo on oil supplies to the United States. The consequence of oil shortage would plunge the American economy into a recession. A recession in the United States would have detrimental effects on the global economy, which in turn depresses world demands for oil. If world demand for oil drops, Saudi Arabia as an oil rentier state (and other oil rentier states) would lose a significant portion of revenues. What this example reveals is that a calculation based on opportunity costs would lead one to characterize the Saudi-

[157] Gause III, "The Foreign Policy of Saudi Arabia," 195.
[158] Muqtadar Khan, *Jihad for Jerusalem,* 168. Contrary to Muqtadar Khan's claim that the United States' dependence is becoming increasingly "lesser," the data from 1994 to 2004 shows that Saudi oil imports remained fixed at around 8 percent of consumption in the United States. Moreover, the author overlooks the fungibility of the oil market, where the price of oil in the United States is heavily influenced by the international market price, which is partly determined by global supply. Consequently, even if its imports of Saudi oil has declined the United States is still linked to Saudi Arabia by the effect of the oil price.
[159] Gause III, "Theory and System in Understanding Middle East International Politics."

American relations in terms of symmetric dependence or interdependence, not asymmetric interdependence.

Asymmetric interdependence is most obvious in the case of embargoes. The American oil embargo to Japan in 1940-41, for instance, clearly demonstrates the vulnerability of Japanese dependence on oil imports. In order to pressure Japan to abandon its expansion in the Pacific, the United States resorted to an oil embargo. In effect, the embargo left Japan without access to 80 percent of its oil requirements. Another example is the Arab oil embargo of 1973. At that time Western Europe and Japan were highly dependent on oil imports from Arab oil-producing states. By enacting a combination of full embargo and gradual cutbacks, the Arab countries aimed to change the position of Western countries and Japan on the Arab-Israeli conflict. Having no cost-effective alternative to oil imports, Western Europe and Japan were vulnerable to the oil disruptions.

3.3.5 The Limitations of Complex Interdependence

As we shall see, a close examination of its assumptions shows that complex interdependence does not provide clear guidelines for understanding rentier state behavior. Consider the assumption of multiple channels, which argues that informal ties between societies would produce a sobering effect on the conduct of violence between states. A close examination of Saudi Arabia tells another story. There is hardly any worthy connection between the society or economy of Saudi Arabia and the rest of the world which is not subject to state control. One clear example of state dominance is the oil sector. Gause observes: "They [Saudi rulers] do not need to negotiate with other domestic actors to make decisions on oil, and foreign actors cannot develop alliances with domestic Saudi actors in an effort to bypass the Saudi government on oil questions."[160] Similarly, the second assumption of no hierarchy among issues suggests that security concerns for the most part are largely ensured, or "no longer dominate the national agenda." Yet, since the creation of the kingdom in 1932, at a different juncture in time, the Saudi ruling family believed that neither its dominion nor territorial integrity was in immediate danger. Thus, although nonmilitary issues do have a place on the national agenda, they remain secondary to security issues.

Furthermore, not only are the assumptions of complex interdependence questionable, but its political processes are invalidated by several examples. For instance, the political process reflected by linkage strategies and agenda setting does not diminish the fungibility of economic and military power. Keohane and Nye write: "By using their overall dominance to prevail on their weak issues, the strong states will . . . ensure a congruence between the overall structure of military and economic power and the pattern of outcomes on any one issue area. . . . Under complex interdependence, such congruence is less likely to occur."[161] Yet such congruence does occur in practice. Consider, for example, the politics of oil in the Caspian Sea region, where the United States and Russia are competing for influence. The oil policies of weaker countries like Azerbaijan, Turkmenistan, and Kazakhstan are heavily influenced by strong states. Washington, for

[160] Gause III, "The Foreign Policy of Saudi Arabia," 195.
[161] Keohane and Nye, *Power and Interdependence: World Politics in Transition*, 26.

example, successfully persuaded the government of Azerbaijan to exclude Iran from the Azerbaijan International Oil Consortium. Moscow directly pressured Kazakhstan to choose an oil pipeline route through Russia rather than Turkey.

It is also possible to envisage the role of sanctions as a counter example to the model of complex interdependence. Powerful countries like the United States could exploit the "rentier" state phenomena, instead of using military force, in order to gain considerable power over oil-producing states. The Iranian embargo, for example, could be rationalized as follows: the United States, although weak on the issue of oil, used its important economic and military weight in the international system to enforce a worldwide oil sanction on Iran. For Iran, oil was transformed from a blessing to a curse. In effect under the sanction Iran lost its oil bargaining power. Since Iran is largely dependent on oil revenues, under certain conditions, the United States could use this dependence to weaken the legitimacy of the regime and effect a more favorable political outcome in the Gulf region.

3.4 Conclusion

This chapter provided an overview of different versions of realism and liberalism. Notwithstanding their differences and similarities, these two prominent theories espouse different international political behaviors. Generally speaking, realism holds that military capabilities play a decisive factor in the international system, where nations live under the constant threat of war. By comparison, liberal theories argue for one of two views of world affairs: peace punctuated by war, and peace. Central to liberalism, however, is the question of judging capabilities among nations. Unlike realism, for liberalism military capability, at a minimum, is not the only crucial variable – but one variable among several others.

Having defined their assumptions and conceptions of world politics, these theories were evaluated in the context of the rentier state. Short of providing an adequate explanation for the behavior of the rentier state, a good deal of insight has been learned from both theories, which is useful for the construction of a theory capable of analyzing rentier states' security strategies. Realism in its different versions sheds considerable light on security behavior, by stressing two principles which characterize the international system: anarchy and relative military capabilities. While these principles go a long way in telling us about security calculations in the international realm, they suffer from several shortcomings. First, anarchy is conceived as a characteristic of only international politics. There is no consideration of domestic politics. In doing so, the logic of realism does not capture the internal threat, which often is main source of instability and conflict in many Third World countries. It also overlooks the connection between internal and external threats.

Second, capabilities are treated by realists often in terms of military power; there is an insignificant attention paid (if any) to the role of power resources in world politics. It is in this regard where liberalism makes the most contributions to our understanding of the concept of power. Unlike realism, liberalism takes into account how relations of power could arise from international economic transactions. Therefore, liberalism was shown to come closer to the political reality of the rentier state. World demand for oil creates the necessary condition for the rentier state to emerge by receiving rent from abroad. Once created, survival of the rentier state is intrinsically tied in relations of economic dependence with other oil producers and consumers. In that respect stressing the role of economic interdependence is a step forward toward understanding the security behavior of the rentier state.

CHAPTER FOUR: NEO-RENTIER THEORY

"We live in an increasingly interdependent world. And central to this is the global energy system, something on which billions of people rely on daily, from both the social and economic perspective."

--Abdalla Salem El-Badri
Secretary General, OPEC[162]

This chapter presents a theoretical framework called neo-rentier theory. The proposed theory aims to explain the rentier state's domestic and international security behavior. It theorizes that survival strategies of the rentier state are shaped by patterns of oil dependence that link the rentier state to other oil producers and consumers. Much of the analysis in this chapter is based on previous chapters – the definition of the rentier state provided in chapter two and the discussion on liberalism and realism in chapter three. The chapter is divided into four sections. The first section discusses the conception of survival in the context of weak state/power. Section two introduces the neo-rentier theory framework and considers the relevance of opportunity costs for understanding relations of dependence. In section three, I describe the different types of survival strategies that states adapt in response to internal and external threats. The last section identifies the different patterns of dependence, and illustrates how dependence between the rentier state and other states can be measured. The chapter concludes with a set of hypotheses relating the independent variable (pattern of dependence) to the dependent variable (survival strategies). The plausibility of these hypotheses will be demonstrated in the succeeding chapters.

4.1 Weak States, Weak Powers, and Survival

A large body of literature in the fields of comparative politics and international relations has pondered what constitutes "weak" versus "strong" states. Despite marked differences, there is a sense of agreement in the literature that states are not alike. They differ in their status of power, or relative military position in the international system, but also in terms of internal capabilities. Therefore, scholars have opted for making a distinction between strong and weak states as well as weak and strong powers.[163]On one end of the spectrum

[162] OPEC, *World Oil Outlook 2008*, Vienna, 2008.

[163] Here it should be noted that the usage of the terms "state" vs. "power" is based on Buzan's usage which draws a distinction between the position of the state in the international system and the position of the state in the domestic system. Buzan uses the term weak or strong powers to "refer to the traditional distinction among states in respect of their military and economic capability in relation to each other." On the other hand, the term weak or strong states can "refer to the degree of socio-political cohesion." See Barry Buzan, *People, State and Fear* (Boulder: Lynne Rienner Publishers, 1991), 97. There is also disagreement in the literature on exactly what constitutes a weak or strong state. Migdal chooses to define weak/strong states according to their level of capabilities: the "ability of state leaders to use the agencies of the state to get people in the society to do what they want them to do." See Joel S. Migdal, *Strong Societies and Weak States* (Princeton: Princeton University Press, 1988), xiii. Strong states therefore are those able to penetrate

there are great powers commanding great military might; on the opposite end are weak powers whose military capabilities are limited. Strong states are defined as "[those] whose modern administrative structures are well-established and stable."[164] Such states are typically found in Western Europe and North America, such as France, Britain, and the United States. Weak states, on the other hand, are "those whose administrations either are incapable of consistently reaching the major part of the population in order to extract resources and provide services or characterized by patrimonial patters of recruitment and operations."[165] Many of these states are found in the Third Word, such as Afghanistan, Chad, Lebanon, Uganda, and countries of the Arabian Peninsula.[166] The advantage of "unboxing" the state is the realization that states are not only dissimilar in strength but also with respect to the type of threat they confront. The differences are summed up by Buzan in table six. As shown in the table six, while strong states may be immune from internal challenges, weak states are not necessarily so.

Table 6. Types of State and Threats

	Weak state	**Strong state**
Weak power	vulnerable to most types of threats	vulnerable to military threats
Strong power	vulnerable to political threats	relatively invulnerable to most types of threats

Source: Adapted from Buzan, 1991, 114.

On the spectrum between weak and strong states, Saudi Arabia falls somewhere near the end of weak states. Although over the course of time institutions and networks of distribution of rewards and coercion have evolved, the Saudi state administrations remain characterized by patronage and incompetence. In respect to military power, the defensive and offensive military capabilities of the Saudi state are extremely limited, especially in comparison with its two strong neighbors, Iraq and Iran. Because of its weakness in both dimensions, the Saudi state is vulnerable to various types of threats, such as military, political and societal.[167] The most clear and immediate danger are military and political threats as well as internal threats. The next section provides more details on these threats.

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and regulate and control. For Myrdal, soft state (synonymous with weak state) refers to states whose "government require extraordinarily little of their citizens." See Gunnar Myrdal, *Asian Drama: An Inquiry into the Poverty of Nations*, vol. 2 (New York: 1968). Similar usage is adopted by Waterbury. See John Waterbury, "The 'Soft State' and the Open Door: Egypt's Experience with Economic Liberalization, 1974-1984," *Comparative Politics*, 18 (October 1985), 65-83.

[164] Lisa Anderson, "The State in the Middle East and North Africa," *Comparative Politics*, 20 (October 1987), 2.

[165] Ibid.

[166] These countries are, of course, not equal in terms of weakness. Chad, for example, is by far less weak than countries of the Arabian Peninsula (e.g., Saudi Arabia, Kuwait, and Qatar).

[167] For more information on types of threat, see Buzan, *People, State and Fear*, 112-134.

4.1.1 Military Threat

Generally speaking, the use of military force is the most potent and costly form of all types of threat.[168] Because of the anarchy of the international system, the use of force is prominent in world politics. It has the potential to overthrow the regime and to endanger territorial integrity. The components that heighten the severity of this threat are the relative military capabilities and geographic proximity.[169] Difference in military capabilities, especially offensive strength, has been shown in theory and practice to be an important cause of war.[170] For different reasons, throughout history, states with greater offensive power have attacked and conquered weaker states. In the case of Saudi Arabia, the military might of Iran and Saddam Hussein's Iraq often eclipsed the military strength of Saudi Arabia, and therefore both countries posed a serious military threat to the kingdom.

Geography is another important component of military threat. First, natural divides, whether on sea or land, function as a safe buffer zone between countries. "Large bodies of water are formidable obstacles that cause significant power-projection problems for attacking armies."[171] Power-projection is also constrained if borders with the target country are noncontiguous. In such a case, mounting an attack would require access to airfields and territory of another state that shares borders with the target country. For example, in the case of the 2003 American-led invasion of Iraq, Turkey denied the US access to its territory, hence blocking the attack from the north. Consequently the Coalition forces commenced the attack from Kuwait and other Gulf countries. The second reason is that there is an inverse relationship between the distance that separates two countries and the cost of as well as time required for the deployment of troops. The greater the distance, the more time and cost involved on the part of the aggressor. Furthermore, geographic proximity increases the chances of threat. For example, Hussein's occupation of Kuwait with 140,000 soldiers monumentally increased the risk of an invasion of Saudi Arabia in the eyes of the royal family.

4.1.2 Political Threat

Although political threat does not involve the use of force, its impact is no less destructive. Much of this threat is directed at the idea of the state, and where state and regime are conflated this implies that the regime is the primary target. Political threat aims to undermine the principles of legitimacy and the organizing ideology of the state or

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168 Robert J. Art and Kenneth N. Waltz, *The Use of Force: Military Power and International Politics* (Rowman & Littlefield Publishers, Inc., 2003); Mearsheimer, *The Tragedy of Great Power Politics.*

169 For a discussion on the element of military threat, see Walt, *Origins of Alliances*, 18-45.

170 For a fuller discussion on offensive and defensive implications see Robert Jervis, "Cooperation under the Security Dilemma," *World Politics* 30 (January 1978): 167-214; Stephen W. Van Evera, *Causes of War: Power and the Roots of Conflict* (Ithaca: Cornell University Press, 1999). For a critique of the defensive/offensive impact on war see Jack S. Levy, "The Offensive/Defensive Balance of Military Technology: A Theoretical and Historical Analysis," *International Studies Quarterly* 28 (January 1984): 219-238.

171 Mearsheimer, *The Tragedy of Great Power politics*, 42.

the regime. The ultimate purpose is to create a situation of unrest. It can take various forms, including a propaganda assault, attempts to incite activities of rebellion, or providing support to dissident groups.

In the form of ideology, throughout time and space, political threats have exercised a great influence on security and relations among nations. Herodotus, for instance, attributed the causes behind the Greco-Persian war to difference in culture between Persians and Greeks. In the twentieth century ideological and anti-ideological borders shaped and reshaped the map of the international system, drawing lines of hostility between states. Soviet's communism provoked American anti-communism, which invited Soviet's anti-imperialism. In the Middle East, the war of ideas reached its nadir in the 1960s, when the ideology of pan-Arabism won hearts and minds throughout the Arab world. Under the guidance of Gamal Abdel Nasser pan-Arabism turned into a political weapon that challenged the Arab state system and left many Arab leaders vulnerable to the charge of lackey Western imperialism. As Fouad Ajami summed it up: "[States] that resist the claims of pan-Arabism were at a disadvantage – their populations a fair target for-Arabist appeals, their leaders to be overthrown and replaced by others more committed to the transcendent goal."[172]Although the power of Arabism waned after the 1967 Six-Day war, the notion of Arab unity did not vanish. It continued to linger in the Arab street, and Arab leaders remain bound by the notion of Arab solidarity.

4.1.3 Internal Threat

The treatment of security in many Third World countries, including Saudi Arabia, would be incomplete without including domestic threat. Although much too often the realist view of security has been exclusively concerned with external threat, from the perspective of today's political reality in non-Western countries the relegation of internal threat to a secondary status is unjustified. As Ayoob observes, "Threats to Third World states and regimes emanate from within their regions, if not from within these states themselves."[173] Such threats, as Buzan reminds us, "can take many forms including military coups, guerrilla movements, secessionist movements, mass uprisings and political factionalism."[174] In effect the potentiality of internal threat to inflict serious damages on internal order and regime stability is no less harmful than external threat.[175] Not surprisingly, then, internal security was not overlooked by one of the founding fathers of classical realism, Niccolò Machiavelli. To Prince Lorenzo de' Medici,

[172] Fouad Ajami, "The End of Pan-Arabism," *Foreign Affairs,* 57 (Winter 1978/1979), 355.
[173] Mohammed Ayoob, "The Third World in the System of States: Acute Schizophrenia or Growing Pains?" *International Studies Quarterly* 33 (March 1989), 70-71. Ayoob made a good case for why security in Third World countries is different than in Western countries. See Mohammed Ayoob, "Review: The Security Problematic of the Third World," *World Politics* 43 (January 1991), 257-283.
[174] Buzan, *People, States and Fear*, 105.
[175] For more information on internal security in the Third World see: Steven R. David, "Explaining Third World Alignment," *World Politics* 43 (January 1991) 233-256; Steven R. David, "Why the Third World Still Matters," *International Security* 17 (Summer 1992), 50-85; and Mohammed Ayoob "Inequality and Theorizing in International Relations: The Case for Subaltern Realism," *International Studies Review* 4 (Autumn 2002), 27-48.

Machiavelli advanced a number of political advices on how to firmly hold power and influence at home.[176] In modern times, judging by the writing of scholars in the West, Machiavellian politics is a thing of the past.[177] Yet a perceptive examination of Third World politics would show that the rule of law is in question, obedience is ensured either by means of rewards or coercion, and political legitimacy is artificial. The relationship between the ruler and the ruled is often reduced to coercion, which is evident in the heavy expenditures on apparatuses of monitoring, controlling, and punishing local dissidents. In the context of the Middle East, Anderson delineated four levels of opposition: opposition to the ruler, policies, regime, and state. The underlying cause noted by Anderson is "the widespread disregard for regular procedures for determining succession and debating policy."[178]

4.2 Neo-Rentier Theory Framework

Chapter two and three of this dissertation examined three different theories that purport to explain systemic-level and unit-level security: while rentier theory strictly focuses on domestic security, liberalism and realism are concerned mainly with security at the international level. But having demonstrated in previous chapters that these theories do not sufficiently account for the security behavior of the rentier state, the task in this chapter is to develop an alternative theoretical framework. As indicated in chapter two, rentier theory casts light on the peculiar nature of a certain kind of state – the kind that does not tax society, but relies heavily on rent generated abroad. As a model for explaining politics, however, it has remained underdeveloped, and its explanatory power strongly challenged. Notwithstanding its shortcomings, rentier theory offers a useful first-cut theory of domestic and international politics. It concretely distinguishes between the rentier and non-rentier state (tax state), and spells out the political nature of the rentier state and its relationship with the international political economy; its mechanism of buying off legitimacy at home, although rudimentary, offers a usable hypothesis that can be modified in order to increase its accuracy and explanatory power.

By the same token, realism offers an elegant, parsimonious, and sound explanation of state behavior in the international system. Its narrowly defined conception of power as military strength, however, does not always accord with reality. It exaggerates the fungibility of military power and underplays the power of the politics of economics.[179] Liberalism, on the other hand, embodies logic compatible with the rentier state, emphasizing economic power resources. Yet the liberal perspective underestimates the centrality of survival and importance of relative military capabilities. Therefore, building

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[176] For instance consider his response to the question of whether it is better for the prince to be loved or hated. Machiavelli writes: "The response is that one would want to be both the one and the other; but because it is difficult to put them together, it is much safer to be feared than loved, if one has to lack one of the two." See Machiavelli, *The Prince*, 66; see also chapter 8 and chapter 9.

[177] I use the term Machiavellian in the sense of "the end justifies the means." In other words, the ruler would resort any possible measures in order to secure his authority and maintain stability of his regime.

[178] Lisa Anderson, "Lawless Government and Illegal Opposition: Reflection on the Middle East," *Journal of International Affairs* 40 (spring 1987), 232.

[179] Embargoes and sanctions are clear cases in which economics plays a key role of power in a realist world.

on the logic of rentier theory, a new model is constructed, termed neo-rentier theory. The model proposed here has a modest but useful claim of providing an explanation for how oil resources shape rentier states responses to their domestic and international security through oil revenues, output, and prices.[180] The dependent variable is, therefore, the variation in the type and intensity of strategies that a rentier state pursues to ensure security (more on the dependent variables in the next section).

Neo-rentier theory not only retains the definition of the rentier state and modifies the logic of buying off legitimacy, but it also incorporates useful assumptions and insights from liberalism and realism. It conforms to the realist logic that anarchy and relative capabilities as systemic constraints affect state behavior. In the absence of global government enforcing law and order, in this realist world, states have no choice but to protect themselves from threats. Threat, however, does not only spring out of the international system and is not confined to military attacks, as realists assume. The model assumes that the state strives to survive not only in the international but also in the domestic arena, confronting both military and political threats. In other words, domestic and international threats are an important independent variable, which for the purpose of this study will be assumed to be constant.

Unlike realism, neo-rentier theory argues that military capabilities are important but not the only source of power that matters in the quest for security. Without dismissing the utility of military power, the model incorporates an understanding of power akin to liberalism. In addition to the usage of military force, it stresses the significant role of economic dependence for the realization of security. Economic dependence is defined in terms of opportunity costs, rather than absolute or relative gain. As has been discussed in chapter three, the notion of an opportunity costs is important in relations of dependence, without which no relations of influence or power resources can be effective. For country A to have influence on country B, the opportunity costs of breaking the relation must be high for B but not for A. In other words, if B has the ability to adjust with ease and speed to external pressure from A, then B might be sensitive but not vulnerable to A. Neither relative nor absolute gains are credible indicators of influence, however, since both of them obscure the fact that actors (for instance, B) might have alternative options that are not too costly. Relations of relative or absolute gains, therefore, do not necessarily translate into relations of influence. Therefore, the role of economic dependence defined in terms of opportunity costs is employed as an independent variable.

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[180] In doing so, I am avoiding the pitfalls associated with attempting to provide a general explanation, as pointed out by Most and Starr: "It might instead be more sensible to search for models or theories that operate, hold, or are valid only under certain explicitly prescribed conditions." Benjamin A. Most and Harvey Starr, "International Relations, Foreign Policy Substitutability, and 'Nice' Laws," *World Politics* 36 (April 1984), 383-406. This type of theorizing is termed by George and Bennett as "typological theory." See Alexander L. George and Andrew Bennett, *Case Studies and Theory Development in Social Science* (Cambridge: MIT Press, 2004), 235-262. By making a distinction between types of rentier state (by definition highly dependent internally and externally) and non-rentier (different degrees of interdependence), the model seeks to explain the security measures of only the former. In other words, the model I propose is sensitive to the levels of generality. For a useful discussion on the levels of generality, see Arthur L. Stinchcombe, *Constructing Social Theories* (New York: Harcourt, Brace & World, Inc., 1968), 48-53.

4.3 Dependent Variable: Security Strategies

In order to ensure regime stability and territorial integrity the state adopts various types of security strategies. The variation in the *type and intensity* of these strategies is the dependent variable. The literature of international relations describes six strategies that states consider in times of danger: internal balancing, external balancing, appeasement, buck-passing, bandwagoning, and blackmailing. These strategies, however, do not adequately capture the nature of the rentier state or account for its security goals. The main shortcoming is that all six strategies are externally oriented, while many rentier states suffer from internal and external vulnerabilities. Second, these strategies are based on the logic of relative military capability, and do not take into account economic interdependence. These shortcomings are rectified in two ways. First, the role of internal and external validation through economic incentive or coercion is considered as a security mechanism. Second, the strategies of internal and external balancing are reconceptualized to reflect the security role of economics and to account for internal threat. In what follows I provide a fuller account of internal and external validation and a description of the security strategies discussed in the literature, but for the purpose of this study the emphasis is on: internal and validation as well as internal and external balancing.

Internal validation is the utilization of internal resources by the ruling regime in order to enhance its image at home and maintain support of the people. These mechanisms may take various forms, including appealing to shared societal values and norms, demonstrating charisma, adhering to a certain ideological line, or claiming divine or ancestral right to rule. Other attempts include the creation of public employment,[181] provision of free health and education, and extending generous subsidies. To measure internal validation I use current and capital government expenditures. External validation, on the other hand, according to Mastanduno et al., "refers to attempts by state officials to utilize their status as authoritative international representatives of the nation-state to enhance their domestic political positions."[182] Indeed, this form of validation is not uncommon, especially in many Third World countries. For instance, many Arab leaders have assumed, at least in public, foreign policies that express an unyielding support for the Palestinian cause in order to increase their legitimacy at home. This type of validation can be accomplished in many ways, including supporting or rejecting United Nations resolutions, and breaking off diplomatic relations. To measure external validation I consider extension or suspension of financial aid, and manipulation of oil prices and supplies.

Internal balancing, in the realist tradition, means that states rely on their own military capabilities in order to maximize security in the international system. Applying this definition to Saudi Arabia is problematic for two reasons: first, it does not take into account that the armed forces are mobilized not only for the purpose of external defense

[181] Consider for example, broadly speaking, that more than 50 percent of Saudi citizens in the year 1988 were employed in the public sector. See F. Gregory Gause III, *Oil Monarchies* (New York: Council on Foreign Relations Press, 1994), 59.
[182] Mastanduno, Lake, and Ikenberry, "Toward a Realist Theory of State Action," 464.

but also to check internal opposition;[183] second, it disregards the presence of a powerful network of internal repressive apparatuses concerned with internal security and the protection of the regime. The enormous spending on internal security apparatuses, such as the ministry of interior, security police, and domestic intelligence, reflects the graveness of the internal insecurity situation. Thus, in this study internal balancing is measured by spending on defense and internal security apparatuses.

External balancing, on the other hand, entails pooling resources and sharing the defense burden with other states (e.g., by forging alliances) for containing a dangerous state. Thus external balancing not only multiplies the number of guns and soldiers, but also is more economical than internal balancing. However, the virtue of alliance does not come without drawbacks. Alliances suffer from the difficulty of reaching an agreement among potential allies on a range of issues, such as coordination and distribution of burden, and perception of threats. Although realist literature has often portrayed external balancing in the form of pooling military resources, it is also equally valid to conceive balancing by means of pooling economic resources. In this dissertation, oil policies that aim to benefit an ally, by raising oil output or moderating oil prices, are also considered an act of balancing. For instance, to support western powers Saudi Arabia may overproduce to make up for shortages in the oil market, or to mitigate oil prices.

Buck-passing is simply free-riding on someone else to counter an aggressor. It is an attractive option because a threatened state relies on the deterrence and military capabilities of another state, not its own, to check an aggressor. The most important disadvantage of buck-passing is the risk of failure on the part of the buck-catcher to successfully restrain the aggressor.[184]

Blackmailing is the strategy least discussed in the international relations scholarship, but also is relevant to the rentier state. The *Oxford English Dictionary* offers a definition of blackmailing as an attempt to influence someone's behavior by using threats or manipulation. According to Mearsheimer, "*blackmail* is a more attractive alternative [to war], because it relies on the threat of force, not the actual use of force, to produce results."[185] Blackmailing need not, however, rely on the threat of force. Blackmailing can also be applied in the form of economic pressure, such as the threats of oil supply

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[183] For example the Saudi National Guard is a highly equipped and trained military force recruited along tribal lines for the purpose of defending the royal family from opposition rooted either in the society or the military. Gause, *Oil Monarchies*, 68.

[184] According to Mearsheimer there are four possible ways in which states take on the role of buck-passer. First, it seeks to improve its relations with the aggressor in the hope to shift the target of aggression to someone else, and hence rid itself of the burden of confronting the aggressor. Second, buck-passers suppress relations with the buck-catcher in order to avoid being dragged into confrontation or war. Third, the buck-passer builds up defensive capabilities in order to deter the aggressor or to be prepared for the possibility of confronting the aggressor. Fourth, the buck-passer allows, if not assists, the buck-catcher to build up its military capability in order to ensure the containment of the aggressor state. See Mearsheimer, *The Tragedy of Great Power Politics,* 158-159.

[185] Ibid., 138.

disruptions as in the case of an embargo, or threats of blocking oil transit chokepoints such as the Strait of Hormuz and the Suez Canal.[186]

Alternatively, hoping to avoid or mitigate aggression, states pursue concessionary policies such as alliance dissolution, negotiation, or, most important, appeasement and bandwagoning. Unlike balancing, appeasement and bandwagoning are not intended to contain or confront an aggressor. Both strategies are adopted by a weak and isolated state when confronted by a more powerful adversary. The operating principle of bandwagoning reflects the well-known idiom: "If you can't beat them, join them." The aim of appeasement is to modify the behavior of the aggressor, by offering some concession.[187]

4.4 Independent Variable: Patterns of Dependence

As noted above, dependence in this dissertation is defined in terms of opportunity costs incurred by actors as a result of breaking off or altering the relationship. Only if a given actor has no cost-effective means to efficiently and rapidly adjust, then the actor is considered dependent on another actor. Following this definition, the next task is to determine the conditions under which relations of dependence come to exist. No relationship between states can be accurately determined as dependence or not, however, unless at a minimum the scope and domain are first specified. As Baldwin puts it: "When one hears that a nation-state is highly dependent, the proper question is: Dependent on what actors with respect to what matters?"[188]

To begin, then, it is first necessary to identify the possible actors and their opportunity costs. By definition, oil rentier states are dependent on oil exports for their national income. The actors connected to the rentier state through oil relationships are consuming countries and other rentier states.[189] The magnitude of the opportunity costs determines the type of dependence between the rentier state and other actors. As shown in figure one, there are four possible patterns of dependence between the rentier state and oil consumers as well as producers.

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[186] For more information on oil chokepoint, see EA, *World Oil Transit Chokepoints*. Available at http://www.eia.doe.gov/cabs/World_Oil_Transit_Chokepoints/Background.html.

[187] For a discussion on strategies for survival see Mearsheimer, *The Tragedy of Great Power Politics*, 138-167; Organski, *World Politics*, 111-115; and Morgenthau, *Politics among Nations*, 178-197.

[188] Baldwin, "Interdependence and Power: A Conceptual Analysis," 497. "No single change in scholarly writing habits would bring a more dramatic improvement in the clarity and precision of such discussion than the practice of specifying who is dependent on whom with respect to what."

[189] I do not consider non-rentier oil-producing states, since in these countries the government does not have a majority share in oil companies, or does not directly derive a major part of its revenues from the oil sector. Therefore, throughout the dissertation I use the term "oil-producing countries" to refer only to oil rentier states.

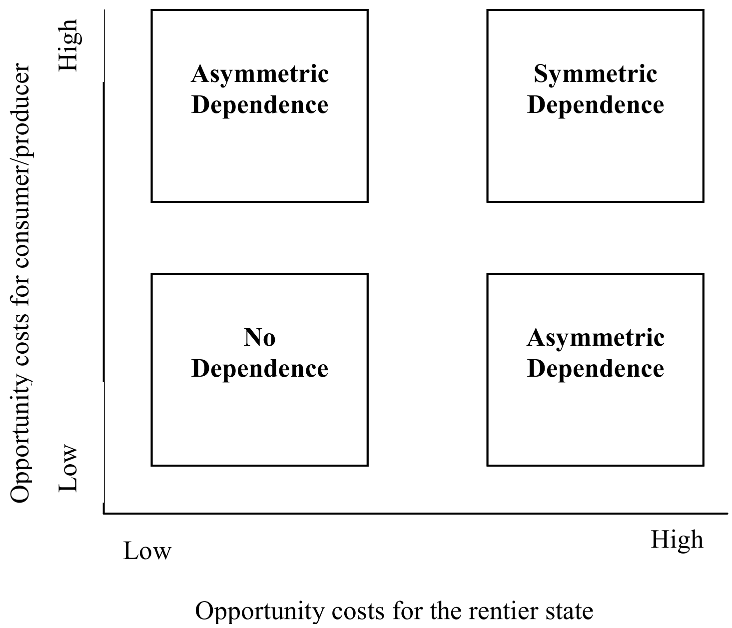

Figure 1. Patterns of Dependence

In the case of no dependence, neither party suffers from breaking off the relationship. Therefore, the opportunity costs are low for both the rentier state and the other state (consumer or producer). Conversely, in the case of symmetric dependence all parties stand to suffer from breaking off the relationship. Therefore, neither party is in a position to exploit the relationship of dependence for its advantage. In the third case of asymmetric dependence, a situation arises in which either the rentier state is dependent on its trading partners (consumers or producers), or vice-versa. Having identified the different patterns of dependence, the next step is to determine when the opportunity costs are high for the rentier state, but not for the consumers and/or producers; and by the same token, when the opportunity costs are high for consumers and/or producers, but low for a given rentier state.

Starting with the relationship between a given rentier state and oil consumers, asymmetric dependence favors the rentier state when an oil-consuming country has no cost-effective alternative to oil imports, while the rentier state can easily replace the consumer, or is not economically or politically injured by the loss of revenues from that consumer. For asymmetric dependence to favor oil-consuming countries, it implies that the rentier state is unable to compensate for the loss of its market share, while the consuming country has an alternative source of oil supplies. With respect to the relationship with other oil rentier states, oil price is the key issue for calculating the opportunity costs. Since oil is a fungible commodity, the market price of oil affects rentier states income. Not all rentier states, however, are equally affected by the oil price. Depending on the size of their oil resources, some rentier states adjust to lower prices easier than others rentier states. Thus, the opportunity costs between two rentier states are defined based on whether or not states are able to offset low prices.

For a given rentier state to be asymmetrically dependent on another rentier states, this means it has no alternatives to compensate for loss in government income caused by lower prices. The last case is symmetric dependence or interdependence. In this case it does not matter whether the relation of dependence of the rentier state is with other producers or consumers, because all parties stand to suffer from breaking or altering the relationship.

So far I have defined the domains and patterns of dependence – i.e., over what actors the rentier state may have influence – and at the same time, what actors can have influence over the rentier state. What remains to be determined is how to asses the opportunity costs of the actors, or the conditions under which a given actor (consumer or producer) acquires influence over another actor – in other words, to asses whether a given country has the means to quickly and smoothly adjust to changes in volumes or prices, without too much cost. Such an assessment would require taking into account many economic and political domestic variables,[190] as well as structural variables, such as market conditions of supply and demand and currency evaluation. Thus, in reality the attempt to accurately measure the opportunity costs by incorporating all the relevant variables is rife with difficulties and might not be feasible. If the reality of dependence cannot be fully measured in simple terms, then the next best thing is to single out the crucial variables in the relationship that determines the opportunity costs.

4.4.1 Measuring Dependence

To assess the opportunity costs, I consider separately the relationship of dependence between a rentier state and a consumer, on the one hand, and a rentier state and a producer, on the other hand. In each case I examine the opportunity costs for the rentier state and the other actor (consumer or producer). In the case of consuming states (or a particular oil-consuming state), it is necessary to take into account the oil market conditions of supply and demand, consuming country's oil imports as percentage of total oil consumption from a given rentier state, and the relative importance of a given rentier state in the oil market. In the case of producing states the relevant indicators are the market conditions of supply and demand and the relative importance of the rentier states in the oil market.

Knowing whether there is an excess demand or supply in the market tells us a great deal about the opportunity costs involved in the relationship between rentier states and consumers. If supply exceeds demand, in most cases, asymmetric dependence favors the consumers. However, if demand exceeds supply, then it is reasonable to assume that there is no surplus in the international oil market. In that case, oil-consuming states do not have viable alternative sources for oil imports, and therefore dependence is likely to favor

[190] For instance, Ikenberry points out the importance of state structure in effecting different responses of states to energy crisis. See G. John Ikenberry, "The Irony of State Strength: Comparative Responses to the Oil Shocks in the 1970s," *International Organization* 40 (Winder, 1986): 105-137.

producers.[191] In order to simplify these measures, I rely on the eras of boom and bust as rough indicators of the pattern of dependence between rentier states and consumers. During an oil boom period world demand exceeds world supply, therefore the boom era is an indicator of consumers' asymmetric dependence on a given rentier state. Conversely, during an oil bust period supply exceeds demand, and therefore the bust is an indicator of a given rentier state's dependence on consumers. Unlike the eras of boom and bust, in the pre-boom period relations between many of the rentier states and the international oil market were filtered through international oil companies. With decision-making power over supplies and prices in their hands, oil companies sought to meet world growing demand at moderate prices. Thus, rentier states were dependent on the oil companies (and by extension the consumers). These three oil periods are shown in figure two and discussed in detail in chapters five, six and seven.

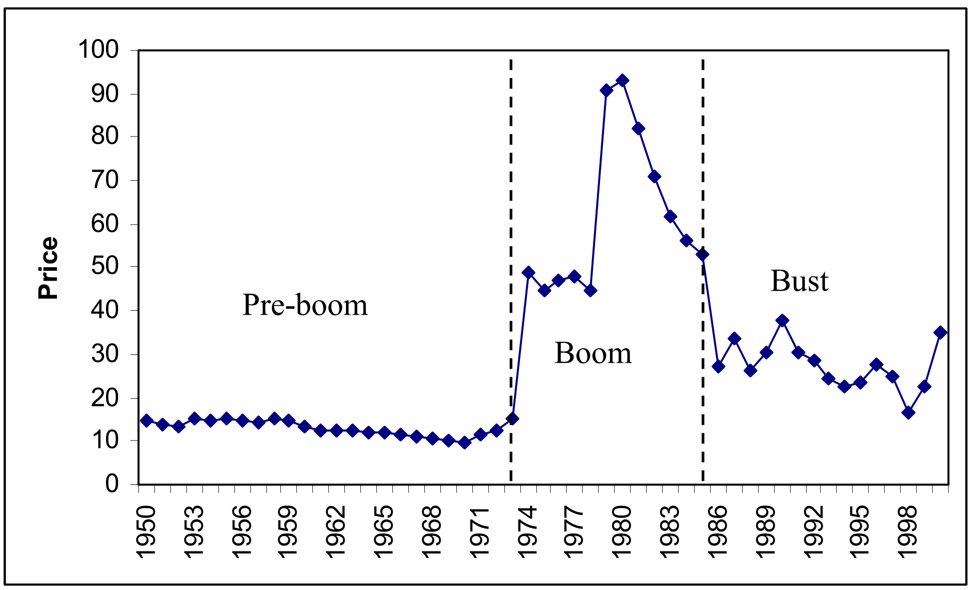

Figure 2. Oil Periods of Pre-boom, Boom, and Bust

Although oil price is not an ideal indicator for identifying balance/imbalance in the oil market, it does suggest something about the conditions of demand and supply. In principle the oil price is determined by market forces of supply and demand, but in reality a multitude of other factors also shapes price behavior, such as non-competitive market,[192] market speculation, currency evaluation, refinery capacity, global surplus, natural disasters, and political turmoil. However, oil price is a convenient measure of the

[191] To be sure, however, one can examine the specific indicators of the relationship (percentage of imported oil to total consumption, and percentage of rentier state's oil exports to world exports).
[192] In actuality OPEC countries were instrumental during the 1970s and part of the 1980s in setting crude oil price, but, of course, they could not ignore the levels of demand and supply.

pre-boom, boom, and bust periods. As shown in table seven, the boom started around 1975, when prices soared, and lasted until 1986, when prices plunged. The bust lasted until the end of the twentieth century.

Table 7. Crude Oil Prices in US Dollars, 1950-2000

Year	Current	Constant 2007
1950	2	15
1955	2	15
1960	2	13
1965	2	12
1970	2	10
1975	12	45
1980	37	93
1981	36	82
1982	33	71
1983	30	62
1984	29	56
1985	28	53
1986	14	27
1987	18	34
1988	15	26
1989	18	30
1990	24	38
1995	17	23
1996	21	28
1997	19	25
1998	13	17
1999	18	23
2000	28	35

Source: British Petroleum, Statistical Review of World Energy June 2008.

The second measure is the amount of oil imported from a given rentier state as percentage of total oil consumption. There are no infallible criteria here, but countries that import 25% or more from a given state are vulnerable in times of a tight market. Third indicator is the relative importance of a rentier state in the oil market, which is measured by the amount of oil reserves and exports. However, because oil reserves are not always recoverable it is useful to briefly describe the different types of reserves. The differentiation among various levels of resources and reserves is clarified by Ion, suggesting a pyramid-like resource classification based on ecological and economic information, moving from the general to the specific. First is the total amount of resources, which is no more than an indication of resource availability; second is reserves, defined as the portion of total resources economically and technically feasible to recover; third is possible reserves, which are the amount of resources estimated with limited geological and recovery cost; fourth is probable reserves, defined as the proportion of resources likely to be recovered with extra geological and economic information; fifth is proven reserves, which are the resources that can be recovered with certainty under current economic and technical information.[193] Therefore, proven reserves are only a portion of oil resources, not total resources or reserves. In sum, the adopted definition of proven oil reserves is as follows: "Proved or proven reserves are those resources known, with a high degree of certainty, to be present and that can be produced at current prices and with available technology." [194]

Hence, since the quality and production cost of reserves varies drastically among oil-producing countries, not all reserves are sufficiently developed for exports. For instance, Canada's reserves are second only to that of Saudi Arabia, but the quality and cost of developing reserves are a major constraint on production capacity. In other words, Canada's production capacity is not proportional to its reserves. Finally, in many producing countries, due to high domestic consumption the amount of oil exported is low, despite large reserves and production output. Therefore, the proven reserves indicator alone is a necessary but not sufficient criterion. Also needed is the export capacity, which is a straightforward indicator of the amount of oil exported to the international market.

In the case of dependence between a given rentier state and other rentier states, the market condition of high supply and low demand renders some rentier states vulnerable to other oil-producing states. In a glut market rentier states earn less income due to low oil prices. However, large rentier states (with large reserves and export capability) are likely to suffer less by producing more oil. Although higher production exerts downward pressure on oil price, for large rentier states the extra production can compensate for low prices, while small rentier states lack the surplus capability to offset low prices. Based on reserves and export capabilities it is possible to conclude the following about the opportunity costs between producers: changes in oil prices generate less opportunity costs for the producer with larger reserves and greater export capacity.

4.4.2 Hypotheses and Causal Mechanisms

The model hypothesizes that the pattern of dependence influences the type and intensity of strategies which the rentier state adopts in order to ensure survival. The pattern of dependence is considered to be one of two poles: on the one hand, the rentier state is dependent on other states (consumers or producers); on the other hand, other states are

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[193] Ion, D. C., *Availability of World Energy Sources* (London: Graham and Trotman, 1980), 2-3.

[194] Frank W. Millerd, "Global Oil Reserves," in Siamack Shojai, ed., *The New Global Oil Market: Understanding Energy Issues in the World Economy* (Westport, CT: Praeger, 1995), 3. A more comprehensive definition is used by the United States Department of Energy: "Reservoirs [of oil] are considered proved if economic producibility is supported by actual production or conclusive formation test, or if economic producibility is supported by core analysis, electric, or log interpretations. The area of a reservoir considered to be proved includes (1) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any: and (2) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geological and engineering data. Reserves of crude oil which can be produced economically through application of improved recovery techniques, such as fluid injection, are included in this "proved" classification under certain circumstances. It is not necessary that production, gathering, or transportation facilities be installed or operative for a reservoir to be considered proved." Quoted in Millerd, "Global Oil Reserves," 3.

dependent on the rentier state. When dependence involves higher costs for the other states, the rentier state can afford to increase the intensity of internal validation and internal balancing, and also to pursue external validation as well as external balancing. On the other hand, when dependence favors the other states in the relation, this limits the type and intensity of strategies available for the rentier state. It can no longer afford strategies of external validation and external balancing, and it is forced to make cutbacks in internal validation and balancing. Figure three illustrates the types of strategies the rentier state is likely to adopt under conditions of different patterns of dependence. Security responses and patterns of dependence are defined in the next sections.

Dependent Variable

Independent Variable

Patterns of Dependence

- Rentier state dependent on other states
- Other states dependent on the rentier state

Security Responses

- (H/L) Internal Validation
- (H/L) Internal Balancing
- External Validation
- External Balancing

Figure 3. Model of Neo-Rentier Theory

Revenue Mechanisms

When dependence vis-à-vis the consumers shifts in favor of a given rentier state, such a state acquires new resources to invest in strategies of security. Higher demand for oil and higher prices provide rentier states with more income. With more income the rentier state affords to increase spending on defense and internal security apparatuses (internal balancing), on foreign aid (external balancing), and on social welfare services and goods (internal validation). By the same token, during the glut, soft demand and low price translate into less income for the rentier state. Less wealth implies that the rentier state is forced to cut spending on internal validation and internal balancing.

Supply Mechanism

Under the condition of a tight market the gap between world production and world consumption is reduced, decreasing excess capacity. Consequently, a little excess capacity implies that consuming states become vulnerable to oil disruptions and higher prices. Therefore, the tight market endows the rentier state with an opportunity to exploit oil resources through strategies of external validation and external balancing. Both strategies are shaped by oil resources and can take different forms. In the case of external validation, for instance, the rentier state can initiate an embargo or cut back exports in order to increase its legitimacy and mollify domestic discontent at home. As for external balancing, the rentier state can balance with consuming countries by maintaining sufficient oil supplies in the market. As Dawisha points out: "It was again Saudi Arabia who stood almost virtually alone against moves by the other members to institute a co-ordinated programme of cutbacks in oil production in order to maintain the price, and to index-link oil prices so as to maintain their value in real terms."[195]

Price Mechanism

[195] Dawisha, "Saudi Arabia's Search for Security," 28.

When market conditions shift from scarcity to glut, relations of dependence between rentier states and consuming states shift in the favor of the latter. Due to large excess capacity in the world, the rentier state is no longer able to employ external validation and external balancing. Moreover, the soft market impacts relations with producers, which in turn bring about changes in the rentier state's capabilities for confronting internal and external threats. When the market is weak, naturally oil prices are low. But because oil prices are influenced by demand as much as by supply, it matters for a given rentier state how much oil is produced by other rentier states – given that a higher output leads to further decline in oil prices, while a lower output has the opposite effect of boosting oil prices. Thus, states with higher production capacity are more likely to gain influence over states with less production capacity. States with high production capacity, in other words, acquire the ability to employ strategies of external validation and external balancing. To bring about a change in the behavior of other rentier states, a given rentier state with relatively large reserves has the advantage of producing more oil, causing the price to rapidly decline. Although low prices are harmful to all oil rentier states, in the short term, states with larger reserves suffer less. Their higher output compensates for losses caused by lower prices. The advantage of large reserves and production capacity is most effective under the condition of a weak market, when prices are already low.

To conclude, by drawing upon the above analysis several hypotheses are developed. Because in relations of dependence it matters to specify the actor on whom the rentier state is dependent, relations with the consumers and producers are treated in separate sets of hypotheses. The hypotheses suggest types and intensity levels of security strategies. By types I mean the form of strategies available for the rentier state, although it does not necessarily mean that *all* available strategies need to be employed. Intensity indicates the level of spending on internal validation and internal balancing, measured in relative spending under different patterns of dependence. For instance, spending is likely to be higher when consumers are asymmetrically dependent on the rentier state. Conversely spending is lower when the rentier state is asymmetrically dependent on consumers.

General hypothesis: the pattern of dependence affects the type and intensity of strategies that the rentier state is likely to pursue to maximize security.

Hypotheses with respect to the consumers:

Hypothesis (one): when consumers are dependent on the rentier state, such a state is likely to employ internal balancing and validation at high intensity and is also likely to employ external validation and/or external balancing.

Hypothesis (two): when the rentier state is dependent on the consumers, it is likely to employ internal balancing and validation at low intensity and is unlikely to employ external validation and external balancing.

Hypotheses with respect to the producers:

Hypothesis (three): when producers are dependent on the rentier state, such a state is likely to employ external validation and/or external balancing.

Hypothesis (four): when the rentier state is dependent on producers, it is unlikely to employ external validation and external balancing.

Hypotheses one, two and three are examined in the following chapters. Hypothesis one is considered in chapter six (the boom), hypothesis two in chapters five (the pre-boom) and seven (bust), and hypothesis three in chapters six (boom) and seven (bust).

4.5 Conclusion

In this chapter I presented a theoretical framework termed neo-rentier theory. Neo-rentier theory seeks to explain the rentier state's domestic and international security strategies. Neo-rentier theory is based on a modified logic of rentier theory. It retains the definition of the rentier state but refines and increases its explanatory power by incorporating assumptions and insights from realism and liberalism. From realism it borrows the assumption of survival as the most important goal. The survival goal, however, is broadened beyond the realist conception of external military threat. Two other types of threats are also taken into consideration: political threats as well as internal threats.

By the same token, neo-rentier theory departs from realism on the conception of power. Rather than conceiving power only in terms of military capabilities, the model underlines the liberal view of dependence as a power resource. Although the liberal tradition has viewed economic dependence as an impetus of cooperation and peace, a number of scholars have convincingly made the case for dependence as a source of power. As a source of power, the relation of oil dependence is analyzed in terms of the opportunity costs of severing or altering the relationship. In order for actor A to gain influence over actor B, the opportunity costs of severing the relationship for A has to be insignificant, but for B has to be significant. In that case the relationship between A and B is defined as asymmetric dependence. If both actors stand to significantly suffer from severing the relation, their relationship is considered symmetric dependence or interdependence.

In these terms, dependence is used in neo-rentier theory as an independent variable. Accordingly, the variation on the independent variables take the form of whether the rentier state is dependent on the other states (consumers or producers) or the consumers or other producers are dependent on a given rentier state. The dependent variable is the variation in responses to internal and external threats. Responses to threat, however, do not only vary in form but also in the level of intensity. This is a crucial point, which is often overlooked in the rentier theory literature. By taking into account types and intensity of strategies, the proposed theory provides a greater degree of explanation and accuracy. The general hypothesis is that the pattern of dependence conditions the types and intensity of security strategies available for the rentier state to choose from in response to internal and external threats. The clear advantage of this proposition is subtlety and parsimony. The model hypothesizes that when other states (consumers and/or producers) are dependent on a given rentier state, such a state acquires the abilities to employ external validation and external balancing as well as to increase the intensity of internal validation and internal balancing. Conversely, its security strategies are constrained when the rentier state is dependent on other states (consumers and/or producers). It can no longer pursue external validation and external balancing and has fewer resources to increase the intensity of internal validation and internal balancing. In order to assess the plausibility of neo-rentier theory several hypotheses were derived for probe testing in the next chapters.

CHAPTER FIVE: THE PRE-BOOM (1950-1970)

With the end of the First World War a new era unfolded in which oil consumption steadily increased. The advent of the Second World War and its consequences heightened demand for oil and accelerated the rate of consumption. In turn the surge of consumption led to drastic changes in the capabilities of the Saudi state. As one of the most important oil producers in the world, the kingdom acquired a new source of wealth and an influential role in world politics. The transformation from a pre-oil economy to an oil-rentier economy improved the economic and military capabilities of the Saudi state. In the pre-boom era, however, oil market conditions and the oil concession constrained the role of oil dependence as a power resource. This chapter examines the opportunities and constraints of oil dependence on Saudi security behavior during the pre-boom. The chapter is divided into three sections. Section one deals with the two measures of dependence, market forces of supply and demand, and Saudi Arabia's levels of export and proven reserves. In addition, I formulate a hypothesis that specifies the security behavior of Saudi Arabia under the pattern of dependence of the pre-boom era. Sections two and three are the testing ground of the purposed hypotheses. While in section two strategies of internal validation and internal balancing are evaluated, section three examines the varieties of strategies employed in response to major security concerns.

5.1 Pattern and Domain of Dependence in the Pre-boom Era, 1950-1970

5.1.1 Oil Market: Supply and Demand

The decades that followed the Second World War were marked by rapid economic growth. Between 1953 and 1975 the growth rate of world manufacturing industries averaged 6 percent.[196] In large part this dramatic growth was caused by several factors: "the recovery of war-damaged economies, the development of new technologies, the continued drift from agriculture to industry, the harnessing of national resources within "planned economies," and the spread of industrialization to the Third World."[197] To support this rapid growth in manufacturing, demand for energy supplies drastically increased. The rapid shift from coal to oil, together with growth in automobile ownership and expansion of air travel, stimulated a surge in demand for oil. Between 1960 and 1970 the world consumption grew at a remarkable average of 12 percent a year (see table 8).

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[196] Paul Kennedy*, The Rise and Fall of the Great Powers: Economic Change and Military Conflict from 1500 to 2000* (New York: Random House, 1987), 414.
[197] Ibid.

Table 8. World Oil Consumption (Million b/d), 1960-1970

Year	Total OECD	Total	World
1960	16	6	21
1961	17	6	23
1962	18	7	25
1963	20	7	27
1964	21	8	29
1965	23	8	31
1966	25	9	34
1967	26	10	36
1968	29	10	39
1969	32	11	43
1970	35	12	47

Source: Energy Information Administration (EIA), Annual Energy Review 2007

On the supply end, oil production also increased in many countries. In table nine is shown the expansion in production by regions in the 1960-1970 period. The world production grew from 1960 to 1970 by 125 percent, marking an average annual growth rate of 12.5 percent. Although the world production steadily increased, most of the increment came from non-Western countries in Africa, Asia and the Pacific, as well as OPEC countries. Between 1960 and 1970 production rose in Africa by 2037 percent, Asia and the Pacific by 180 percent, Saudi Arabia by 189 percent, and OPEC countries (excluding Saudi Arabia) by 125 percent. For that same period, the growth rate of world production averaged 12.50 percent a year. As a result of overproduction, prices became very cheap; this in turn encouraged consumption. In constant 2007 dollars prices fell from 15 dollars per barrel in 1950 to 10 dollars per barrel in 1970.

Table 9. Oil Production by Region (1000 b/d), 1960-1970

Region/Country	1960	1962	1964	1966	1968	1970
North America	7599	8060	8431	9252	10205	10963
Latin America	3725	4246	4494	4573	5023	5175
Eastern Europe	3207	3971	4725	5557	6426	7235
Western Europe	306	354	412	434	474	470
Saudi Arabia	1314	1643	1897	2602	3043	3799
Africa	282	808	1704	2813	3962	6032
Asia and Pacific	551	635	696	870	986	1544
Middle East[1]	4017	4613	5785	6787	8233	9980

(1) Saudi Arabia is not included.
Source: OPEC, Annual Statistical Bulletin, 2007.

5.1.2 Saudi Arabia: Oil Reserves and Exports

By 1960 Saudi Arabia had become one of the most important oil exporters in the world. By the end of the 1960s its oil exports had tripled (see table ten). In 1970 exports from Saudi Arabia amounted to more than exports of North America, Eastern Europe, Western Europe, and Asia and the Pacific. Between 1955 and 1970, Europe, on the one hand, and Asia and Australia, on the other hand, were the two most important destinations of Saudi oil exports. Out of total Saudi oil exports 33 to 44 percent was destined to Europe, and 30 to 40 percent was exported to Asia and Australia.[198]

Table 10. Oil Exports by Region (1000 b/d), 1960-1970

Region/Country	1960	1962	1964	1966	1968	1970
North America	124	255	280	343	462	676
Latin America	2140	2375	2504	2409	2597	2572
Eastern Europe	358	524	725	1006	1169	1323
Western Europe	21	41	17	13	16	42
Saudi Arabia	1081	1379	1604	2277	2643	3217
Africa	222	753	1587	2630	3775	5852
Asia and Pacific	366	393	373	400	587	859
Middle East[1]	3243	3808	4866	6119	7176	8926

(1) Saudi Arabia is not included.
Source: OPEC, Annual Statistical Bulletin, 2007.

The dramatic increase in Saudi exports was paralleled by similar growth in the volume of proven oil reserves. By 1960 the kingdom held the largest amount of proven reserves in the world.[199] While in some other regions proven reserves fell, Saudi Arabia's share of world reserves increased from 18.2 percent (1960) to 25.8 percent (1970). The rapid development and massive expansion was largely made possible because of the relative low cost of capital investment required in exploration and development of Saudi oil reserves. As Parra points out, during the period from 1952 to 1973 the United States' share of the world total capital expenditures on oil and gas production amounted to 91 billion dollars out of a world total of 137 billion dollars, but made an insignificant addition to the world proven reserves. In comparison, during the same period, the Middle East contributed 42 percent of the increase in world production at a cost of only $6 billion.[200]

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[198] SAMA, *Annual Statistical Bulletin*, Various Years

[199] Proven reserves are defined in chapter four of this dissertation (pp. 74-75) as those resources that are commercially and technically viable to recover.

[200] See Francisco Parra, *Oil Politics: A Modern History of Petroleum* (London: I.B. Tauris & Co. Ltd, 2004), 40.

Table 11. Proven Oil Reserves by Region as a Percentage of World Reserves, 1960-1970

Region/Country	1960	1965	1970
North America	12.6	11	9.1
Latin America	8.6	7.1	4.8
Eastern Europe	8.5	10.2	11.1
Western Europe	0.6	0.7	1.3
Saudi Arabia	18.2	18.7	25.8
Africa	2.7	6.6	9.3
Asia and Pacific	4	3.7	3.1
Middle East[1]	44.7	42	35.5

(1) Saudi Arabia is not included.
Source: OPEC, Annual Statistical Bulletin, 2007.

5.1.3 Patterns of Dependence during 1950-1960

Despite its large reserves and production capacity, Saudi Arabia did not enjoy asymmetric dependence vis-à-vis the consumers or the producers. Partly the reason is the availability of abundant supplies. In terms of supply, the production capacity expanded in other producing countries in order to keep up with growing demands. New additions of oil supplies were brought to market from countries like Venezuela, Mexico, Canada, and the United States. The second reason is the limitation of the concession, which delegated all decision-making power over oil prices, production, and exports to ARAMCO. Thus, what mattered for consumers and other producers were the decisions taken by ARAMCO and other oil companies, not the Saudi state. At best the Saudi state had some leverage on production cutback, but did not have the capacity to overproduce or pressure prices. At the same time, ARAMCO contributed in the form of royalty and profit sharing significantly to the Saudi state national income. The increasing reliance on oil export revenues for economic development and political stability rendered the Saudi state dependent on the consuming states. On the other hand, without leverage over prices or supplies, coupled with availability of supplies in the market – the consuming states were not dependent on the Saudi state. In other words, the opportunity costs were low for the consuming states but high for the Saudi state. Under these circumstances, it is hypothesized that Saudi Arabia is likely to employ internal balancing and validation at low intensity and is unlikely to employ external validation and balancing (hypothesis two).

The state income considerably improved as an outcome of multiple changes in the oil concession and higher oil production. First, major developments in the oil sector expanded the Saudi oil production, which in turn corresponded with higher return for the Saudi state and ARAMCO. The construction of the Trans-Arabian Pipeline (Tapline), which begun in 1947, was finished in 1950. The pipeline, stretching over a distance of 1,068 miles from the eastern region of Saudi Arabia to Sidon in Lebanon, had an initial capacity of 300,000 barrels a day, but increased in the year 1957 to 450,000 barrels a day. A new refinery was built at Ras Tanura to handle 50,000 barrels a day, increasing to

200,000 during the 1960s. At the same time, in response to surging global demand for oil in the 1950s and 1960s, ARAMCO increased the rate of production.

Second, the Saudi government was able to boost its revenue by renegotiating its share of profit on several occasions. In 1951 the government introduced the 50-50 profit sharing agreement, which drastically increased the level of royalty from 22 cents per barrel in 1950 to 80-90 cents a barrel in the mid-1950s. Again, in 1962, the government pressed for a higher allowance from ARAMCO and after two years of difficult negotiation an agreement was reached.[201] The ARMACO offer was a three-year package in which government royalties increased gradually, amounting to an extra 4.5 to 5.0 cents per barrel.[202] Table 12 shows the substantial increase in oil revenue and the centrality of oil royalties in government revenue.

Table 12. Saudi Arabia Revenue, 1954 -1970

Fiscal Year	Total Revenue (Million SR)	Oil Revenue (Million SR)	Percentage of Total Revenue
1954-55	1355	966	71
1957-58	1498	1241	83
1958-59	1410	1145	81
1959-60	1405	1149	82
1960-61	1786	1410	79
1961-62	2166	1682	78
1962-63	2452	1951	80
1963-64	2686	2284	85
1964-65	3112	2607	84
1965-66	3961	3179	80
1966-67	5025	3987	79
1967-68	4937	3559	72
1968-69	5536	4243	77
1969-70	5966	5261	88

Source: Ministry of Economy and Planning, Annual Statistical Book, 1965 and 1970.

Third, the Saudi government signed an agreement with ARAMCO in 1966, which stipulated that all oil revenues were to be calculated on the basis of posted price, not realized price.[203] The realized price compelled the Saudi government to shoulder with ARAMCO the burden of market-adverse effects. Under the new agreement, ARMACO continued to be in charge of oil pricing, but with the establishment of the posted price the government was sheltered from financial instability caused by the realized price. In other words, the oil companies had to absorb the cost and the benefit of market movements. In

[201] It was the first bargaining which took place between OPEC and the oil companies. OPEC was founded with five member states: Venezuela, Saudi Arabia, Iran, Iraq, and Kuwait. For political and economic reasons, however, the role of OPEC throughout the 1960s was very limited. ARMACO continued to exercise power over pricing, production, and exports.
[202] Seymour, *OPEC Instrument of Change*, 49.
[203] The realized price is the price which ARAMCO charged its affiliates and customers.

light of these arrangements, the financial position of the kingdom improved, making it possible for the state to allocate a limited amount of funding to survival strategies.

5.2 Internal Validation and Internal Balancing in the Pre-Boom Era

5.2.1 Internal Validation

Despite the steady flow of oil revenues Ibn Saud (1902-1953) spared very little oil revenue on societal development, apart from the subsidies and grants extended to tribal chiefs. His successor, the eldest son Saud, made no significant budget changes, except to squander oil revenues. King Saud funneled much of the oil revenues to his personal usage, building lavish places and leading an extravagant lifestyle.[204] It was not until his half-brother Crown Prince Faisal took control that a policy of internal validation emerged.[205] Helped by oil resources, Faisal adopted a course of actions aimed at reinforcing the legitimacy of the royal family at home. In 1962 a modernization program was initiated with a decree of the ten-point program. Points six and nine were concerned with duties of the government toward its citizens, especially the improvement of living standards.[206] These two points enumerated various government programs and initiatives, such as free health and education, subsidies to industries, and additional allocations to development projects.[207]Although the range and the magnitude of such services were still at a nascent stage, they were far more than what the government had offered in previous decades, which was little more than order and security. The intended purpose of the provision of socio-economic services was to increase the base of legitimacy. In effect the state was forging a secondary accord with the society in which political loyalty and acquiescence were exchanged for economic and social rewards.

New institutions were set up to oversee the development of social services, including health, education, transportation, and religious affairs. For instance, nine new ministries were established with specialized directives and budget allocation. These are the Ministry of Education (1953), Ministry of Health (1953), Ministry of Agriculture (1953), Ministry of Transportation (1953), Ministry of Commerce and Industry (1954), Ministry of Petroleum (1961), Ministry of Pilgrimage (1962), and the Ministry of Information (1963). The budget allocation to these ministries (including salaries, general expenditures, other expenditures, and projects) jumped from 658 million SR in the fiscal year 1965-66 to 931 million SR in the fiscal years 1969-70. The creation of a highly centralized bureaucracy, with diversified and specialized ministries, agencies, and departments greatly enhanced the ability of the state to penetrate and control the various activities of the society.

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[204] By 1958 the Saudi government was in a financial crisis, with a debt amounting to 480 million dollars. Largely the crisis was a result of Saud and his government's extravagant spending and unsound financial regulations. See Holden and Johns, *The House of Saud*, 199.

[205] During much of the 1950s and early 1960s, King Saud and his half-brother Crown Prince Faisal were locked in a power struggle. Because of his incompetent leadership, Saud was forced to abdicate under strong pressure from senior princes and the *`ulama'*. Full transfer of power from Saud to Faisal took place in 1964.

[206] Interestingly enough there was no mention of obligations toward the state.

[207] For a full text of the ten-point reform program, see Gerald de Gaury, *Faisal: King of Saudi Arabia,* (London: Arthur Barker Limited, 1966), 147-151.

The civilian bureaucracy in itself served as a vehicle for employment. For instance, in the fiscal year 1965-66, the nine ministries collectively added approximately 66,460 jobs. The number is even higher after including jobs from the Ministry of Interior which nearly doubled, from 7245 in 1959 to 12790 in 1965. In contrast to 1950, with only a few hundred civil servants, by 1965 the civilian bureaucracy had 101909 jobs. Expenditures on salaries of all civil servants, as shown in table 13, represented more or less one-third of total revenues and even higher as percentage of oil revenues.

Table 13. State Expenditures on Salaries and Compensations, 1959-1969

Fiscal Year	Total (Million SR)	Percentage of Total Revenue	Percentage of Oil Revenue
1959-60	411	29.25	35.77
1960-61	583	32.64	41.35
1961-62	577	26.64	34.3
1962-63	651	26.55	33.37
1963-64	1017	37.86	44.53
1964-65	1112	35.73	42.65
1965-66	1255	31.68	39.48
1966-67	1370	27.26	34.36
1967-68	1433	29.03	40.26
1968-69	1600	28.9	37.71

Source: Compiled by the author from Ministry of Economy and Planning, Annual Statistical Book, 1965 and 1970.

The government's role in the economy also drastically grew in more than one way. It enacted new market regulations, increased spending on development projects, and established initiatives for expansion of the public sector. For instance, as shown in table fourteen, as a percentage of oil revenues, allocation to development projects was tripled by 1968-69. In order to increase its grip on the private sector the government employed chambers of commerce for assistance on variety of economic issues, including advising the government, gathering information on imports, and the implementation and enforcement of policies. In return for their services, the government provided them with significant subsidies.[208]

The private sector was driven toward dependence on the government. Massive spending on development projects served as another channel of oil wealth redistribution in the form of rewarding lucrative contracts to the private sector. State-owned corporations were set up and allocated subsidies, playing different but active roles in the economy. For instance, the General Petroleum and Minerals Organization (Petromin) was mandated

[208] According to Chaudhry, chambers of commerce began receiving subsidies in 1961, starting with the Riyadh Chamber of Commerce. In 1969 the Chambers of Jeddah, Riyadh, and Dammam were receiving an annual subsidy of SR 750,000. For more information see Chaudhry, *The Price of Wealth: Economies and Institutions in the Middle East*, 88.

to the development of commerce and industrialization in the area of petroleum; the Saudi Airline was overhauled and expanded to cover many destinations around the world; the Railroad organization was to oversee the development of a large-scale road-building program.[209]

Table 14. State Expenditures on Development Projects,[210] 1960-1969

Fiscal Year	Total (Million SR)	Percentage of Total Revenue	Percentage of Oil Revenue
1960-61	205542	11.51	14.58
1961-62	289242	13.35	17.2
1962-63	377091	15.38	19.33
1963-64	443651	16.52	19.42
1964-65	774191	24.88	29.7
1965-66	933644	23.57	29.37
1966-67	1145120	22.79	28.72
1967-68	1747208	35.39	49.09
1968-69	1964701	35.49	46.3

Source: Compiled by the author from Ministry of Economy and Planning, Annual Statistical Book, 1965 and 1970.

5.2.2 Internal Balancing

The capability of the state improved, because the oil concession between the Saudi state and ARAMCO was beginning to pay off politically and economically. Whereas ARMACO, backed by the United States government, enjoyed full control over Saudi oil, the territorial integrity and the Saudi state, as well as the reign of the Saudi royal family, became part and parcel of the United States oil interest in the region. Acting on its own interest, as much as on the interest of the Saudi royal family, the United States reversed its policy of ambivalence and became directly involved in the security of the kingdom.[211]

In 1950 the United States responded to the plea of King Ibn Saud for military assistance by abandoning the year-to-year arrangements and endorsing a more substantial agreement.[212] Although short of a full-fledged military alliance with the United States, King Ibn Saud was offered and accepted a security package which provided military and

209 Total government subsidies in the period of 1965 to 1969 were: 41 million SR for Railroad Organization; 10 million SR for Petromin; 210 million SR for Saudi Airline.

210 Such development projects included: education, health, communication and transportation, agriculture and water, and unspecified projects.

211 Consider for instance, the statement by Assistant Secretary of State George McGhee that the United States "will take most immediate action at any time that the integrity and independence of Saudi Arabia is threatened." Quoted in Safran, *Saudi Arabia: The Ceaseless Quest for Security*, 66.

212 According to Safran the offer consisted of five components. The Saudi part of the deal included: first, treaty of friendship, commerce, and friendship; second, support from American technicians; third, loans from the American Export-Import Bank; fourth, military aid program including arms and training. For its part the United States was granted a long-term lease on the Dhahran airfield; see Safran, *Saudi Arabia: The Ceaseless Quest for Security*, 66.

financial assistance.[213] In 1951 the two countries signed the Mutual Defense Assistance Agreement (MDAA), which laid down the foundation for a close relationship based on arms sales and military training that has grown over the years into a price tag worth many billion dollars.[214] As part of the MDAA, King Ibn Saud agreed to extend the lease on the Dhahran airfield for five years, while the United States began to supply military equipment and deployed a military training mission to build up the Saudi armed forces.

The American training mission was formally reestablished in 1953 as the American Military Training Mission (USMTIM), which has become the cornerstone of the United States-Saudi Arabia military relationship. The USMTM was charged with all aspects of building up modern Saudi armed forces, as stated in the USMTIM Mission Statement: "USMTM was chartered to assist and advise the Saudi Arabian Armed Forces with respect to the building of military equipment, plans, organization, administrative procedures, training methods, and the conduct of such training."[215] As a result of the USMTIM mandate to modernize the Saudi armed forces, the kingdom acquired modern military equipment including aircrafts, armored cars, tanks, and the pricey 300-million-dollar air defense system.[216]

Increment in oil revenues led to greater expenditures on defense and security. The accrued oil revenue relieved the state from the cash deficit burden that is typical of Third World countries, but also provided the Saudi state substantial financial resources to shape its security environment. It facilitated spending on the creation and upgrading of external defense capability and internal security apparatuses. Figures in table 15 show that total spending steadily increased in the 1960s, with a considerable jump in the fiscal year 1965-66. The bulk of the security budget allocation, however, went to the Ministry of the Interior. For the fiscal year 1965-1970, in comparison to the 12-20 percentage allocated to the Ministry of Defense, 70-80 percent was allocated to the Ministry of the Interior, and even a little higher if other security apparatuses were included, such as the Intelligence Bureau, the Ministry of Information, and National Guards. The figures also provide a good insight into the security concern of the kingdom and the manner of responses adopted by royal family. The government invested heavily in the internal security apparatuses, mainly because the Saudi state was by far more concerned about internal instability. External security for the most part was outsourced to the United States.

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[213] The offer was accepted with one caveat – the Dhahran leased was to be extended for five years rather than a longer-term arrangement.

[214] According to a study conducted by the Congressional Research Service, from 1950 through 2006 Saudi Arabia purchased from the United States military weapons, military equipment, and related services worth more than 62.7 billion dollars, approximately 19 percent of all foreign military sales. Additionally, during the same period, the Kingdom purchased foreign military construction services (FMCS) worth over 17.1 billion dollars, amounting to 85% of all FMCS sales. See Christopher M. Blanchard, Saudi Arabia: Background and U.S. Relations, CRS Report for Congress. Online version is available from http://www.fas.org.

[215] The online version of the Mission Statement is available from http://www.usmtm.sppn.af.mil/

[216] For more information on the type of military equipment Saudi Arabia purchased during the 1950s and 1960s, see Safran, *Saudi Arabia: The Ceaseless Quest for Security,* 103-112.

Table 15. Defense and Internal Security Allocations (Million SR), 1950-1970

Security Expenses	1950-1951	1954-1955	1957-1958	1958-1959	1960-1961	1962-1963	1965-1966	1967-1968	1968-1969	1969-1970
Ministry of Information	-	-	-	-	-	-	75	107	100	99
National Guards	-	-	60	55	55	61	188	202	234	234
Royal Guards			16	11	14	16	18	18	22	-
Intelligence Bureau	-	-	-	-	-	-	15	16	16	18
Ministry of Interior	12	82	87	107	121	183	3473	3859	4561	5651
Ministry of Defence	100	472	310	196	180	278	541	1248	1217	1587
Total	**112**	**554**	**473**	**369**	**370**	**538**	**4310**	**5450**	**6150**	**7589**

Source: Compiled by the author from Ministry of Economy and Planning, Annual Statistical Book, 1965 and 1970

5.3 Cases of Major Threats

While the previous section examined the intensity of internal validation and internal balancing, this section considers major threats to the kingdom in the period 1950-1970. It examines the type of strategies which were adopted by the Saudi state in response to the Suez Crisis, Nasser's Pan-Arabism, the Yemen Civil War and Nasser's military intervention, and the 1967 Six-Day War.

5.3.1 Case One: the Suez Crisis (1956)

In 1956 President Gamal Abdel Nasser nationalized the Anglo-French company that owned the Suez Canal, precipitating the Anglo-French-Israeli attack on Egypt. The Canal served as a strategic oil passage to Western Europe, through which almost two-thirds of Europe's oil supplies from the Middle East passed in 1955. The alarm triggered by the nationalization was clearly expressed in the words of British Prime Minister Sir Anthony Eden: "Nasser can deny oil to Western Europe and we here shall all be at his mercy."[217] In the Arab world, however, Nasser's decision to nationalize the Canal was widely welcomed. In Damascus over 100,000 rallied in the street in a show of solidarity with Egypt; in Jordan public opinion was fully on the side of Egypt; and in Riyadh demonstrators hailed Nasser as the vanguard of Arabism. Throughout the Arab world a general strike took place on 16 August 1956 to protest the opening of the international conference on the nationalization of the Canal. The Arab leaders, too, expressed public support for Egypt. The Council of the League of Arab states expressed support for Egypt and approved the nationalization of the Canal.[218]

The crisis finally erupted when Israel, Britain, and France together launched an attack on Egypt. The tripartite attack on Egypt provoked a widespread reaction in the Arab world.

[217] Quoted in James Bamberg, *British Petroleum and Global Oil, 1950-1975: The Challenge of Nationalism* (Cambridge: Cambridge University Press, 2000), 81.
[218] James P. Jankowski, *Nassers' Egypt, Arab Nationalism, and the United Arab Republic* (Boulder: Lynne Rienner Publishers, 2002), 83.

Anti-Western demonstrations broke out in Libya, Syria, Jordan, Bahrain, and Iraq. Oil fields in Kuwait were sabotaged and pumping stations on the IPC pipeline from Iraq to the Mediterranean were destroyed. In Saudi Arabia a French-run factory was attacked. Two months later, however, the crisis came to an end. After heavy pressure from the United Nations and the United States, in December 1956 Britain and France withdrew, and three months later Israel evacuated the Sinai.

5.3.2 Responses: External Validation

As public opinion at home and throughout the Arab world rallied against the attack on Egypt, the Saudi regime was in no position to do anything but demonstrate support for Egypt. To protect itself from internal instability and hostility from neighboring Arab countries, the regime took on the following measures: first, it broke off diplomatic relations with Britain and France; second, British and French tankers were banned from loading oil at Saudi ports; third, other nations' tankers were also banned from carrying Saudi oil to Britain and France; and fourth, oil supplies were cut off to the British protectorate of Bahrain. However, the rest of the world continued to receive Saudi oil. Therefore, it was possible for the international oil companies to divert tankers to British and French ports. But this diverted oil came at a much higher cost than before, since a transportation premium was added to the oil price. With the closure of the Canal and the damage to the IPC pipeline from Iraq to the Mediterranean, oil shipments destined to any European ports had to make a long journey around the Cape of Good Hope. The 1956 Suez Crisis marks the enactment of the first Arab oil embargo against Western countries.

5.3.3 Case Two: Nasser's Pan-Arabism (1958-1962)

During the 1950s and 1960s a new era of inter-Arab politics was ushered in, so intense with subversion and intrigue and propaganda warfare that it was dubbed by Kerr as "the Arab cold war." It was a cold war that pitted the "revolutionary" regimes under Nasser's leadership against the "reactionary" and "moderate" regimes under the leadership of Saudi Arabia.[219] Right after the Suez crisis, Gamal Abdel Nasser emerged as the single most critical danger to the Saudi royal family. Having snatched political victory from the jaws of military defeat during the Suez crisis in 1956, Nasser won public opinion throughout the Arab world. His prestige and popularity was unparalleled in the Arab world, and his call for pan-Arabism appealed to both the elites and masses. The combination of these two factors made the Nasser challenge extremely dangerous to the Saudi regime. To survive, the ruling family had to withstand the mounting internal and external threat posed by the Egyptian President.[220]

Nasser's pan-Arabism embodied a set of ideas which were anathema to the ethos of the Saudi royal family. Where Arabism meant progress and change, the Saudi royal family

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[219] It needs to be noted that tense rivalry took place between two revolutionary regimes at various times: Egypt and Iraq, Egypt and Syria, and Syria and Iraq. Yet these regimes were on the same ideological side against the Arab monarchies, including Saudi Arabia, Jordan, Morocco, and Iran.

[220] In the midst of an external crisis, an internal crisis was unfolding between King Saud and his half-brother Prince Faisal.

aimed to preserve tradition and continuity; where Arabism abhorred the system of monarchy, the Saudi royal family was nothing but an absolute monarchy; where Arabism demanded breaking off diplomatic relations with Western countries, the Saudi royal family was economically and politically dependent on the West by the necessity of security and oil revenue. Thus, the infiltration of Arabism into the kingdom and its appeal to the masses, especially the educated segment of the society, posed a major security challenge.

Moreover, the call for unity among Arab states embodied in pan-Arabism was not to be taken lightly by the royal family. The Saudis correctly read in the call for unification two kinds of threat, an internal as well as external. With Cairo denouncing the monarchy as a stumbling block on the road of Arab unity the Saudi royal family feared an internal rebellion. Eliminating the "reactionaries" and "backward" regimes was considered a revolutionary and necessary forward step toward Arab unity. Among those who heeded the call for change were members of the armed forces, and some members of the ruling family. After renouncing his title, Prince Talal announced plans "to establish a national democratic government and to leave the people free to choose the kind of government they prefer."[221] The armed forces were also infiltrated with supporters of Nasser. In the early days of the coup d'état in Yemen, several Saudi aircraft with military supplies destined for the Yemeni royalists defected to Egypt.

As for the external threat, the Saudi regime feared being encircled by hostile regimes and losing maneuvering capabilities.. Since the foundation of the kingdom in 1932, Saudi Arabian foreign policy had aimed to prevent union among Arab states for this very reason. Thus, when Syria and Egypt established a union under the command of Nasser in February 1958, Saudi Arabia became extremely nervous. The union with Syria was particularly alarming, because of Syria's geographic proximity. King Saud's attempt to foil the union by financing a coup d'état was exposed by Colonel `Abdel Hamid Sarraj, director of Syrian Intelligence. Sarraj revealed the details of the plot including checks worth 1.9 million pounds sterling made by King Saud as a down payment on a total of more than 20 million pounds to be paid after the assassination of President Nasser. The blunder of King Saud exacerbated the tension between Cairo and Riyadh.[222]

5.3.4 Responses: Appeasement

Initially, the threat of pan-Arabism was confronted with an accommodative policy. Upon assuming full statutory power, Crown Prince Faisal not only expressed his support for Nasser's pan-Arabism, but also indicated his willingness to bring Saudi Arabia into the United Arab Republic union. In order to defuse nationalist sentiments, Faisal sought to broaden the legitimacy of the royal family by neutralizing the opposition. Measures were

[221] Holden and Johns, *The House of Saud*, 227.

[222] Although it is doubtful that the Egyptian intervention in Yemen was only to take vengeance, the level of animosity between Cairo and Riyadh by then was high enough as expressed by el-Sadat. In his words, "He [King Saud] had financed the breakup of the union with Syria, and led the campaign against Egypt, while his country had common borders with the Yemen . . . I convinced the [Presidential] council of the necessity for supporting the Yemeni Revolution, and we did so." See Anwar el-Sadat, *In Search of Identity* (London: Collins, 1978), 162.

taken to distance the kingdom from the United States as well as anti-Nasser Arab regimes, namely Lebanon and Jordan. Faisal reversed the policy of rapprochement with Jordan, downgrading the relationship between the two kingdoms from cooperation to neutrality. In stark contrast to Saudi Arabia's support of Jordan during the 1957 crisis when Saudi troops were put under the command of King Hussein to defend his reign against the threat of Nasserism, Faisal in 1958 withdrew support of Jordan. Saudi troops were evacuated from Jordan and the subsidy of five and a half million sterling to Jordan was aborted. Moreover, in the wake of the Iraqi coup which left Jordan cut off from its oil needs, Saudi Arabia was unwilling to grant airlift access over its territories to Jordan, for fear of upsetting the tacit understanding with Nasser.[223]

In its effort to accommodate Nasser, Saudi Arabia also adopted a cool relationship with the United States; straining, if not reversing, the fundamental security pact with the US dating back to the late 1940s. The setback in Saudi-American relations was manifested in the wake of the Iraqi coup. A few days after the Iraqi coup, American and British troops were dispatched to Lebanon and Jordan to buttress security of these countries against internal and external threats. Saudi Arabia was confronted with two courses of action, either lining up with Nasser or with the United States. Weighing his options, Faisal sided with the more risky threat. Not only did Faisal label the American and the British intervention in Lebanon and Jordan as "aggressive," but he also promised not to renew the lease for the Dhahran Airfield after its expiration. King Saud upheld that promise, canceling the Dhahran Airfield Agreement in May 1961.[224] Moreover, Saud proclaimed his support for Arab nationalism, and made promises to Nasser not to renew the Dhahran lease.[225] In the Council of Ministers, Saud appointed liberal princes and progressive non-royal technocrats with sympathetic views toward Nasser.[226]

5.3.5 Case Three: Yemen Civil War and Nasser's Military Intervention

The second stage started with an Egyptian intervention in North Yemen in 1962, and lasted until the disastrous defeat of Egypt in the 1967 War at the hands of Israel. In the wake of the coup which brought down Imam Muhammad al-Badr of Yemen in September 1962, a civil war broke out which divided the country between royalists aided by the Saudi ruling family against republicans aided by Nasser's Egypt. The security

[223] The Iraqi coup brought down the Hashemite monarchy and brought to power nationalist army officers believed to be pro-Nasser. The Presidency of the Council of Ministers "denied that Saudi Arabia had given permission for US planes to fly over Saudi territory carrying oil from Bahrayn to Jordan." Chronology, *Middle East Journal* (July 1 – September 15, 1958), 443. The airlift to Jordan was resumed after Israel lifted its ban on flight over its territories. Chronology, *Middle East Journal* (July 1 – September 15, 1958), 443.
[224] Chronology, *Middle East Journal* (Summer 1961), 319.
[225] For instance, Saudi Deputy Minister of Foreign Affairs, Yusuf Yasin, announced that "Saudi Arabia and the UAR are allies whose policy is first to promote Arab interests." Chronology, *Middle East Journal* (Winter 1959), 93. It was also reported that Crown Prince Faisal claimed that "Saudi Arabia has achieved an independent foreign policy based on neutralism and Arab nationalism." Chronology, *Middle East Journal* (Winter 1959), 93.
[226] Prince Talal was appointed as Minister of Finance and National Economy, Prince `Abdul Mohsen as Minister of Interior, and Prince Badr as Minister of Communications. `Abdullah Tariki, a commoner, was appointed as Minister of Petroleum and Mineral Resources.

repercussions of the coup and the Egyptian intervention posed a serious threat to the stability of the Saudi regime. In large part what made this threat particularly dangerous was its military outlook and geographic proximity. Yemen sat on the southern border of Saudi Arabia, sharing a frontier of 1458 kilometers. At the same time, the military capabilities of Saudi Arabia were feeble at that time, hardly a match for the Egyptian troops.

Given these two conditions, as Safran observed, the coup and the Egyptian intervention posed a threefold threat: first, an openly hostile republican regime backed by Nasser would generate a permanent security challenge to the Saudi regime; second, the presence of the Egyptian army in Yemen was seen as impetus to the Saudi opposition, paving the way for a *coup d'état* against the Saudi royal family; third, an Egyptian invasion of the kingdom. Such a threat could have materialized under the pretext of a response to Saudi provocation, but in reality its intention was to bring about a decisive defeat of the Saudi forces, in order to encourage dissidents and separatists to rise against the royal family.[227] In fact, on several occasions, the Egyptian air force and navy bombed small Saudi villages near the Saudi-Yemeni border. Yet, despite the regularity of the Egyptian attacks the Saudi military retaliation did not come through. The heightened insecurity, however, compelled King Faisal to buy combat jets and a battery of Thunderbird surface-to-air missiles.

5.3.6 Responses: Low Internal Validation/Balancing, and External Balancing

The policy of appeasement changed drastically in light of the Yemeni coup and Egyptian military intervention on the side of the republicans against the royalists. Having failed to keep Nasser's threat at bay, Faisal abandoned appeasement and instead devised a defense policy based on a combination of internal validation, internal balancing, and external balancing. The additional income from oil revenue allowed Faisal to improve internal balancing and to some extent engage in internal validation.[228] At home, Faisal sought to boost support for his regime with the ten-point program. The program stipulated legal and social reform and economic development. As noted above in the section of internal validation, the government expanded social welfare services and public employment.

Internal balancing efforts rested primarily on increasing financial spending on military and security apparatuses. Although spending on the military went up, it was the internal security agencies which consumed the largest share of the budget, reflecting Faisal's anxiety about internal subversion. In the 1962-1967 period budget allocation to the Ministry of Interior climbed from 183 million SR to 3859 million SR, and to the National Guard increased from 61 million SR to 202 million SR. In total spending on internal

[227] Safran, *Saudi Arabia: the Ceaseless Quest for Security*, 94.
[228] The extra cash was due to higher exports, but also as a consequence of an agreement between OPEC and the oil companies: Saudi Arabia signed this agreement in 1964, gradually increasing the allowance of the oil-producing countries starting in January 1964 with an extra 3.5 cents a barrel.

security apparatuses multiplied from 260 million SR in 1962 to 4202 million SR in 1967 (see table 15). By 1967 internal security assumed 70 percent of total military spending[229]

On the international front, the Saudi regime sought to enhance security through external balancing. Its balancing strategy proceeded in various directions and with different partners. First, the Saudi regime balanced with royalists against the republicans. It was a delicate balancing act which aimed to frustrate Nasser's adventure in Yemen, but not provoke him to take the war into the kingdom. Thus, the royalists received from Saudi Arabia financial aid and arms, but Saudi armed forces did not participate in the fighting.

Second, to counter Nasser's socialism and pan-Arabism, Faisal promoted an alignment based on Islamic ideology. To develop an alliance among Muslim states, Faisal invited Arab and non-Arab Muslim countries to join an international forum called the Islamic Conference. His efforts, however, did not materialize until 1969, at an Islamic summit in Rabat which established the Organization of Islamic Conference (OIC). By then the threat of Nasser had vanished after the crushing defeat of the 1967 Six-Day War.

Third, Faisal sought British and American support for resisting Egyptian armed forces.[230] The response of the United States government was ambiguous. On the one hand, President Kennedy gave Faisal assurances regarding the territorial integrity and sovereignty of the kingdom; on the other hand, the Kennedy Administration officially recognized the new Republican regime of North Yemen against the wishes of Saudi Arabia.[231] In spite of American oil interest in the kingdom, Faisal was unable to persuade Kennedy to withdraw his support of Nasser. Rather than confronting Egypt, the United States resorted to a relationship of cooperation based on economic aid as guarantees for safeguarding American interest in the region.[232] Having failed to win unequivocal American support, Faisal turned to the British, who were far more sensitive to Saudi Arabia's security needs. [233] The British were forthcoming with supplying arms and training to Saudi Arabia, and providing supplies to the royalists in North Yemen.[234]

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[229] In addition to internal validation and internal balancing, Faisal took the additional step of weakening the influence of pan-Arabism among the senior members of the ruling class by dismissing liberal princes and progressive commoners from the Council of Ministers. A group of loyal princes were appointed, including Prince Khaled as Deputy as Prime Minister, Prince Fahd as Minister of the Interior, and Prince Sultan as Minister of Defense.

[230] Saudi Arabia broke off diplomatic relations with Britain in 1956. Relationship between the two countries resumed in 1963.

[231] For more information on Egyptian-Saudi conflict and the Kennedy Administration, see Fawaz A. Gerges, "The Kennedy Administration and the Egyptian-Saud Conflict in Yemen: Co-opting Arab Nationalism," *Middle East Journal* 49 (Spring 1995): 292-311.

[232] With the arrival of President Johnson in November 1964, US-Egyptian relations began to deteriorate. Unlike Kennedy, President Johnson was more responsive to Faisal's requests in the region aimed at subduing Nasser, for several reasons. Johnson did not approve of Nasser's nationalism, nor his rising prestige and influence in the region. Moreover, Johnson believed Arab nationalism had been exploited by the Soviet Union to weaken the interest of the West in the Middle East. See William B. Quandt, *Decade of Decisions* (California: California University Press, 1977), 38.

[233] There were several reasons behind Britain's cooperation with Saudi Arabia. First, the republican regime in North Yemen posed a direct threat to the British position in Aden and South Yemen. Second, Britain and Nasser's Egypt were on bad terms since the Suez Crisis, which elevated the status of Nasser and humiliated

5.3.7 Case Four: The 1967 Six-Day War

In the midst of the Saudi-Egypt confrontation in Yemen, tension escalated between the Arab states and Israel. It finally exploded in the early morning on 5 June when Israel launched its air attack on Egyptian and Jordanian air forces. The eruption of the 1967 War came at the height of Arab nationalism and a widespread anti-Western sentiment. With the outbreak of the war the situation inside the kingdom and throughout the region became highly volatile. "The International Confederation of Arab Trade Unions Called on all Arab oil states to join in the embargo. It also urged workers to blow up pipelines and oil installations in any Arab nation that refused to comply with the embargo."[235] To make matters worse, Nasser accused the United States and Britain of providing air cover support to Israel against Egypt and Jordan. The charges inflamed an already high anti-Western sentiment throughout the Arab world, and it created a major security problem for Saudi Arabia and other Arab oil-producing countries. In Saudi Arabia, the security situation became acutely alarming. As noted in the section above, pan-Arabism was a major force of disruption and opposition to the regime. During the 1950s and 1960s there were frequent protests, especially in the months leading to the 1967 War. Two days after the war erupted, riots broke out in Dharhan. The protesters stormed ARMACO's office and attacked the American Consulate. In Riyadh the National Guard had to intervene in order to break up a demonstration of several thousand people.

5.3.8 Responses: External Validation

One day after Israel launched a surprise attack against Egypt and Jordan, the Arab oil-producing countries enacted an oil embargo against the United States and Britain for their alleged support of Israel. Reluctantly the Saudi regime joined the embargo in order to avoid domestic instability and isolation in the Arab world. The embargo did not unfold in a united and coherent form; instead the Arab oil-producing countries followed different courses of actions. For example, Iraq imposed a total embargo on oil exports for a few weeks, while Gulf sheikdoms including Saudi Arabia placed an embargo for about a week. At the end of the week, Saudi Arabia continued the ban on shipments only to Saudi Arabia, Britain, and West Germany.[236]

The decision of Saudi Arabia to stand by Egypt in times of war seemed paradoxical, given, on one hand, Nasser's hostility to the Saudi royal family, and on the other hand, the strategic economic-security alliance with the United States. The war situation,

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the British. Yemen was a payback opportunity. Third, Nasser's expansion on the Arabian Peninsula constituted a threat to the security of oil supplies.

[234] For a discussion on the British involvement and the relationship between North and South Yemen, see Fred Halliday, *Arabia without Sultans*, reprint, 1975 (Middlesex, England: Penguin Books, 1974), 188-222.

[235] M. S. Daoudi and M. S. Dajani, "The 1967 Oil Embargo Revisited," *Journal of Palestine Studies* 13 (Winter 1984), 69.

[236] Like the 1956 oil embargo, the 1967 embargo did not lead to dramatic political and economic impact on targeted countries. There were many reasons for its ineffectiveness. M. S. Daoudi and M. S. Dajani list ten reasons. But perhaps the most important are the availability of stock, availability of tanker transport, availability of alternative sources (such as the United States, Iran, and Venezuela), and the short duration of the embargo. See M. S. Daoudi and M. S. Dajani, "The 1967 Oil Embargo Revisited," 81-86.

however, confronted the Saudi regime with a major security concern: unless the highly inflamed public opinion at home and throughout the Arab region was accommodated, the regime would risk confronting mass rebellion, if not the downfall of the monarchy.

Like the 1956 embargo, the 1967 embargo did not produce an energy crisis. Supplies from other oil-producing countries were readily available to offset the missing 1.5 mbd. Instead, the embargo created a major challenge for international oil companies to devise supply schemes in which non-Arab oil could be diverted to the three embargoed countries, the United States, Britain, and Germany; while Arab oil originally destined for embargoed countries was diverted to other countries. Oil shortages were compensated for by increasing production from other oil-producing countries, namely the United States, Iran, Indonesia, and Venezuela. By the end of June Saudi Arabia was anxious to resume oil shipments. Saudi Oil Minister Sheikh Ahmed Zaki al-Yamani took on the lead in calling for an end to the embargo. Yamani urged the Arab leaders to consider the negative consequences of the embargo on their economies. Similar views were expressed by King Faisal. In an official statement on July 7, 1967, the Saudi government declared: "Now that it has been established that there was no evidence of British and American aircraft helping Israel in last month's war, there is no reason to continue the ban on exporting oil to the two countries."[237] However, the Saudi effort was defeated by strong opposition from the other Arab governments, who "accused the Saudis of "deserting the Arab cause" and "undermining Arab solidarity.""[238] Under these circumstances, out of the necessity of security, the regime was obliged to reaffirm its Arab credentials by denying its intention to lift the embargo, and pledging to maintain the boycott of shipments to the United States and Britain. The embargo lingered on until the fourth Arab Summit of August 29, 1967, when the 12 nations agreed to resume full production.

5.4 Conclusion

The confluence of major growth in world demand for oil and the quadrupled rise of Saudi oil exports from 346 million barrels in 1950 to 1178 million barrels in 1969 made the kingdom one of the most important oil producers in the world. The oil concession, however, limited the extent to which the Saudi government could employ oil resources for political purposes. With ARAMCO in full control of decision-making for oil pricing and supply, the Saudi state was merely a recipient of oil allowance calculated on the basis of royalties and profit-sharing. This oil income accounted for the majority of total state income. At the same time, despite the growing demand for oil there were plenty of supplies of oil in the market. Under these conditions it is hypothesized that Saudi Arabia would engage in strategies of low internal validation and internal balancing at home, and would be unlikely to employ either external validation or external balancing.

With respect to validation, the Saudi state did embark on rapid development and financed major infrastructure and development projects. It also set up public corporations which dominated various sectors of the economy including industrialization, finance, and services. As institutions proliferated, a vast amount of employment opportunities opened

[237] Quoted in M. S. Daoudi and M. S. Dajani, "The 1967 Oil Embargo Revisited," 72.
[238] Ibid.

up in the civil administration and the public sector. Similarly, military and security apparatuses were built, from the ground up, into professional organizations equipped with modern arms, technology, and training. New repression agencies were set up with directives of monitoring, controlling, and enforcing internal security and stability. In effect, the growth of penetrative, pervasive bureaucratic machinery enabled the state to engage in distribution of rewards (internal validation) and coercion (internal balancing). However, spending was constrained by low prices and profit-sharing arrangements between the Saudi state and ARAMCO.

In the international arena, the analyzed threat cases produced mixed evidence. Consider the cases of the embargos. On the one hand, the kingdom was unable to employ external balancing as predicted by hypothesis two; on the other hand, the regime did employ external validation. Contrary to the proposed hypothesis, the Saudi regime engaged in external validation during the 1956 Suez Crisis and the 1967 Six-Day War. In both events, the Saudi regime reluctantly participated in an oil embargo against Western countries in order to accommodate public sentiment at home and in neighboring Arab countries. Both embargoes, however, were ineffective and short-lived. The oil shortages caused by the embargo were compensated for by supplies from non-Arab oil-producing countries. In the case of the 1956 embargo, most of the extra supply came from the United States. In 1967 oil supplies increased from the United States, Iran, Venezuela, and Indonesia.

The evidence from the cases of Nasser's pan-Arabism and military intervention in Yemen is also mixed. As predicted by hypothesis two, at home Faisal engaged in internal validation and internal balancing at low intensity. Abroad, however, the Saudi regime attempted external balancing. In order to prevent Nasser from securing his grip on Yemen, the Saudi regime provided financial aid and arms to the royalists. This balancing, however, did not prevent Nasser from bombing Saudi border villages. To deter Nasser, Faisal sought to obstruct Kennedy Administration support to Nasser. However, the Kennedy Administration was not forthcoming, despite the importance of the kingdom as an oil producer. The last balancing act Faisal pursued was to form an alliance among Islamic states to counter the spread of Nasser's influence in the Arab world and other Islamic countries.

CHAPTER SIX: The BOOM (1970-1985)

Two important structural changes in the oil market took place in the early 1970s, which dramatically and positively influenced the capabilities of the Saudi Arabian state in the domestic and international arenas. First was the depletion of oil surpluses in other oil-producing countries – mainly the United States, which had been one of the most important suppliers of oil in the non-communist world. Second was the transition of control over oil resources from oil companies to producing states. As a result of these two factors, the Saudi state acquired unprecedented economic capabilities. This chapter explores the effects of these changes on the security strategies the state adopted during the boom. The chapter is divided into three sections. Section one examines the variables that measure dependence: supply and demand of oil in the market, as well as Saudi Arabia's oil exports and proven reserves. I also formulate two hypotheses that specify the security behavior of Saudi Arabia under the prevailed patterns of dependence. The hypotheses are then tested in sections two and three. While section two deals with strategies of internal balancing and validation, section three considers responses of the Saudi regime to four specific threats.

6.1 Pattern and Domain of Dependence in the Boom Era (1970-1985)

6.1.1 Oil Market: Supply and Demand

Although during the 1970s the postwar economic boom had lost some of its momentum, in the 1973-1980 period the world industrial output had a modest average growth of 2.4 percent.[239] Demand for oil therefore continued to climb, despite the two major oil shocks of 1978 and 1978-79. Table 16 shows that oil consumption dipped in 1974 in the wake of price surges of October 1973 and January 1974, but demand rebounded in 1976 and remained strong until 1978. The second shock came on the heels of the Iranian revolution and the outbreak of the Iran-Iraq War in 1980. As a result of these two events the price of oil reached 17.26 dollars per barrel, prompting lower consumption in OECD countries after 1979. Consumption in OECD countries decreased from 44 mbd in 1978 to 37 mbd (15 percent) in 1985. Over the same period, however, in non-OECD countries consumption increased. Overall, weak demand caused the world's consumption to decrease in the 1978-1985 period by 6.3 percent.

[239] Kennedy, *The Rise and Fall of the Great Powers: Economic Change and Military Conflict from 1500 to 2000*, 414.

Table 16. World Oil Consumption (Million b/d), 1970-1985

Year	Total (OECD)	Total Non-OECD	World
1970	35	12	47
1972	39	14	53
1974	40	16	57
1976	42	18	60
1978	44	20	64
1980	42	21	63
1982	38	22	60
1984	38	22	60
1985	37	23	60

Source: EIA, Annual Energy Review 2007

On the supply side, production was increased in many regions. Between 1970 and 1981, surplus capacity in the world was lower than in the 1960s due to strong demand for oil, which required many producing countries to maximize output. Between 1970 and 1978 the world production increased to 24 percent. As shown in table 17, except for North America and Latin America, production increased in the rest of the world. In the 1979-1981 period excess capacity drastically declined, as a result of shortages from two major oil producers, Iran and Iraq. Without sufficient supplies to compensate for the missing oil, the price of oil surged. Given that there were few alternative supplies in the world, the balance of power rested on the side of the producers.

Table 17. Oil Production by Region (1000 b/d), 1970-1985

Year	North America	Latin America	Eastern Europe	Western Europe	Saudi Arabia	Africa	Asia and Pacific	Middle East[1]
1970	10963	5175	7235	470	3799	6032	1544	9980
1972	11061	4838	8028	463	6016	5684	2382	11925
1974	10409	4801	9335	486	8480	5382	3298	13226
1976	9387	4340	10491	921	8577	5894	4111	13470
1978	9957	4765	11525	1792	8301	6066	4726	12822
1980	9891	5575	12088	2519	9901	6062	4917	8445
1982	9776	6238	12329	2989	6483	4401	4623	6447
1984	10149	6174	12300	3697	4079	4606	5251	6439
1985	10222	6098	11986	3853	3175	4868	5532	6550

(1) Saudi Arabia is not included.
Source: OPEC, Annual Statistical Bulletin, 2007.

After 1980 there was a shift from surplus to glut in the market. In response to the lower world demand for oil, production decreased from 59 billion barrels in 1980 to 52 billion barrels in 1985 (12 percent). Much of this reduction came from non-OPEC countries. In order to shore up prices, between 1980 and 1985, OPEC countries (excluding Saudi Arabia) decreased output from 13 billion to 12 billion barrels (4 percent), and Africa decreased output from about 6 billion to about 5 billion barrels (20 percent). The largest cutback, however, came from Saudi Arabia. As a swing producer Saudi Arabia dropped production from almost 10 billion to 3 billion barrels (68 percent). On the other hand, production went up in non-OPEC countries. Production increased in North America by 3.3 percent, in Latin American by 9.4 percent, in Western Europe by 53 percent, and in Asia and the Pacific by 12.5 percent.

6.1.2 Saudi Arabia: Oil Reserves and Exports

Besides the tight oil market in the1970-1981 period, several other factors turned this era into a golden age from the perspective of Saudi Arabia. First and foremost was the transfer of power over oil resources from ARAMCO to the Saudi state. By early 1974 the Saudi state was in full control of exploration and production (i.e., upstream), and for the first time in full charge of issues pertaining to exports and prices. Second, the combination of vast reserves and excess productive capacity allowed the kingdom to play a crucial role in effecting oil price and supply. Inside and outside of OPEC, the weight of Saudi Arabia as an oil superpower was quickly recognized. Its oil reserves were by far the largest in OPEC, and constituted more than one-third of total OPEC reserves. No other country or region had a comparable amount of proven reserves (see table 18).

Table 18. Proven Oil Reserves by Region as Percentage of Total World Reserves, 1970-1985

Region/Country	1970	1975	1980	1985
North America	9.1	6.2	5.7	4.5
Latin America	4.8	5.7	11.5	15.7
Eastern Europe	11.1	9.7	10.4	8.5
Western Europe	1.3	3.1	2.5	1.9
Saudi Arabia	25.8	26.8	26.1	22.7
Africa	9.3	9.3	8.2	7.4
Asia and Pacific	3.1	5.2	5.2	4.9
Middle East[1]	35.5	34	30.3	34.4

Source: OPEC, Annual Statistical Bulletin, 2007.

The kingdom was both a top producer and exporter. Between 1970 and 1981, Saudi Arabia's production averaged 38 percent of total OPEC production. No other country within OPEC had similar export capacity. As table 19 shows, in 1974 the kingdom exported roughly 8 mbd, that is, about 3 million more than the second largest exporter, Iran, and about 4 million more than the third largest exporter, Iraq. Third, in the non-communist world the most important oil producer, the United States, had turned into a major net importer. Despite its high production volume of 8 mbd to 9 mbd, consumption in the United States was in the range of 15 mbd to roughly 18 mbd. To make up for the difference, the United States imported somewhere from 6 mbd to 8 mbd. The Soviet Union was also a large oil producer, but much of its output was locally consumed. Some of its oil supplies were exported to communist countries, such as Eastern Europe, North Korea, and Vietnam, as well as other non-communist countries such as India, Bangladesh, and Sri Lanka.[240] On the other hand, between 1970 and 1985 Saudi Arabia exported somewhere between 67 percent and 93 percent of its output.

Table 19. Oil Exports by Region (1000 b/d), 1970-1985

Year	North America	Latin America	Eastern Europe	Western Europe	Saudi Arabia	Africa	Asia and Pacific	Middle East[1]
1970	676	2572	1323	42	3217	5852	859	8926
1972	865	2350	1517	111	5444	5401	1143	10918
1974	819	2115	1587	132	7922	5081	1403	12053
1976	413	1858	2196	432	8032	5398	1760	12237
1978	404	1973	2280	839	7706	5357	1933	11376
1980	475	2515	2415	1254	9223	5380	1731	7153
1982	441	3017	2430	1628	5639	3235	1643	4770
1984	534	3027	2563	2182	3187	3477	2000	4891
1985	687	2791	2299	2294	2151	3841	1985	4941

(1) Saudi Arabia is not included.
Source: OPEC, Annual Statistical Bulletin, 2007.

6.1.3 Patterns of Dependence during 1970-1985

The 1970 to 1985 period reflects two types of dependence, one between Saudi Arabia and the consumers (1970-1981), and, second, between Saudi Arabia and the other oil rentier states (1981-1985). In the first period, consumers' opportunity costs were high, while producers' opportunity costs were low, because the market was driven by demand. When consumers are dependent on the rentier state, it is hypothesized that the rentier state is likely to employ internal balancing and validation at high intensity and have the means to employ external validation and external balancing (hypothesis one). When the market slipped from excess demand to excess supply, relations with the consumers began a gradual shift toward asymmetric dependence. At the same time, during the period 1981-1985, oil price was under pressure of weak demand and expanding supply. Because Saudi Arabia had the excess capacity to push prices up or down, its relationship with other rentier states turned to asymmetric dependence. Consequently, as stated in hypothesis three, Saudi Arabia was well positioned to formulate strategies of external validation and external balancing.

Overall, in this period the economic position of the kingdom substantially improved, due to the big jump in oil price. As shown in table 20, revenues almost tripled in 1974 when oil prices went up in just one year from 2.70 dollars per barrel to 9.76 dollars per barrel. The second largest jump came in 1979 and 1980 as oil prices more than doubled from 12.70 dollars in 1978 to 28.67 dollars per barrel in 1980. As a result of growth in oil revenues, the Saudi state experienced budget surplus in eleven years out of the sixteen years. The huge amount of wealth transfer from consuming countries substantially

[240] Arthur Jay Klinghoffer, "Sino-Soviet Relations and the Politics of Oil," *Asian Survey* 16 (January 1976), 548.

enhanced the financial capability of the Saudi regime and facilitated greater spending on strategies of internal validation and internal balancing. These strategies are discussed in the next section.

Table 20. Saudi Arabia Revenue, and Budgetary Deficits and Surplus, 1970-1980

Fiscal Year	Oil Revenue (Million SR)	Oil Revenue as Percentage of Total Revenue	Oil Price Arabian Light	Deficit/Surplus (Million SR)
1970-71	7,122	90	1.3	1647
1971-72	9,685	87	1.65	2990
1972-73	13,480	88	1.9	5210
1973-74	39,285	94	2.7	23110
1974-75	94,190	94	9.76	65064
1975-76	93,481	90	10.72	22149
1976-77	121,191	89	11.51	7684
1977-78	114,042	87	12.4	-7389
1978-79	115,078	88	12.7	-16467
1979-80	189,295	90	17.26	25472
1980-81	319,305	92	28.67	111345
1981-82	328,594	89	34.23	83356
1982-83	186,006	76	31.74	1270
1983-84	145,123	70	28.77	-23767
1984-85	121,348	71	28.06	-44854
1985-86	88,425	66	27.54	-50439

Source: Saudi Arabian Monetary Agency (SAMA), Annual Reports, Various Years.

6.2 Internal Validation and Internal Balancing in the Boom Era

6.2.1 Internal Validation

The influx of enormous wealth in the 1970s and the early 1980s left the Saudi state with huge surpluses and the challenge of coming up with grand schemes of wealth distribution, which would boost the image of the royal family. It initiated a series of five-year development plans. These plans placed the government in the driver's position behind all economic transactions. The primary objective of these plans was wholesale development of the physical infrastructure and improvement of the social and economic welfare of the population, along with efforts to ensure security and stability. In the First Development Plan it was proclaimed that, "The general objectives of economic and social development policy for Saudi Arabia are to maintain its religious and moral values, and to raise the living standards and welfare of its people, while providing for national security and maintaining economic and social stability."[241] Similarly, the goals of the Second and Third Plans were declared to be: 1) to uphold the values of Islam, by

[241] Ministry of Economy and Planning, *First Development Plan 1970-1975,* 23.

applying and spreading the shari`a, 2) to defend Islam and the kingdom, and to ensure internal security and stability, 3) to maintain economic growth by extending the time horizon of oil revenues, and 4) to diversify away from oil as the primary source of national income.

Because of the financial size, manpower requirements, and scale of construction the development plans influenced all sectors of the economy. The data in table 21 show the broad scope and massive spending of the First, Second, and Third Development Plans. Unlike subsequent plans, the First Plan was formulated under financial constraints. It was initiated only one year after the government had recovered from a deficit of 360 million SR. Thus, spending in the First Plan was relatively modest in comparison with the Second and Third Plans. Subsequent Second and Third Development Plans were devised under more favorable economic conditions, and thus the government drastically increased allocations to development projects and welfare programs. Spending in the First Plan was outpaced by a twelve-fold increase in the Second Plan and by a twenty-four-fold increase in the Third Plan. As a direct result of these plans the standard of living greatly improved, mainly because of the generous subsidies on a wide range of goods and services, dramatic growth in employment opportunities, and the stimulation of the private sector.

Table 21. Total Government Expenditure on Development (Billion SR)

Sector	First Plan	Second Plan	Third Plan
Economic Development[1]	3	92	262
Human Development[2]	7	80	130
Social Development[3]	2	33	61
Physical Infrastructure[4]	12	113	249
Administration	8	38	31
Emergency & Subsidies	-	63	50
Total	32	419	783

(1) Includes projects related to water, agriculture, industry, trade, services
(2) Includes projects related to the general education system.
(3) Includes projects related to health, social security, social rehabilitation, etc.
(4) Includes projects related to transportation, telecommunications, and housing.
Source: Ministry of Economy and Planning, First Development Plan (1970-75), 43; Second Development Plan (1975-80), 531; Third Development Plan (1980-85), 88.

In terms of public services, the government expanded education and health programs. The benefits provided during the Second Plan constituted almost an extra 29 percent contribution to personal income.[242] Among the four development sectors, however, the bulk of allocation went to infrastructure development. In fact, the share of social and human development declined in the Second and Third plans. The data in table 21 show that allocations to human development declined by 2 percent in the Second Plan, while human development declined by 5 percent in the Third Plan.

Employment experienced dramatic growth. Implementation of the development plans created strong demand for manpower in almost all sectors and for all types of skills. The requirements of the Second and Third Plans in particular, however, exceeded the indigenous labor force. Table 22 provides an indication of the scale of growth in employment in five sectors of the economy. All sectors experienced growth in employment, but the largest growth was in the producing sector, mainly because construction projects demanded a lot of manpower. While in the Second Plan employment went up by 555,000, in the Third Plan total employment increased by 1,420,000 jobs. A large portion of this increase, however, came from foreign labor. Unable to fully meet the growth in employment from the indigenous workforce, the Saudi regime responded by adopting two policies: introducing training programs designed to improve the skills of the Saudi citizens, and importing foreign labor. In 1980, out of the total workforce of 3,026,000, about 1,493,000 were Saudi. Five years later this number modestly increased to 1,786,000.

[242] Ministry of Economy and Planning, *Third Development Plan 1985-1990*, 15.

Table 22. Growth in Civilian Labor Force (1000)

Sector	1966	1970	1975	1980	1985
Producing sectors[1]	628	799	1072	1424	2067
Service sectors[2]	253	488	1042	1158	1845
Government	110	184	321	399	469
Oil	15	22	36	45	65
Total	1006	1493	2471	3026	4446

(1) Includes sectors related to agriculture, mining, construction, utilities, etc.
(2) Includes sectors related to trade, finance, transport, and other services
Source: Ministry of Economy and Planning, First Development Plan (1970-75), 81; Second Development Plan (1975-80), 68; and Third Development Plan (1980-85), 93.

The private sector became heavily dependent on government spending. In almost all sectors the government outsourced the implementation of its planned projects to the private sector. Thus, the performance of the private sector became largely driven by the size of government expenditure. The extent of this dependence is illustrated in the ratio of autonomous activities to non-oil GDP during the Second Plan. As a result of growth in the volume of government contracts in the first year (1976) this ratio declined from 54 percent to 35 percent. It rebounded to 48 percent in 1999, but then declined again to under 40 percent in 1980.[243]

Subsidies on a variety of consumer goods and services also dramatically increased after 1973. In table 23 estimates of subsidies are listed for each sector. The last column shows the magnitude of expansion. As a percentage of oil revenues subsidies have varied from a low of 1.1 percent in 1973 to a high of 6.8 percent in 1984. However, the figures in table 23 represent an approximate value of the subsidies and only a fraction of the cost involved for the state. It does not, for instance, include fuel, housing, press, industry, and water subsidies. To appreciate the full magnitude of the costs for the state, it is also necessary to distinguish between non-capital and capital subsidies.[244] The non-capital subsidies target current production and consumption activities, such as the items listed in table 23, while capital subsidies refer to public loans advanced at subsidized interest, such as items listed in table 24. The figures in table 24 show the amount of credit disbursed to the private sector and public corporations. The figures, however, are incomplete because they do not take into account the opportunity costs of not investing the wealth allocated to subsidies. As Askari points out, "From the perspective of the government, if capital subsidies are not given, these funds can be invested, resulting in revenues (interest) and the repayment of principle at maturity."[245] Nevertheless, summing both types of subsidies gives an approximation of the magnitude of state spending.

[243] Ibid., 32.
[244] Hossein Askari, *Saudi Arabia's Economy: Oil and the Search for Economic Development* (London: Jai Press, In., 1990), 102-120.
[245] Ibid., 103.

Table 23. Government Subsidies (Million SR), 1970-1985

Year	Food	Agricultural	Social Security	Electrical	Total
1970	-	-	39	1	40
1971	-	-	45	1	46
1972	-	4	55	15	74
1973	300	20	76	14	410
1974	750	69	358	13	1190
1975	700	333	500	25	1558
1976	600	603	653	175	2031
1977	700	772	864	312	2648
1978	800	829	971	563	3163
1979	1450	586	1005	749	3790
1980	3000	766	986	1234	5986
1981	5000	1129	1391	2586	10106
1982	4150	1472	1586	2816	10024
1983	1600	1173	1540	3548	7861
1984	2633	1478	1485	2750	8346
1985	1950	994	1461	1750	6155

Source: Adopted from Chaudhry*, 1997,* 150.

Table 24. Subsidized Government Loans (Million SR), 1969-1985

Year	Saudi Agricultural Bank[1]	Saudi Credit Bank	Specialist Funding Programs[2]	Public Investment Fund[3]	Saudi Industrial Development Fund[4]	Real Estate Development Fund	Total
1969	16	-	-	-	-	-	16
1970	17	-	-	-	-	-	17
1971	16	-	-	-	-	-	16
1972	20	-	2	134	-	-	156
1973	36	9	7	263	-	-	315
1974	145	40	48	603	35	-	871
1975	269	81	196	1,512	1,699	2,159	5,916
1976	490	158	433	3,843	2,274	8,901	16,099
1977	586	103	402	6,267	4,340	7,534	19,232
1978	709	55	592	3,893	7,657	5,766	18,672
1979	1,129	38	635	2,949	6,486	8,575	19,812
1980	2,531	372	236	6,032	6,660	7,598	23,429
1981	2,933	331	122	8,772	5,347	7,141	24,646
1982	4,166	243	184	9,452	5,116	8,307	27,468
1983	3,496	233	222	5,847	5,216	8,909	23,923
1984	2,322	252	301	3,662	2,416	8,598	17,551
1985	1,551	276	139	1,429	926	6,795	11,116

(1) Includes loans for working capital; (2) Includes loans to contractors, Private hospitals and dispensaries, hotels, newspapers, bakeries etc.; (3) Including equity investments; (4) Includes industrial, electricity, cold storage and dates packing;
Source: Ministry of Economy and Planning, Achievements Plan, 2000.

With the government situated as both the receiver and distributor of oil wealth, state-society relations were altered. First, the society became fully dependent on the state for its welfare, including receiving free health and education and guarantees for employment. Although the economic benefits were not equally distributed, everybody was better off. In exchange for the generous material benefits, the government required little of its citizens – mainly political passivity. The state demanded neither taxation nor conscription. Second, political activism became chiefly concerned with economic gains. The state became a lucrative arena for individuals and groups to serve their economic interests by competing for government contracts, commissions, and employment. As Luciani points out: "To the individual who feels his benefits are not enough, the solution of manoeuvring for personal advantage within the existing setup is always superior to seeking an alliance with others in similar conditions."[246] Thus, the citizens were led to believe that they have less to gain and more to lose by opposing the state. In sum, the royal family sought to create a domestic environment in which the society at large was economically rewarded for political acquiescence.

6.2.2 Internal Balancing

The sharp rise in oil revenues also caused spending on security to rise. The massive allocations were mainly devoted to acquiring expensive military hardware, building new military facilities, and enlisting training programs. In 1970 the Saudi Defense Ministry commissioned the United States Department of Defense to carry out a survey of Saudi defense deficiency and to make recommendation on how to improve the strength of the armed forces. A second survey was commissioned in 1974. Following up on the recommendations of both surveys the Saudi government conducted many costly deals for improving the capabilities of the air force, navy, and armed forces. Similarly, the National Guard underwent a comprehensive modernization program consisting of new equipment, a training program, and new housing facilities. The price tag reached 1.9 billion dollars.[247] The modernization of the military and security services constituted the largest public expenditure of the budget. Between 1970 and 1985, total military and security allocation steadily increased from 2.6 billion SR to 81.3 billion SR (see table 25). In terms of percentage of oil revenues, security expenses dramatically increased from 36 percent in 1970 to 67 percent in 1984. The allocations, however, were unevenly divided between internal and external security apparatuses. The percentage of total revenues allocated to internal security (Ministry of information, National Guards, Intelligence Bureau, and Ministry of Interior) averaged 35 percent a year, whereas percentage of revenues allocated to the Ministry of Defense averaged 65 percent a year.

[246] Luciani, "Allocation vs. Production States," 74.
[247] Safran, *Saudi Arabia: The Ceaseless Quest for Security*, 204-212.

Table 25. Defense and Internal Security Allocations (Million SR), 1970-1985

Security Expenses	1970-1971	1972-1973	1974-1975	1976-1977	1978-1979	1980-1981	1984-1985
Ministry of Defense	1727	3157	7217	27188	29912	47796	47546
Ministry of Information	76	165	321	1165	1136	1442	1198
National Guards	282	404	1295	4669	5393	7509	11482
Intelligence Bureau	22	49	96	206	400	486	838
Ministry of Interior	508	980	2304	5852	9027	12960	20296
Total	2615	4755	11233	39080	45868	70193	81360

Source: Ministry of Economy and Planning, Annual Statistical Books 1970, 1975, and 1980.

Despite the massive increase on defense and security, however, the defense capabilities of the kingdom remained weaker than those of its two main adversaries, Iraq and Iran. Partly the military weakness of the kingdom had to do with the size of the armed forces, which was dwarfed by that of Iraq and Iran. Instead of remedying the manpower shortage by introducing mandatory military service, the royal family opted to compensate for this shortage by buying advanced military equipment. The Saudi regime avoided military conscription for fear that it might produce unwanted consequences – for instance, citizens demanding political reforms and participation in the political process. A second likely reason is that a smaller armed force is more easily controlled, and therefore is more likely to be deterred from playing a role in an internal coup against the royal family. Consequently, the kingdom had no choice but to rely on external military support in the face of an imminent external threat.

6.3 Cases of Major Threats

The following cases reveal the strategies adopted by the Saudi state in response to immediate threats. Unlike the previous section, which examined the intensity of internal validation and internal balancing, this section explores the different types of strategies employed by the Saudi state in response to the October 1973 War, the Camp David Accords, the Iranian Revolution, and the Iran-Iraq War.

6.3.1 Case Five: The October 1973 War

As in the cases of the 1956 Suez Crisis and the 1967 Six-Day War, once again the Saudi regime was confronted with a war situation which posed a serious threat to its stability. The October 1973 War (or Yom Kippur War) broke out with a surprise attack by Egypt and Syria on Israel.[248] The surprise attack was unleashed on two fronts. In the north the

[248] The war was part of an ongoing conflict between the Arab countries and Israel. The root of the conflict is the creation of the state of Israel in historical Palestine. For a historian's perspective on the conflict, see Ilan Pappe, *A History of Modern Palestine* (Cambridge: Cambridge University Press, 2004). The Saudis' solidarity with the Palestinian cause is grounded in two principles, Islam and Arabism. These two principles lie at the heart of the Saudi identity. Islam renders cultural and geographical and linguistic borders irrelevant among Muslims, regrouping the disparate Muslim states as part of one community (*umma*). Therefore, the cause of the part is the cause of the whole. Moreover, Palestine is not just another Muslim country. Palestine is the home of the third holiest place in Islam, the Sacred Noble Sanctuary (Al-

Syrian troops attacked Israeli defense lines in the Golan Heights, whereas in the south the Egyptian troops advanced across the Suez Canal. In the initial days of the attack, Egypt and Syria benefited from the element of surprise. In the Sinai the Egyptian troops secured a position seven to ten kilometers east of the Canal. Similarly, Syrian attack inflicted heavy losses on the Israeli troops.

However, by October 9 the tide of war shifted in favor of Israel. On October 9-10 the Israeli armed forces managed to halt the advancement of the Egyptian troops in the Sinai. On the Golan front, Israel steadfastly responded to the Syrian attacks, and on October 10 Israel launched a major offensive attack against Syrian positions. To help ease the Israeli pressure on Syria, on October 14 the Egyptian Second and Third Armies launched a major offensive. Not only was the Egyptian offensive a complete failure, but Israel also went on the offensive. To make matters worse for the Arab armies, on October 13 the United States begun an airlift to re-supply Israel with arms. Moreover, on October 19, Congress approved 2.2 billion dollars worth of military assistance to Israel. On October 15, under the command of General Sharon, Israeli forces crossed the Canal with the intention of encircling the Egyptian Third Army.[249] By October 20 Israel was clearly on the offensive, and a third Arab defeat was on the way.

The ominous outcome of the war and the American intervention on the side of Israel left Saudi Arabia in a vulnerable position. As Safran rightly concluded, the danger of the 1973 War presented the Saudi regime with two types of security concerns. A defeated Egypt could estrange President Sadat, turning Egypt away from the Western bloc toward the Soviet Union for military aid and political support. Such a scenario could lead to increase in the presence and influence of the Soviets in the region.[250] Alternatively, Sadat might be ousted, and possibly replaced "by a leadership of unpredictable orientation or even by chaos."[251] Either way, a third Arab defeat, King Faisal reasoned, would endanger his dynasty.[252] Moreover, in the wake of the United States military support to Israel, the position of the Saudi regime became more precarious. As an oil supplier to the United States, the regime was a prime target of angry public opinion at home and in neighboring Arab countries.

Aqsa Mosque and Dome of the Rock) or *al-Haram al-Sharīf*. Because of its Wahhabi tradition and custody of the two holiest places, Mecca and Medina, Saudi Arabia considers itself the center of the Muslim world and responsible for Islamic causes. Arabism also fuels Saudi support for the Palestinians. Because of historical unity and common culture and language, the Saudi society considers Palestine as an integral part of a larger Arab nation. Noble observes that, "The population of the area has a sense of Arab identity that transcends individual nationalities and encourages a sense of kinship." See Paul C. Noble, "The Arab System: Opportunities, Constraints, and Pressures," in Bahgat Korany and Ali E. Hillal Dessouki, eds., *The Foreign Policies of Arab States* (Colorado: Westview Press, 1984), 45.

249 Kenneth M. Pollack, *Arabs at War: Military Effectiveness, 1948-1991* (University of Nebraska Press, 2007), 106-122.

250 After the Six-Day War, Israel became a regular recipient of American aid, while Egypt enlisted the help of the Soviet Union for arms transfer and military training. The Saudis were deeply concerned about the presence of the Soviet Military Mission in Egypt and feared that another devastating defeat would only increase the influence of the Soviet on Egypt.

251 Safran, *Saudi Arabia: The Ceaseless Quest for Security*, 154.

252 Holden and Johns, *The House of Saud*, 337-338.

6.3.2 Responses: External Validation

The oil embargo of 1973 exemplified the usage of oil resources as an external security strategy. Withholding access to oil resources was transformed into a mechanism of punishing and rewarding individual countries in order to ensure domestic and regional stability. Once again the oil weapon was unleashed in response to the Arab-Israel conflict. Unlike the previous embargoes, the 1973 oil embargo was more sophisticated and influential. The genius of the 1973 oil measures lay in their discriminatory, flexible, and gradual approach. Oil-consuming countries were divided into four categories, but given the possibility of avoiding the boycott if a pro-Arab position was adopted. The categories were: most favored, preferred, neutral, and embargoed. The first category comprised countries that were allowed to import their full demand for Arab oil; the second category comprised countries that were allowed to import either the average of the first nine months of 1973 or an amount equal to the amount imported during September 1973; the third category comprised countries whose imports were reduced; the fourth category comprised countries whose supplies of Arab oil were fully discontinued, namely the United States and the Netherlands, but subsequently extended to include Portugal, South Africa, and Rhodesia.[253] The gradual approach adopted by Saudi Arabia, within the Organization of Arab Petroleum Exporting Countries (OAPEC), reflected Saudi Arabia's intention to pressure, not to completely break off with the United States. As table 26 shows, the cutbacks were gradual, turning the wheel of pressure on a monthly basis to punish "unfriendly" countries until they adopted a pro-Arab stand.

[253] Seymour, *OPEC: Instrument of Change,* 116-122.

Table 26. The Arab Oil Embargo of 1973.

Date	Events
17-Oct-73	Arab oil produces announced 5% monthly cutback of oil to the US and other pro-Israel nations, using previous month's figure as basis for cutbacks.
18-Oct-73	Saudi Arabia announced 10% cutback in oil production, threatening further cutbacks if the US continues to support Israel.
20-Oct-73	Saudi Arabia decided to halt all oil exports to the US because of its support to Israel
23-Oct-73	Embargo was extended to the Netherlands
4-Nov-73	Arab producers increased the cutback in oil production to 25% below the September 1973 level. In actuality, Saudi Arabia's output reached 35% below the daily average of September.
18-Nov-73	Arab producers canceled the 5% cutback for Western Europe, which was scheduled for December.
23-Nov-73	The embargo extended to Portugal, Rhodesia, South Africa
9-Dec-73	Arab producers announced additional 5% cut in January for non-friendly countries
25-Dec-73	Arab oil producers canceled January 5% cutback. Saudi Arabia announced 10% increase in output.
18-Mar-74	Arab oil producers ended the embargo to the United States

At the height of the embargo during the months of November and December, the Arab oil production was reduced by approximately 5 mbd. As shown in table 27, Saudi Arabia alone was responsible for the removal of more than 2 mbd in November.[254] By December the international oil market had lost 4.4 mbd, bringing down the amount of oil available in the non-communist world from its October level of 50.8 mbd to 46.4 mbd. The consequences of the embargo threatened the economic growth of Western Europe and Japan. In the United States the situation was also socially and economically disturbing, due to the 40 percent jump in oil price and the emergence of "gas lines." [255]

[254] After Saudi Arabia, Kuwait adopted the second largest cutback in oil exports.
[255] Yergin, *The Prize: The Epic Quest for Oil, Money, and Power*, 614-617.

Table 27. Saudi Arabia's Output Change from September 1973 Level (1,000 b/d)

Year	Month	Volume	Change	Percentage Change
1973	September	8532	-	-
	October	7796	-736	-8.63
	November	6267	-2265	-26.55
	December	6614	-1918	-22.48
1974	January	7513	-1019	-11.94
	February	7796	-736	-8.63
	March	8131	-401	-4.7
	April	8654	122	1.43
	May	9014	482	5.65

Source: EIA, Monthly Energy Review. Available, April 2009

In large part the panic was caused by surging oil prices, although the oil measures taken by the Arab producers did not directly target oil price but exports. As a consequence of the embargo and cutbacks, shortage and panic in the market affected oil prices: auctions were bidding up the price to an unprecedented level, and the gap between the spot price and the bid price quadrupled.[256] The Saudis, however, were eager to demonstrate that the embargo and cutbacks were enacted to serve a political purpose, not economic gains. Their disapproval of the high prices was expressed by the Saudi Oil Minister, Ahmed Zaki Yamani. The high prices, in Yamani's words, "reflect to a large extent the effects of the oil embargo and cutback measures taken by the Arab oil-producing countries, and since these measures are of a political nature, they should not have an economic effect."[257] The question of the new oil price led to a showdown between Teheran and Riyadh before a compromise was reached at a new spot price of around 12 dollars a barrel.[258]

6.3.3 Case Six: The 1978 Camp David Accords

By many measures Saudi Arabia not only emerged intact from the October 1973 War, but also gained financially and politically. Five years later, however, the Saudi ruling family was confronted with another fatal episode in the Arab-Israeli conflict, the Camp David Accords.[259] Although the Saudis were in full support of a peaceful end to the conflict,

[256] In mid-December at an auction held in Teheran, bid price reached 17.40 dollars a barrel, approximately four times the spot price of 4.75 dollars a barrel.
[257] Middle East Economic Survey (December 21, 1973).
[258] Whereas the Shah of Iran sought to capitalize on the oil shortage caused by the embargo and cutbacks to raise the price, King Faisal was concerned that high prices could be damaging to world economy, but also sought to preserve the political objective of the oil measures. The disagreement between Teheran and Riyadh over spot price escalated, nearly breaking up OPEC. However, an agreement was finally reached in a historic meeting on 22 December. Yamani was unsuccessful in carrying out instructions of King Faisal to hold the price below 8 dollars a barrel, but the Iranian Oil Minister had also to settle for a price less than 20 dollars a barrel.
[259] Camp David Accords refer to a framework of peace in the Middle East and a framework for the conclusion of a peace treaty between Egypt and Israel. Both agreements were signed at the White House by Egypt President Anwar el-Sadat and Israel Prime Minister Menachem Begin in 1978. For more information

they favored a peace initiative with a seal of approval from all Arab countries. The Camp David Accords were squarely opposed by many Arab countries, including Syria, the Palestinian Liberation Organization (PLO), Jordan, and Iraq. For its part, Saudi Arabia opposed the Camp David Accords because of domestic and regional security concerns. It was mainly concerned that issues concerning Palestine and the Palestinians were not sufficiently addressed. The Saudis could not support an agreement that did not explicitly recognize the right of the Palestinians for statehood, mandate the full withdrawal of Israeli forces from the occupied territories (the West Bank, Gaza Strip, and Golan Heights), and acknowledge the role of the PLO as a representative of the Palestinian people.

6.3.4 Responses: External Validation

Confronted with the security challenges of the Camp David Accords, the Saudi regime sought to ward off domestic and regional threats. Its relationships with Egypt and the United States were radically modified. During the years before the Camp David Accords, Saudi Arabia acted as the primary financier of Egypt's economic development and military buildup.[260] The disagreement over the Camp David Accords, however, led Saudi Arabia to suspend all economic aid to Egypt. In April, the kingdom agreed to the decision reached by a consortium of Gulf States to dissolve the Gulf Organization for the Development of Egypt (GODE), and in May 1979 it ordered the Arab Organization for Industrialization (AOI) to liquidate.[261] The Saudis also canceled several arms purchases for Egypt, including the 525–million-dollar deal for fifty F-5E jet fighters to be supplied from the United States.[262] In addition to halting economic assistance to Egypt, in the midst of a tight oil market, the kingdom lowered its daily production from 10.4 mbd in December 1978 to 8.5 mbd in April 1979 (see table 28). Although the United States put heavy pressure on Saudi Arabia to raise production, the kingdom refused to cooperate. As a result, the price substantially increased.[263] By the time Saudi Arabia agreed to moderate the price, the Arabian Light oil price had already jumped from 12 dollars to 18 dollars a barrel.

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on the Camp David Accords, see William B. Quandt, *Camp David: Peace Making and Politics* (Washington D.C.: The Brookings Institution, 1986).

[260] According to Jabber, between 1973 and 1976, Egypt received in total about 5,122 billion dollars from Saudi Arabia, Kuwait, the United Arab Emirates, and Qatar. See Paul Jabber, "Oil, Arms and Regional Diplomacy "in Malcolm H. Kerr and El Sayed Yassin, eds., *Rich and Poor States in the Middle East: Egypt and the New Arab Order* (Colorado: Westview Press, Inc.), 428

[261] Saudi Arabia, Kuwait, Qatar, and the United Arab Emirates established the GODE in early 1976, with a capitalization of 2 billion dollars. In 1975 AMIO was established by four Gulf States (Saudi Arabia, Kuwait, Qatar, and the United Arab Emirates) in Egypt with a capitalization of more than one billion dollars for the development of military industries.

[262] Safran, *Saudi Arabia: The Ceaseless Quest for Security*, 433.

[263] William B. Quandt, *Saudi Arabia in the 1980s: Foreign Policy, Security, and Oil* (Washington, DC: The Brookings Institution), 131. Other scholars have argued that the Saudi decision to cut back production was intended to "appease revolutionary Iran." See Safran, *Saudi Arabia: The Ceaseless Quest for Security*, 308. However, what makes the cutback relevant to Camp David is the question of timing. The output ceiling was imposed on March 26, the same day when Egypt and Israel signed the peace treaty. See Holden and Johns, *The House of Saud*, 507

Table 28. Saudi Arabia Oil Production (1000 b/d), 1978-1979

Year	Oil Production
1978 September	8343
1978 October	9270
1978 November	10249
1978 December	10403
1979 January	9789
1979 February	9789
1979 March	9789
1979 April	8758
1979 May	8758
1979 June	8758
1979 July	9789

Source: EIA, Monthly Energy Review, April 2009

Both the oil embargo and the Camp David Accords demonstrated the ways in which the Saudi regime used oil resources to bolster its legitimacy at home and in the Arab world. External validation was deemed a necessary measure by the ruling family to deflect possible threats emerging from inside the kingdom and neighboring Arab countries. Contrary to the logic of realism, Saudi Arabia did not only take into account external but also internal security concerns. Placing an oil embargo against the United States was seen by the royal family as a necessary evil in order to demonstrate that the kingdom was in full support of the Palestinian cause. Faisal's decision to enact the oil embargo was at odds with the expected security behavior. As pointed out by Holden and Johns, "Kissinger had difficulty in understanding why, out of self-interest, Feisal could not or would not align more fully with the U.S. and thus fall with more tidiness into his conceptual framework of a worldwide balance of power between the two super-powers."[264] Similarly in the case of the Camp David Accords, without a just and fair solution to the Palestinians and the "liberation" of Jerusalem, public opinion at home and throughout the Muslim world would swing against the royal family. Therefore, the royal family acted on the idea that Saudi Arabia security interests were best served by expressing its support to Arab consensus, even at the cost of its friendship with the United States and relationship with Egypt.

6.3.5 Case Seven: The Iranian Revolution

In early 1978, Iran, the only Shi`a majority country in the Muslim world, plunged into a social and political upheaval. The explosion of the Iranian Revolution brought down the pro-American regime of the Shah. The arrival of the Iranian Revolution in 1978 drastically altered the Saudis' sense of security. Iran was transformed from a stabilizing power in the Gulf into a disrupting force, confronting Saudi Arabia with an unprecedented Islamic threat. The Saudis had long portrayed themselves as guardians of

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[264] Holden and Johns, *The House of Saud*, 348. Other authors have pointed out that King Faisal came under heavy pressure from inside and outside the kingdom to unleash the oil weapon. See Yergin, *The Prize: The Epic Quest for Oil, Money, and Power*, 595.

the Islamic holy places, champion of Islamic causes, and an example of Islamic norms and values. Secured in the cloak of Islam, the Saudi regime had historically paid attention to the threat of un-Islamic ideologies and doctrines from the left of the political spectrum, such as Nasserism and communism Islam, for the Saudi ruling family, by tradition, history, and identity, had been the source of legitimacy and security, not a threat. As Long remarks, "This is extremely disconcerting to the Saudi regime, which since the Wahhabi revival nearly 250 years ago has considered itself to be the right wing in terms of Islamic puritanism."[265]

In the immediate years following the revolution, the Iranian regime assumed various means to destabilize the Saudi ruling family through propaganda attacks and subversion activities. Although the propaganda attacks transmitted by Radio Teheran and Radio Ahwaz aimed to incite rebellion in the Shi`a community, they also intended to rouse opposition among the Sunni population. Corruption and embezzlement of public wealth, the genuine grievances over the evil of modernization, and the perceived pro-Western oil policy angered many extremists.[266] This public discontent was fanned by Iranian propaganda, which did not cease taking the opportunity to undermine the reputation of the royal family for wasting public money on "gambling, drinking parties and shameless dancing and orgies."[267] The Iranian propaganda blasted the royal family for the un-Islamic nature of their rule, amoral life style, complicity with the infidels and Zionism, and worthlessness as the guardian of Islamic holy places. In response to these charges the Crown Prince Fahd denounced the extravagant lifestyle led by some royal princes. Crown Prince Fahd declared that "this type of conduct is a disease that need to be cured, perhaps by attaching a set of rules to Saudi passports to remind travelers that they belong to a Muslim country which has its traditions, position and reputation, and that it is their duty to uphold and preserve them."[268]

The pilgrimage to Mecca, the hajj, was employed as another means to disrupt order and embarrass the Saudi ruling family.[269] For several years, the ritual of the hajj was disrupted with showdowns between the Saudi security forces and followers of Khomeini.

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[265] David E. Long, "The Impact of the Iranian Revolution on the Arabian Peninsula and the Gulf States," in John L. Esposito, ed., *the Iranian Revolution: Its Global Impact* (Florida: Florida International University Press, 1990), 108.

[266] For instance, Said al-Nasir, the leader of the Union of the People of the Arabian which took responsibility for the attack on the Grand Mosque, charged the regime with "depleting the wealth of future generations." Middle East Contemporary Survey, Volume Four (1979-80), 691. It is noteworthy that Saudi officials have acknowledged that their oil policy was "beneficial" to America, and "that they did not have to produce as much oil as they did, or to be moderate in pricing it." See Middle East Contemporary Survey, Volume Four, (1979-80), 54. Similarly, as pointed out by Quandt, there is a strong economic case to be made for producing less oil, thus prolonging the life of oil resources for the benefits of future generations. The main point of this argument is that increases in oil prices can accommodate the budget needs without producing more than 5 to 6 mbd. See William B. Quandt, *Saudi Arabia in the 1980s: Foreign Policy, Security, and Oil*, 123.

[267] Middle East Contemporary Survey, volume four (1979-80), 694. Princes were also charged with amassing huge personal fortunes.

[268] Middle East Contemporary Survey, volume four (1979-80), 697.

[269] The hajj is a sacred mission to Mecca obliged to be performed by every able, adult Muslim as one of the five pillars of Islam.

Khomeini instructed his followers to look at the hajj not simply as a religious obligation, but also to give equal weight to its social and political aspects.[270] Following the instruction of Khomeini, in 1981 Iranian pilgrims clashed with Saudi security forces. As a result almost 10,000 to 12,000 pilgrims were arrested and deported. Similarly in 1982, "one hundred thousand Iranian pilgrims shouting revolutionary slogans under placards carrying Khomeini's picture clashed with Saudi police."[271] In 1986 the Saudi government sentenced Iranian pilgrims to prison for attempting to smuggle explosives and weapons into Saudi Arabia. In 1987, the clash between the Saudi forces and thousands of Iranian pilgrims left 402 people dead.

Rebellion in the Shi`ite Eastern Province

On 28 November 1979, in the course of the traditional procession of the *Ashura,* thousands of Shi`a clashed with security forces, escalating into a region-wide riot. The demonstrators shouted anti-royal family slogans, demanded that the regime stop supplying oil to the United States, end Sunni-majority discrimination against the Shi`a community, and support the Iranian Revolution. The riot was dissolved with the help of 20,000 security forces.[272] But a few months later, in early February 1980, the Shi`a community of Hasa staged a second riot. Once again the demonstrations took a violent course, with the burning of cars and buses and official buildings. The clash with security forces left four people dead. The disturbances in Hasa were particularly concerning, because the region is home to oil facilities. Thus, there were concerns that oil fields may be targeted for sabotage activities, especially if Iranian radicalism took hold among the Shi`a. Iran, for its part, was actively encouraging a rebellion against the Saudi royal family. The presence of Iranian influence in inflaming the riots included the circulation of anti-royal family leaflets and cassette recordings of Khomeini's religious speeches.[273]

6.3.6 Responses: Internal Balancing and Internal Validation

The kingdom adopted several complementary policies to counter the internal threats posed by the Iranian regime, namely internal balancing as well as internal validation. Measures of internal security were increased with the establishment of a special anti-terrorist unit armed with modern equipment, including helicopters, armored personnel carriers and sophisticated electronic systems. As shown in table 25, the budget allocation to internal security was largely increased in the years after the Iranian revolution. For instance, allocations to the Ministry of Interior increased from 5.8 trillion SR (1976-77), to 9 trillion SR (1978-79), and then to 20 trillion SR (1984-85). Other means of increasing security included the large-scale deportation of illegal immigrants, to the extent that in February and March 1980 about 20,000 aliens were deported. In addition to these security measures, the royal family made efforts to prop up its image at home.

[270] Middle East Contemporary Survey, volume six (1981-82), 286.
[271] Sandra Mackey, *The Iranians: Persian, Islam and the Soul of a Nation* (New York: Penguin Group, 1996), 312.
[272] Middle East Contemporary Survey, volume four (1979-80), 688.
[273] Middle East Contemporary Survey, 4 (1979-80), 689.

Seeking to alleviate concern and accommodate interest of the Shi`a community, various Saudi princess met community leaders and promised to improve the socio-economic conditions of the Eastern Province. In the fiscal year 1980-81 the government more than doubled the budget allocation to the Eastern Province, from 78 million SR in the fiscal year 1979-80 to 163 million SR.[274]

6.3.7 Case Eight: The Iran-Iraq War, 1980-1988

The outbreak of the Iran-Iraq War in 1980 discharged several security concerns to the stability of the Saudi regime and the security of the kingdom.[275] First, there were worries about the security of oil installations, and the blockade of oil shipments in the Straight of Hormuz. The second threat was the spread of Iranian influence in the Arabian Peninsula. The refusal of Iran to accept repeated calls for ceasefire, and its launch of massive attacks into Iraqi territory, only confirmed Saudi suspicion of Khomeini's desire and willingness to spread Shi`a influence in neighboring countries, not only by means of propaganda but also by force. Khomeini was blunt about his intentions. In his words, "Every day of the war we had blessing, which we utilized in all aspects. We exported our revolution to the world through the war . . . it was through the war that we recognized our enemies and friends."[276]

Third, not only did the war tax Saudi financially and increase the threat of a wider conflict in the Gulf area, but its outcome was also likely to increase the insecurity of the kingdom, regardless of whether Iran or Iraq won the war. A victorious Iran would strengthen the impulse of the Iranian Revolution, enhance its prestige among the Shi`a and Sunni communities in the Arab countries, and improve its position vs. Saudi Arabia in the bid for leadership in the Muslim world. On other hand, a victorious Iraq would improve the position of Saddam's secular regime in the Gulf. But the secular characteristics of the Iraq regime did not pose the same acute threat as the Islamic-colored threat of Iran, making Iraq in the eyes of the Saudi the lesser of two evils. Hence, the Saudi regime, while officially claiming neutrality, adopted in practice a pro-Iraq policy.

6.3.8 Responses: Internal and External Balancing

To confront the multiple threats of the Iran-Iraq war, Saudi Arabia resorted to internal balancing, and external balancing with Iraq and consuming countries. In the case of internal balancing, the Saudi regime sought to enforce its defense capabilities. It turned to the United States and Britain for arms. Shortly after the outbreak of the war, the United States deployed to the kingdom an air defense aircraft system (WACS) that could detect

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[274] Ministry of Economy and Planning*, Annual Statistical Books, 1975 and 1980.*

[275] The main reason for the war was disagreement between Iran and Iraq regarding the division of the waters of the Shatt al-Arab River.

[276] Quoted in Rouhallah K. Ramazani, "Iran's Export of the Revolution: Politics, Ends, and Means," in John L. Esposito, ed., *the Iranian Revolution: Its Global Impact* (Florida: Florida International University Press, 1990), 52.

approaching warplanes from 250 miles in all directions.[277] Reflecting the Saudi royal family's concerns over Iranian strikes against oil facilities, the kingdom concluded with Britain an arms package deal worth 4.5 billion dollars, which included 72 Tornado combat jets and 60 Hawk and PC9 trainers.[278] In general, spending on defense and security during the Iran-Iraq swelled, as shown in table 25.

As Western powers were ready to guard the kingdom against Iranian attacks, the Saudi regime strove to ensure stability in the oil market. The Iran-Iraq War was a major threat to the stability of the oil market. Since both countries were major oil producers and relied heavily on oil revenue to support their war efforts (see table 29), oil installations were singled out as strategic military targets.[279] During the course of the war, both countries experienced drastic declines in oil production. For Iran, the average annual production bottomed to 29 percent of its level of 1978. Likewise, the Iraqi average annual production declined to 39 percent of its level of 1978. In order to make up for oil shortages Saudi Arabia raised its production level to near the maximum, producing over 9 mbd in 1980 and 1981 (see table 29).

Table 29. Crude Oil Exports (1,000 b/d)

Year	Iran	Iraq	Saudi Arabia
1978	4447	2384	7706
1979	2407	3247	8818
1980	797	2482	9223
1981	715	872	9018
1982	1623	846	5639
1983	1719	702	3921
1984	1522	867	3187
1985	1568	1085	2151
1986	1454	1394	3266
1987	1710	1717	2417
1988	1696	2095	3030

Source: OPEC Annual Statistical Bulletin, 2005.

Finally, the Saudi regime sought to influence the outcome of the war by providing Iraq with financial support and exerting financial pressure on Iran. Saudi Arabia's support for

[277] In addition to supplying AWACS planes, the United States offered to set up a joint naval force. The Saudis, however, turned down the offer for fear that it might inflame the Saudi-Iranian relationship. Washington Post, September 30, 1980.
[278] Washington Post, September 27, 1985.
[279] As Cordeman and Wagner points out, "Iran and Iraq's relative ability to mobilize their economy and oil wealth was a major factor shaping the entire course of the war." See Anthony H. Cordesman and Abraham R. Wagner, *The Lessons of Modern War: The Iran-Iraq War,* Volume II (Colorado: Westview Press, 1990), 45. To disable Iran's oil exports, Iraq launched repeated attacks on the Iranian main oil port of Kharg, triggering what is called the "Tanker War." Through the Kharg terminal Iran exported 1.5 mbd to 2 mbd. Iran responded, in like manner, bombing Iraq's main port of Faw. As oil production figures show in table 30, during the first three years of the war, Iranian attacks proved to be successful in curtailing Iraqi oil production. For more information on the oil war, see Cordeman and Wagner, *The Lessons of Modern War: The Iran-Iraq War,* 90-92

Iraq was largely facilitated by oil money as well as oil production and pricing strategies. In terms of financial aid, Saudi support to Iraq, in the form of petrodollars, amounted to more than 25 billion dollars.[280] To the disadvantage of Iran, Saudi Arabia advocated an oil policy of higher output and lower price. Such a policy benefited Iraq because it had secured access to exporting oil to the world. The newly expanded oil pipeline running through Turkey increased Iraqi oil output from 1 mbd to 1.5 mbd. With the extra 500,000 barrels a day Iraq's oil exports were about 1.2 mbd above its quota of 1,466,000 bd.[281] In addition to the existing pipeline that moved 500,000 b/d of Iraqi oil (IPSA 1), Saudi Arabia also agreed to a second pipeline (IPSA 2) in which an additional 1.5 mbd of Iraqi oil could be moved to the Saudi port of Yanbu on the Red Sea. Additionally 200,000 barrels of crude and refined oil were trucked through Turkey and Jordan.[282] On the other hand, Iran's ability to produce and sell more oil to the outside world was handicapped by Iraq's heavy bombardments of Iranian oil installations and lack of secure outlets.

The major shift in Saudi Arabia's oil policy occurred in September 1985, when oil exports were priced on the basis of "netback," instead of spot price. By charging consumers the gross value of refined products minus refining costs and rate of transportation from producing country to refinery, Saudi Arabia set the stage for a price collapse. On this basis of pricing strategy, in September the kingdom signed agreements covering 1 mbd.[283] The enacting of the netback took place around the same time as the Iran-Iraq War had decisively turned against Iraq. In the second half of 1985, Iran prepared for a major offense to capture Faw Peninsula and Umm Qasr.[284] This massive mobilization convinced the Saudis that Iran would not retreat from attempting to break the Iraqi defense, so long as the Iranian leadership had access to a large amount of oil revenue.[285] About the same time, Iraq and Iran stepped up their efforts to halt each other's oil output. Iraq intensified air raids against Iran's main offshore oil terminal on Kharg Island. For its part, Iran threatened to halt all Arab oil exports passing through the Hormuz Strait, if its oil production was significantly reduced.[286] By February 1986, the kingdom had signed contract agreements of supplies covering 3.5 mbd priced on netback basis. Subsequently, in March, oil prices plunged to 13 dollars per barrel, and then to 9

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[280] "$5,843,287,671 as nonreturable aid; $9,246,575,342 as easy payment monetary loans; $95,890,410 as development loans; $3,739,184,077 for military and transport equipment; $6,751,159,583 as oil aid; $16,772,800 as the value of industrial products for reconstruction of Basra; $20,266,667 for SABIC entitlements to Iraq, and $21, 333,333 for 270 tractor trucks for spreading asphalt." See Simon W. Murden, *Emergent Regional Powers and International Relations in the Gulf: 1988-1991* (Reading: Ithaca Press, 1995).

[281] Guardian, June 26, 1987.

[282] In contrast to the pre-oil condition, when Iraq exported 3 million barrels a day by sea from its port of Fao, by 1987 it was exporting a total of 2.3 million barrels a day by pipeline. *New York Times*, October 07, 1987.

[283] Francisco Parra, *Oil Politics: A Modern History of Petroleum*, 284-287.

[284] Faw was significant as the main port for oil export. It was destroyed in the early years of the war, and later was occupied by Iran. The port city of Umm Qasr, located only 16 kilometers from Faw and home to an Iraqi naval base, was able to hold out against the Iranian attacks.

[285] The massive mobilization efforts included recruiting women as rear-area military personnel, building up new road infrastructure for military usage, turning civil servants into combatants, calling up new volunteers, and buying chemical defense equipment. See Cordesman and Wagner, *the Lessons of Modern War: The Iran-Iraq War*, 217-224.

[286] *Washington Post*, September 27, 1985.

dollars per barrel in July (see table 30), and were predicted to even reach 5 dollars a barrel per barrel.[287] The effect of Saudi Arabia's oil policy on the Iranian war chest proved to be more powerful than Saddam's bombardments of the Kharg terminal.[288] Iran suffered tremendously from the Saudi downward pressure on the oil price, seeing its revenues declining by more than half, from 13 billion dollars in 1985 to 5,900 billion in 1986 (see table 31). Ultimately it was the Saudi oil policy which drained the war chest of Iran.

Table 30. Spot OPEC Reference Basket Price and its Components (US Dollars per Barrel), 1985-1986

Month-Year	Iran Heavy	Iraq Basrah Light	Arabian Light	OPEC Reference Basket
Jan-85	25.94	27.62	27.86	27.11
Dec-85	25.41	26.6	27.87	26.52
Jan-86	23.48	23.97	23.79	22.23
Feb-86	17.58	18.89	15.88	15.95
Mar-86	12.71	13.07	13.13	12.82
Apr-86	9.73	11.51	11.3	11.55
May-86	11.36	12.36	12.63	12.85
Jun-86	10	10.74	10.75	11.21
Jul-86	7.58	8.33	8.5	9.04

Source: OPEC Statistical Bulletin, Various Years

[287] The fallout of the dramatic slide in the price led to a turbulent year for OPEC members, as the crisis split the Arab group into two sides. On one side were the four Arab Gulf States led by Saudi Arabia which favored higher output and lower oil price. On the opposite side were Libya and Algeria which sided with Iran and sought production cuts designated to bolster oil price. *New York Times*, August 03, 1986.

[288] There may have been an economic motive behind the new Saudi oil policy, but as Hunter points out: "Whether or not the desire to hurt Iran economically was the principal motive behind the Saudis' oil policy, they could not miss its devastating impact on Iran, coming at the time of the Iranian capture of Faw and growing Saudi anxiety about Iraq's fate." See Shireen T. Hunter, *Iran and the World: Continuity in a Revolutionary Decade* (Bloomington: Indian University Press, 1990), 119. The Iranian Deputy Foreign Minister at the time, Ali Mohammed Besharati, accused Saudi Arabia as "guilty of the greatest treason ever committed against the oppressed and deprived countries." See Ibid., 120. Moreover, the crisis within OPEC in the year 1986 clearly showed that Iran (as well as Algeria) believed the purpose of the Saudi oil policy was to deprive Iran of oil revenues in order to cripple its war efforts.

Table 31. Values of Petroleum Exports (Million US Dollars)

Country	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Iran	11,693	10,047	18,690	20,273	15,713	13,012	5,900	9,400	8,419	11,315	16,831
Iraq	26,096	10,039	9,933	7,816	8,863	10,097	6,905	9,416	9,312	11,876	9,594
Saudi Arabia	101,421	111,546	73,263	44,829	36,282	25,930	18,060	20,427	20,205	24,095	40,129
TOTAL OPEC	279,056	254,920	201,716	161,605	151,318	132,567	78,134	94,296	88,415	110,528	151,020

Source: OPEC Annual Statistical Bulletin, 2005.

6.4 Conclusion

In the early 1970s, the Saudi state took full control over its oil resources from ARMACO. Given that the kingdom possessed a vast amount of proven reserves and considerable production capacity, the Saudi state acquired significant influence in the oil market. With respect to the consumers, its influence was magnified by the strong world demand for oil, which lasted until the early 1980s. After 1981 demand for oil steadily declined, especially in OECD countries. Many oil producers, however, did not curtail their output. With weak demand and excess supply, oil rentier states were particularly vulnerable to financial crisis. In this period therefore both consumes and producers were asymmetrically dependent on Saudi Arabia. Whereas hypothesis one describes the expected security behavior of Saudi Arabia when consumers are dependent on oil producers, hypothesis three illustrates the security behavior of Saudi Arabia for the situation in which other rentier states are dependent on it.

As predicted by hypothesis one, the regime engaged in internal validation and internal balancing at a higher level than in the 1950s and 1960s. As far as internal validation is concerned, the state initiated a series of five-year development plans, engendering a relationship of dependence between the society and the state in several ways. First, a significant number of the working force became dependent on state employment, either in the civil administration or in the public sector. Second, direct distribution of wealth improved people's living standard and income through grants, subsidies, and welfare programs. Third, indirect distribution of oil wealth through massive infrastructure development became the primary catalyst behind economic growth of the private sector. In terms of internal balancing, huge amounts of the revenues were allocated to the development and support of military and internal security apparatuses.

The responses to major threats in this period also demonstrate the usage of oil resources as a mechanism for external validation and external balancing (hypotheses one and three). The oil embargo of 1973 and the response to the Camp David Accords demonstrated the deployment of external validation in order to maintain societal support and avoid domestic instability. In the case of the 1973 oil embargo, Saudi Arabia, in concert with Arab oil-producing countries, cut oil production by 25 percent and enacted a ban on all oil shipments to the United States, the Netherlands, South Africa, Rhodesia, and Portugal. Likewise, to avoid isolation in the Arab world, the Saudis responded to Camp David by imposing a ceiling on supply in the midst of tight oil market turmoil.

To confront the threat of Revolutionary Iran, Saudi Arabia balanced with Iraq and the Western consuming countries, especially the United States. While the United States provided military assistance and security guarantees, Saudi Arabia overproduced to make up for oil shortages caused by the missing Iraqi and Iranian oil. At the same time, it supported Iraq with financial aid and oil supplies. Moreover, the kingdom turned oil price into an economic weapon against Iran. In order to deprive the Iranian regime from oil revenues, the kingdom resorted to producing more oil at lower prices.

CHAPTER SEVEN: THE BUST (1985-2000)

Unlike the previous decade, the second half of the 1980s and most of the 1990s were marked by financial constraints. With oil prices at a nadir, the kingdom was plagued by a perennial deficit, lasting until the end of the century. The era of oil bust strained the regime, but did not alter the mechanisms of security and stability. In this chapter I analyze how the bust led to a new pattern of dependence, which in turn shaped internal and external survival strategies. Similar to the previous two chapters, this chapter is divided into four parts. The measures of dependence, supply and demand of oil as well as exports and proven reserves of Saudi Arabia are examined in the first section. Based on the type of dependence pattern, two hypotheses are formulated to explain the security behavior of Saudi Arabia. These hypotheses are then tested in sections two and three. In section two, internal validation and internal balancing are examined. The cases in section three describe the types of strategies the state employed in responses to specific threats.

7.1 Pattern and Domain of Dependence in the Bust Era (1985-2000):

7.1.1 Oil Market: Supply and Demand

The 1980s arrived with soft market conditions, exerting heavy downward pressure on oil prices. Despite efforts to hold up prices, in 1986 the price collapsed, and it remained low until the end of the century, except for certain occasions in which prices temporarily spiked. Although since 1985 oil consumption continued to increase (see table 32), several reasons led to a soft oil market during the second half of the 1980s and most of the 1990s: a significant factor was the slowing down of the global economy, which caused demand for oil to decline. Other factors were a byproduct of the oil shocks of the 1970s. The high prices of the 1970s dealt a blow to the OECD economies. A decline in economic activities in OECD countries in turn translated to less oil consumption. Moreover, in many OECD countries the oil shocks led to the enacting of policies that aimed to reduce reliance on imported oil by means of increasing efficiency, stimulating alterative sources of energy, and expanding local exploration and production.[289] The 1990s arrived with a stronger demand for oil, but did not move far above the 1979 level. Demand accelerated in the second half of the 1990s. But the growth in demand did not shift the balance of power in favor of producers. The market conditions which existed in the 1990s were different than those of the 1970s. On the consumption side, as Feld points out, due to the development of oil spot and futures markets, the price was set by open markets as much as by oil producers. At the same time, oil-consuming countries had developed massive strategic oil reserves.[290]

[289] Siamack Shojai and Bernard S. Katz, ed., *The Oil Market in the 1980's: A Decline of Decline* (New York: Praeger Publishers, 1992), 32-33.
[290] Lowell S. Feld, "Oil Markets in Crisis: Major Oil Supply Disruptions Since 1973," in Siamack Shojai, ed., *The New Global Oil Market: Understanding Energy Issues in The World Economy* (WestPort: Praeger Publishers, 1995), 110-111.

Table 32. World Oil Consumption (Million b/d), 1986-2000

Year	Total OECD	Total Non-OECD	World
1986	39	23	62
1987	39	24	63
1988	41	24	65
1990	42	25	67
1992	43	25	67
1994	44	24	69
1996	46	26	72
1998	47	27	74
2000	48	29	77

Source: EIA, Annual Energy Review 2007

Despite the modest recovery in demand, the market remained weak. Over the last fifteen years of the twentieth century the price of oil remained under 20 dollars per barrel, except during the months of the Iraqi invasion and occupation of Kuwait, when oil prices hovered around 23 dollars per barrel. The serenity of the market can be explained partly by the weak demand, especially during the first half of the 1990s. Equally important was the expansion in exploration and development, which had been instigated by the high prices of 1970s and early 1980s. Hence, world proven oil reserves grew from 643 billion barrels in 1980 to 985 billion barrels in 1990 (53%), and then to 1 trillion barrels in 1995. This gigantic accumulation in reserves took place in spite of the 331 billion barrels that the world had produced over the same period. Actual production did not go over the 1980 level of 21 billion barrels until the second half of the 1990s, when it reached 24 billion barrels. In other words, there was abundance of supplies. Table 33 shows changes in oil production by region over this period. Although production did not rise, there were slight increases across the region. Most notable is the progressive growth in major consuming markets, such as Western Europe (60 percent) as well as Asia and the Pacific (26 percent). The largest growth, however, came from the Middle East, including Saudi Arabia (77 percent). Therefore, unlike the tight market of the 1970s, in the last fifteen years of the twentieth century the market was driven by supply, not by demand.

Table 33. Oil Production by Region (1000 b/d), 1986-2000

Year	North America	Latin America	Eastern Europe	Western Europe	Saudi Arabia	Africa	Asia and Pacific	Middle East[1]
1986	9810	6059	12309	3931	4784	5154	5750	7319
1988	9420	6114	12368	4046	5100	4961	5854	9050
1990	8562	6872	11275	4085	6413	5967	6270	9664
1992	8407	7271	8843	4556	8332	6329	6358	9231
1994	8012	7556	7167	5568	8049	6147	6630	10760
1996	7866	8148	6938	6160	8102	6426	7022	10910
1998	7679	9467	7088	6079	8280	6674	7044	12835
2000	7213	9317	7631	6288	8095	6746	7253	13316

Source: OPEC, Annual Statistical Bulletin, 2007.

7.1.2 Saudi Arabia: Oil Reserves and Exports

Despite its sizable production over several decades, Saudi Arabia's proven reserves and export volumes did not decrease in the last fifteen years of the century. Its proven reserves in the 1985-2000 were comparable to the levels of the 1950s, and 1960, and 1970s. Despite producing 133 trillion barrels of oil in the period of 1960-1985, the kingdom's proven reserves have increased from 53 billion barrels in 1960, to 140 billion barrels in 1970 (167 percent), and then to 171 billion barrels in 1985 (21 percent).[291] As shown in table 34, relative to other regions, the kingdom possessed the lion's share of proven reserves.

Table 34. Proven Oil Reserves by Region as Percentage of Total World Reserves, 1985-2000

Region/Country	1985	1990	1995	2000
North America	4.5	3.2	2.7	2.5
Latin America	15.7	12.5	13.1	11.2
Eastern Europe	8.5	6.0	5.8	8.7
Western Europe	1.9	1.7	2.1	1.7
Saudi Arabia	22.7	26.4	25.9	24.1
Africa	7.4	5.9	7.0	8.6
Asia and Pacific	4.9	3.5	3.5	3.6
Middle East-SA	34.4	40.8	40.0	39.6

Source: OPEC, Annual Statistical Bulletin, 2007.

Given its considerable size of reserves, between 1981 and 1985 the kingdom adopted a swing producer strategy. As a swing producer, the kingdom did not have a quota. In times of strong demand the swing producer raises production as much as needed. However, as the market de-accelerates the swing producer significantly reduces production. Having acted a swing producer during the 1980-1985 period the kingdom lowered its production

[291] OPEC, Annual Statistical Bulletin, 2007.

by 68 percent. The massive cutbacks caused the kingdom to lose substantial market share, not to mention oil revenues. By 1985 its share of the world export had shrunk, from 30 percent in 1980 to 10 percent in 1985, and revenues fell from 102 billion dollars 27 billion dollars over the same period. As a result, the economic and political situations were no longer sustainable (as will be shown in the next section), and the kingdom decided it was time to adopt a new oil policy. In 1985 the kingdom abandoned the role of a swing producer and instead enacted a policy of pricing its oil on a "netback" basis. The shift in policies aimed to recover market share by increasing export levels (see table 35). After its nadir of 2.5 mbd in 1985, output rebounded to 3 mbd in 1986, then to 4.5 mbd in 1990, and then to 6.5 mbd in 1992. Between 1990 and 2000 the kingdom's export volume as percentage of total OPEC exports averaged 28 percent a year overall. The strategy of netback helped to recover market share, increasing the kingdom's market share from 10 percent in 1985 to 16 percent of world export in 2000.

Table 35. Oil Exports by Region (1000 b/d), 1986-2000

Year	North America	Latin America	Eastern Europe	Western Europe	Saudi Arabia	Africa	Asia and Pacific	Middle East[1]
1986	736	2818	2535	2467	3266	3766	2037	5618
1988	864	2910	2823	2451	3030	3486	1918	6880
1990	763	3149	2133	2565	4500	4348	2099	7579
1992	926	3498	1480	3073	6582	4620	2229	6805
1994	1081	3872	1878	4029	6234	4422	2292	7626
1996	1182	4626	2069	4524	6109	4892	2204	7721
1998	1259	5254	3045	4527	6390	5274	2193	9212
2000	1231	4906	4145	4991	6253	5209	2230	9835

Source: OPEC, Annual Statistical Bulletin, 2007.

7.1.3 Patterns of Dependence during 1986-2000

The economic recovery in the 1990s strengthened demand for oil, but overall demand did not outpace supply. The 1990s was a consumer market, in a sense that there was large excess capacity in the world. During this period the influence of the kingdom increased with respect to other rentier states. Because oil prices were low and the kingdom maintained high reserves, it had the capability to pressure prices either upward or downward. With oil prices already in the range of 13 to 24 dollars less than the price levels of the 1975-1985 period, further drops in prices were bound to generate major fiscal imbalance for oil rentier states. The kingdom, therefore, held some leverage over other rentier states. Under these conditions the kingdom was asymmetrically dependent on consuming countries, but other rentier states were asymmetrically dependent on the kingdom. According to hypothesis two, when the rentier state is dependent on the consumer, it is likely to employ internal balancing and validation at lower intensity and is unlikely to use external validation and balancing. By the same token, when the producers are dependent on the rentier state, neo-rentier theory predicts that the rentier state is likely to apply external validation and external balancing (hypothesis three).

Before moving to a discussion on security strategies in the next section, in what follows I briefly discuss the financial situation of the kingdom during this period. As a result of weaker oil prices and slower demand, the financial position of the Saudi state was weaker in comparison with the 1970s and early 1980s. As shown in table 36, as a result of the of the Iraq invasion of Kuwait, oil prices briefly jumped to 20 dollars. However, it rapidly dropped to 15 dollars a barrel in 1993, and five years later, in 1998, it plunged to 12 dollars a barrel. As oil prices declined, revenues also declined. In contrast to an average of 220 billion SR during the period 1980-1985, oil revenues plummeted to an average of 64 billion SR in the second half of the 1980s. To boost revenues, the kingdom abandoned its role as a swing producer and adopted an oil policy aimed at securing larger market share, instead of defending a certain oil price. It aggressively increased production. The primary objective of this policy was to compensate for loss of revenues caused by depressed oil prices. In contrast to the first half of the 1980s, when Saudi Arabia cut back production in order to moderate prices, in the second half of the 1980s and throughout the 1990s market share was a top priority, not price. Therefore, the kingdom did not adjust production to prop up the slumped price in 1993 and 1998. Instead, oil exports were raised to more than 6 mbd throughout the 1990s.

Table 36. Saudi Arabia Oil Revenue, 1986-2000

Year	Oil Revenue (Million SR)	Oil Revenue as Perventage of Total Revenue	Oil Price Arabian Light	Oil Export (1,000 b/d)
1986	42464	56	13.73	3,266
1987	67405	65	17.23	2,417
1988	48400	57	13.40	3,030
1989	75900	66	16.21	3,336
1990/1991*	246297	78	20.82	4,500
1992	128790	76	17.94	6,582
1993	105976	75	15.68	6,293
1994	95505	74	15.39	6,234
1995	105728	72	16.73	6,291
1996	135982	76	19.91	6,109
1997	159985	78	18.71	6,185
1998	79998	56	12.20	6,390
1999	104447	71	17.45	5,720
2000	214424	83	26.81	6,253

** Budget allocation for fiscal year 1991 was amalgamated with the budget for 1990.*
Source: Saudi Arabian Monetary Agency (SAMA), Tables of Annual Report; For Oil Exports: OPEC, Annual Statistical Bulletin, 2007

Because oil revenues provided the overwhelming part of total revenues, it was inevitable that the budget would be affected as the prices decreased. As shown in table 37, the budget turned to a deficit – and even exploded during the Gulf War. The fiscal year 1990, which was merged with 1991, reflects a jump in the deficit as a consequence of extra military spending. Initially the government responded to the deficit by lowering public spending. Thus, spending was reduced from 284 billion SR in 1981 to 137 billion riyals in 1986. After 1986, however, the policy of reducing public spending was reversed. Only in certain years, slight reductions were made when prices plunged; otherwise, in spite of the running deficits, government expenditures fluctuated, but did not sink to the 1986 level (see table 37). Meanwhile the budget swelled.

To balance the budget, the government needed to increase revenues and reduce expenditures. Both measures, however, were deemed to be politically risky. Drastic reductions in expenditures were perceived to undermine the tacit pact between the state and society, in which economic rewards were exchanged for acquiescence and support for the regime. As for revenues, the kingdom could do very little. With oil production at more than 6 mbd, the kingdom could not risk higher exports, lest the oil price would collapse. Instead, to help finance the deficit, the government turned to foreign reserves as well as domestic and foreign debt. By 1994, domestic government debt reached 100 billion dollars, approximately 77 percent of the country's GDP, and that proportion was projected to reach 110 percent by 2000.[292] Although the government was loath to borrow from international banks, in 1997 J. P. Morgan, a premier investment bank, arranged a syndicated loan of 4.3 billion dollars.[293] In 1998, when the oil price plummeted to as low as 12 dollars per barrel, the government turned to Abu Dhabi for a loan in the amount of 5 billion dollars. Most significantly, however, as shown in the next sub-section, the government did not institute taxes nor did it drastically cut expenditures on social services. Some subsidies were cut. For example, agriculture subsidies were reduced; consumer products subsidies, such as gasoline, electricity, water, were reduced; and government services fees were increased. But as Gause puts it: "These baby steps alone cannot put the Saudi fiscal house in order."[294]

[292] New York Times, June 30, 1996.
[293] New York Times, June 23, 1998.
[294] F. Gregory Gause III, "Saudi Arabia Over a Barrel," *Foreign Affairs* 79 (May/June 2000): 84-94.

Table 37. Budgetary Deficit and Surplus (Million SR), 1986-2000

Year	Total Revenues	Total Expenditure	Deficit/Surplus
1986	76,498	137,422	-60,924
1987	103,811	184,919	-81,108
1988	84,600	140,856	-56,256
1989	114,600	154,870	-40,270
1990/1991	316,639	487,425	-170,786
1992	169,647	238,987	-69,340
1993	141,445	187,890	-46,445
1994	128,991	163,776	-34,785
1995	146,500	173,943	-27,443
1996	179,085	198,117	-19,032
1997	205,500	221,272	-15,772
1998	141,608	190,060	-48,452
1999	147,454	183,841	-36,387
2000	258,065	235,322	22,743

Source: Saudi Arabian Monetary Agency (SAMA), Annual Reports, Various Years.

7.2 Internal Validation and Internal Balancing in the Bust Era

7.2.1 Internal Validation

In the light of the drastic reduction of oil revenues, the government was forced to make some budgetary adjustments and cutbacks. To understand the political reasons that certain cutbacks were made but not others, it is inadequate to only examine the total government expenditure in years of slumped oil prices. In actuality, cutbacks were selectively made in order to minimize the negative economic effect on the population, especially in the area of employment, welfare services, and subsidies.[295] To appreciate the role of expenditures as a mechanism of mitigating domestic discontent, it is necessary to distinguish between and separately examine the two branches of government spending, current and capital expenditure. Current expenditure refers to recurring expenditures on goods and services consumed during a short period, often the current year, including defense, wages and compensations, subsidies, and welfare programs. On the other hand, capital expenditure refers to items that have a longer lifetime, for instance, building roads, schools, hospitals, and purchasing new equipment. In terms of usefulness to the economy, capital expenditures provide a long-term value, increasing the productivity of the economy. In contrast, current expenditure has no lasting effect on the productivity of the economy. In other words, capital expenditure is investment in the future. In light of this distinction, the trends of current and capital expenditures during the last three

[295] Some analysts have erroneously concluded that there is a direct link between deficit and political turmoil, or total expenditures and turmoil. Fandy for example makes the link between the deficit and turmoil. But as we have seen, the Saudi government continued to spend, despite the deficit. See Fandy, *Saudi Arabia and The Politics of Dissent*, 26-29.

decades are shown in figure four. As the plot shows, both current and capital expenditure rose, but the situation changed in the time of bust when oil prices declined. After 1986 current expenditure continued to rise, but capital expenditures rapidly declined.

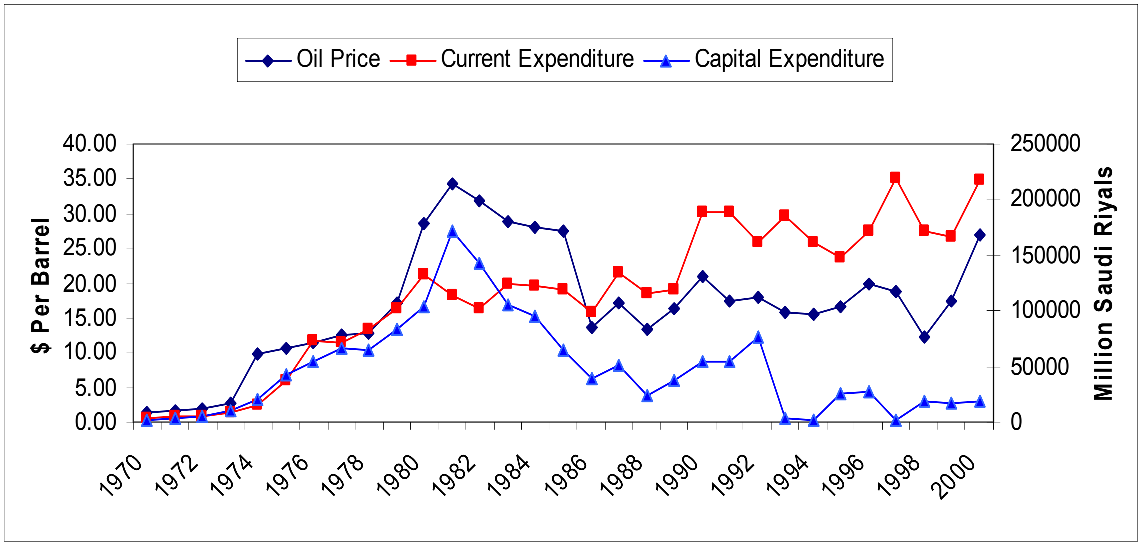

Figure 4. Oil Price vs. Current and Capital Expenditures.

The dissimilarity in the trend of current and capital expenditures is puzzling, since both types of expenditures are financed mostly by oil revenues. At times of low and fluctuated oil prices, clearly capital expenditures sank while current expenditures rose. One possible explanation is that many of the infrastructure projects were completed, and therefore it was feasible to reduce the amount allocated to project expenditures. Though the government had planned and allocated project expenditures (see table 38), it was forced to revise the planned level of distribution because of the financial constraints. A more probable explanation is that the government gave higher priority to current expenditure, because it has more immediate impact on issues of domestic stability. This reasoning is more credible if one recognizes the two distinct implications of wealth distribution, which are closely connected to the type of expenditure: to co-opt influential groups, and to buy political passivity of the society at large. In the case of the former, capital expenditure is the appropriate mechanism. It allows influential groups to amass wealth through various means, including contracting and real estate. The newly created commerce class remained rich during the bust, but had fewer opportunities to become even richer as spending on massive infrastructure projects dwindled.

As for the rest of the society, the story is different. Making a segment of the society rich is not the same as securing a comfortable standard of living for the society at large. In order to maintain the loyalty of the society, the government has to make sure that subsidies are paid, employment opportunities are available, and free health and education are provided for. Therefore, during the Fourth Development Plan, infrastructure projects were reduced by two-third, in order to ensure that the government had enough wealth to cover current expenditure. Moreover, during the Fifth Development Plan the government reallocated 34 billion SR from project expenditures to current expenditures.

Table 38. Plan and Actual of Development Expenditures (Percentage of Total), 1985-2000

Development Plans	Economic Development[1]		Human Development[2]		Social Development[3]		Physical Infrastructure[4]	
	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual
Fouth Plan	26.1	19.9	27.1	35.3	17.9	18.2	18.9	17.6
Fifth Plan	15.8	10.6	39.1	47.3	14.7	12.9	27.0	21.0
Sixth Plan		11.5		51.5		20.8		16.2

(1) Includes projects related to water, agriculture, industry, trade, services
(2) Includes projects related to the general education system.
(3) Includes projects related to health, social security, social rehabilitation, etc.
(4) Includes projects related to transportation, telecommunications, and housing.
Source: Ministry of Economy and Planning, Fifth Development Plan (1975-80), 25; Sixth Development Plan (1980-85), 65; Seventh Development Plan (1985-90).

The changes in the configuration of spending are clearly illustrated in the Fourth Development Plan (1985-90), the Fifth Development Plan (1990-95), and the Sixth Development Plan (1995-2000). Whereas current expenditures were slightly cut, capital expenditures, on the other hand, were significantly reduced. Table 39 provides a breakdown of actual spending on development by sector. The figures in the table show that infrastructure and economic development in all three plans were primary targets of the government cutbacks. For instance, physical infrastructure, including housing, municipalities, and transportation, was reduced from 249 billion SR in the Third Plan to 68 billion SR in the Sixth Plan (see table 39). Similarly, economic development was reduced from 262 billion SR in the third plan to 48 billion SR in the Sixth Plan. Because of these drastic declines in economic development and infrastructure, many jobs were lost. As a response the government enacted several initiatives. First, it initiated a “Saudiization” program which aimed to replace foreign workers with Saudi workers. Second, it authorized the enlargement of employment opportunity in the public sector in order to offset the shortage of employment in the private sector. Third, to stimulate the private sector, government contracts were granted to local instead of foreign suppliers.

Moreover, except for a small reduction in the Fourth Plan, human development jumped from 130 billion SR in the Third Plan to 217 billion SR in the Sixth Plan, constituting the largest share of spending on development. Although not substantially amplified, social development increased from 61 billion SR in the Third Plan to 88 billion SR in the Sixth Plan, ranking as the second largest of government allocations to development. Funding for health, education, and other welfare services continued, and even increased, despite the financial constraints.

Table 39. Actual Spending on Development (Billion SR)

Sector	Third Plan	Fouth Plan	Fifth Plan	Sixth Plan
Economic Development[1]	262	65	35	48
Human Development[2]	130	114	155	217
Social Development[3]	61	59	63	88
Physical Infrastructure[4]	249	87	74	68
Total	702	325	327	421

(1) Includes projects related to water, agriculture, industry, trade, services
(2) Includes projects related to the general education system.
(3) Includes projects related to health, social security, social rehabilitation, etc.
(4) Includes projects related to transportation, telecommunications, and housing.
Source: Ministry of Economy and Planning, Fourth development plan (1985-90), Fifth Development Plan (1990-95), and Sixth Development Plan (1995-2000).

Overall, non-capital subsidies were reduced in some years more than others, but were not entirely eliminated. As shown in table 40, subsides did not steadily decline but fluctuated, in accordance with changes in oil revenues. In fact, some subsidies increased, such as social security. In actuality, a comparison between the boom and bust shows that differences in the cutback of subsidies were selective, not uniform, and not always substantial. The largest cutback was in the late 1980s (1989-1992), where subsidies were around 3 billion SR. This, however, was not much different than the amount of subsides disbursed in the boom years between 1977 and 1979. Another sample from the years of boom and bust shows similar behavior. For instance, if one compares the years of 1983,1984, and 1985 when prices were around 28 dollars per barrel to 1986, 1987, 1988 when oil prices were at least 10 to 15 less, the amount of subsidies disbursed is roughly the same – about 6 to 8 billion SR. The obvious exception is only in 1981 and 1982, when total subsidies reached 10 billion SR. Capital subsidies, however, were drastically decreased (see table 41), but not completely suspended. Even during the worst years of oil revenues the government continued to disburse loans on the magnitude of no less than 4 billion SR. In comparison with boom period, however, there is no doubt that capital loans were much lower. From 1986 to 1999, capital subsidies totaled 75 million SR, about one-third of the amount spent between1970 and 1985.

Table 40. Government Subsidies (Million SR), 1986-1999

Year	Food[1]	Agricultural	Social Security	Electrical	Other[2]	Total
1986	5173	594	1352	1536	666	9321
1987	6724	334	1427	1400	712	10597
1988	10563	304	1396	157	460	12881
1989	5215	282	1380	210	741	7827
1990	5673	199	1315	374	736	8297
1991	6340	82	1323	451	780	8976
1992	5662	723	1333	451	589	8757
1993	5861	283	2514	451	571	9680
1994	5953	368	2654	210	707	9892
1995	3897	23	2573	210	656	7358
1996	2558	336	2693	210	642	6440
1997	2020	267	2891	746	661	6584
1998	1248	276	2998	210	632	5363
1999	1081	247	2990	210	587	5116

1) Imported and local barley, local wheat, and poultry feed subsidies are included
2) Includes social affairs, social care, youth clubs, public transport and others.
Source: Ministry of Economy and Planning, Achievements Plan, 2000.

Table 41. Subsidized Government Loans (Million SR), 1970-1999

Year	Saudi Arabian Agricultural Bank[1]	Saudi Credit Bank	Specialist Funding Programs[2]	Public Investment Fund[3]	Saudi Industrial Development Fund[4]	Real Estate Development Fund	Total
1986	1,019	240	82	130	355	4,114	5,940
1987	841	268	85	382	543	3,972	6,091
1988	755	293	37	130	439	3,282	4,936
1989	854	323	22	40	829	2,976	5,044
1990	1,017	286	5	364	664	2,446	4,782
1991	757	289	101	44	1,032	1,905	4,128
1992	775	288	64	20	1,179	1,542	3,868
1993	941	345	34	6	1,055	3,147	5,528
1994	671	293	55	0	1,322	4,762	7,103
1995	413	296	73	118	2,001	2,187	5,088
1996	431	306	99	300	2,002	2,401	5,539
1997	627	337	46	542	2,003	2,228	5,783
1998	897	300	87	1,072	1,931	1,633	5,920
1999	903	310	115	542	1,246	1,700	4,816

(1) Includes loans for working capital; (2) Includes loans to contractors, Private hospitals and dispensaries, hotels, newspapers, bakeries etc.; (3) Including equity investments; (4) Includes industrial, electricity, cold storage and dates packing.
Source: Ministry of Economy and Planning, Achievements Plan, 2000.

7.2.2 Internal Balancing

Despite the decline in oil revenues, military expenditure was not significantly reduced. Spending on defense remained a top priority for the government, especially after the Gulf War in 1990-91. According to Grimmett, from 1993 to 1999, Saudi Arabia arms-transfer agreements amounted to 24.5 billion dollars, making Saudi Arabia the leading spender on arms in all developing countries. Out of the 165.2 billion dollars of arms-transfer agreements of developing nations, Saudi Arabia's share was 14.8 percent.[296]

As far as the total amount spent on defense, table 42 shows that defense spending fluctuated during the 1980s and 1990s. But overall, allocation to defense did not drastically change and remained above one-third of the government current expenditures. The figures in table 42 present the percentage change in defense spending from year to year, as well as defense spending as percentage of total government current consumption. As shown in the table, the share of defense as percentage of total government current consumption decreased. The decline was largely due to an increase in total government current expenditures, not necessarily a significant decline in military spending.

As for the percentage change from year to year in defense spending, the figures in table 42 show that out of the 15 years, the government cut spending seven times. The largest three cuts were made when oil prices were extremely low. In 1986, after oil prices plunged to 13 dollars a barrel, the defense budget was reduced to 41 million SR from 47 million SR in 1985 (12 percent). Its share, however, of government consumption remained as high as 36 percent of total consumption. Similarly, in 1988 spending on defense was reduced by 13 percent, which brought down the military spending to about 36 billion SR, its lowest level since 1979. The following year, however, the policy was reversed. In 1989 military spending increased by 16 percent, which restored military spending to a level of 42 billion SR. The last major cutback was made in 1999 after oil prices reached 12 dollars in 1998. The cutback in terms of annual percentage change was the largest in the last two decades, 24 percent reduction. But this reduction has two qualifications. First, defense spending in 1997 was nearly 60 billion SR, the highest amount ever spent on defense. Therefore, the two successive reductions, 1998 and 1999 amounting to 30 percent, were made against a record high allocation. Therefore, despite the two successive reductions, the allocation to defense remained significant. Moreover, the two successive reductions reversed in 2000 by a 21 percent increase. In sum, throughout the 1980s and 1990s, despite the low oil prices, defense was a major spending item for the government (see figure five).

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[296] Richard F. Grimmett, "Conventional Arms Transfers to Developing Nations, 1993 to 2000," *Mediterranean Quarterly* 13 (Spring 2002), 36-55.

Table 42. Allocation to Defense as Percentage of Government Consumption, 1980-2000

Year	Defense Expenditure		Total Gov. Consumption	Defense as percentage of Gov. Consumptio
	Million	Percentage Change		
1980	43,000	5	81,914	52
1981	57,858	35	128,527	45
1982	48,492	-16	126,904	38
1983	51,839	7	121,625	43
1984	50,330	-3	115,647	44
1985	47,236	-6	120,051	39
1986	41,392	-12	111,633	37
1987	41,739	1	113,040	37
1988	36,474	-13	102,240	36
1989	42,325	16	119,958	35
1990	45,590	8	127,824	36
1991	59,195	30	169,128	35
1992	56,359	-5	152,692	37
1993	51,296	-9	130,976	39
1994	45,503	-11	122,552	37
1995	46,018	1	125,923	37
1996	52,708	15	144,783	36
1997	59,618	13	161,795	37
1998	55,747	-6	155,192	36
1999	42,285	-24	154,095	27
2000	51,357	21	183,804	28

Source: Saudi Arabian Monetary Agency (SAMA), Annual Reports, Various Years.

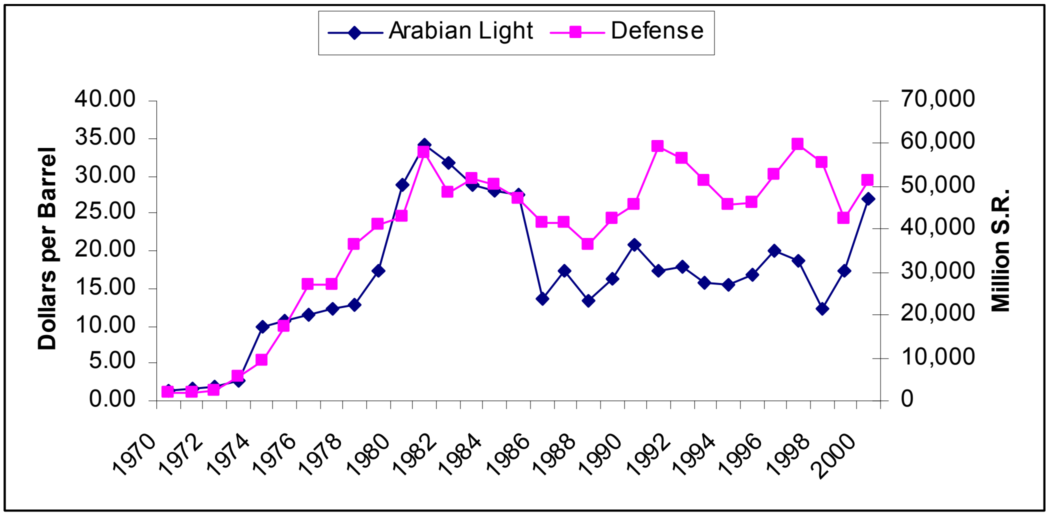

Figure 5. Oil Price (Arabian Light) vs. Defense Expenditures.

7.3 Cases of Major Threats

7.3.1 Case Nine: Saddam Hussein's Iraq and the Invasion of Kuwait

In the nineties the Saudi regime confronted an external threat emanating from Saddam Hussein's Iraq. Although Iraq failed to achieve the promised defeat of revolutionary Iran, Iraq emerged out of the war heavily armed under a leader inflated with prestige and self-confidence. Thus, while the devastating Iran-Iraq war seemed to have calmed revolutionary Iran, Saudi Arabia was left with the military danger of Saddam Hussein at its doorstep. Saddam Hussein entered the 1990s with a high aspiration and the firm conviction of Iraq's legitimate right to lead the Arab world. Saddam Hussein reasoned that Iraq sacrificed monumentally to face the threat of the Persians, and therefore it was first among equals in the Arab world.

To the dismay of Saddam Hussein, his pragmatic foreign policy, which lasted for two years, did not yield the intended results: the Arab leaders did not regard him as a vanguard of the Arab world. On top of that, Iraq's oil revenue was not sufficient to deal with the economic problems at home, nor to meet Iraq's tens of billions of foreign debts. Amidst these economic problems, Iraq's relations with Western countries also deteriorated.[297] Moreover, Saddam Hussein became convinced of a conspiracy against Iraq and his regime, prompting him to reorient the policy away from pragmatism. By early 1990s, a confrontational orientation of Saddam Hussein's policy started to emerge.

[297] Relations between Hussein and Western countries had deteriorated in the wake of the execution of the British journalist, Farzad Bazoft, Iraq obtainment of the Kryton switches required for the detonation of a nuclear weapon, and the British interception of "super-gun" parts destined to Iraq.

This had significant security implications for the Saudi regime. Saddam Hussein's belligerent policy initially singled out Western countries, especially the United States and Israel, as the main plotters against Iraq. In early January, Saddam Hussein remarked: "if Israel carries out an act of aggression, the United States will not be able to deny the charge of encouraging Israel to carry out such as attack."[298] Having identified the United States and Israel as the main enemies not only to Iraq, but also to the rest of the whole Arab world, Saddam Hussein moved to put high demand on the Arab world to assist Iraq against Western threats. In his words, "The group as a whole must encourage those with greater ability to move forward with all their support and good wishes, without letting this lead the more capable ones into adventurism or isolation."[299]

The Saudi royal family believed that regional security and stability of its regime would come under strong pressure, if Hussein followed through by embarking on a military adventure against Israel. Such military actions would put the Saudi regime in an awkward position vis-à-vis the United States and instigate domestic trouble. Pan-Arab security became the main theme of Saddam Hussein's speeches, which demanded from the Arab states to rely on each other, and most importantly on the powerful ones, for security of the region. The combination of anti-Western and pan-Arabism sentiment, couched in military rhetoric, was alarming for the Saudi regime. Saudi Arabia maintained a close relationship with the Western countries, especially the United States. Economic consideration and security guarantees made the United States an invincible partner. Pan-Arabism, which was purposely deployed by Saddam for strengthening his regime at the cost of other Arab states, was reminiscent of Nasser's encroachment on the legitimacy of the Saudi regime and a destabilizing force within the kingdom.

The increasing Iraqi hostility toward Kuwait and the United Arab Emirates (UAE), which are members of the Gulf Security Council (GCC), increased Saudi Arabia's suspicion of Saddam Hussein. The clear and immediate danger, however, became evident with the Iraq invasions and temporary annexations of Kuwait. It sent alarming shocks throughout the Arab world, but also intensified Saudi Arabia's sense of vulnerability with the presence of the Iraqi forces in Kuwait. With the liberation of Kuwait the immediate danger of Iraqi invasion of Saudi Arabia was removed. But, having demonstrated its belligerence and indifference to Arab norms, Saddam Hussein's Iraq remained a source of threat. In the aftermath of the war, Saddam Hussein was deeply resentful of the Saudi regime. For its part, the Saudi royal family was also deeply concerned about the outlook of Iraq, if Saddam Hussein were to be ousted. Because of religious fragmentation between Sunni and Shi`a, Iraq was vulnerable to external manipulation and intervention. Saudi Arabia was particularly concerned that Iran would exploit its religious affiliation with Iraq's large Shi`a community to expand its influence in the Gulf region.

It has often been argued that one of the most important motives behind Saddam Hussein's aggression against Kuwait was oil, and that the liberation of Kuwait by the United States-led coalition was nothing more than a means to secure access to oil resources and to prevent Saddam Hussein from controlling large sums of oil reserves. Had Saddam

[298] Quoted in Murden, *Emergent Regional Powers and International Relations in the Gulf: 1988-1991,* 134.
[299] Quoted in Ibid., 140.

Hussein been able to successfully annex Kuwait, Iraq would have been turned into a major oil superpower rivaled by none other than Saudi Arabia. The amount of combined reserves of Iraq and Kuwait would have given Saddam Hussein control over a quarter of OPEC's total proven reserves, second to Saudi Arabia. The data in table 43 indicates the combined amount of oil reserves of Iraq and Kuwait in comparison with other OPEC countries. With so much more reserves, production would correspondingly increase. Iraq oil production would have climbed from 13.65 percent of total OPEC production, roughly at par with Iran, to almost 20 percent of total OPEC production (see table 44). In other words, Iraq would have become a vital oil power, rivaling Saudi Arabia.

Table 43. Proven Crude Oil Reserves as Percentage Share of Total OPEC (Million barrels)

Country	1990	1991	1992	1993
Algeria	1.2	1.19	1.19	1.19
Indonesia	0.71	0.77	0.72	0.67
Iran	12.12	12.03	12	11.99
Iraq & Kuwait	25.73	25.46	25.4	25.37
Libya	2.98	2.95	2.95	2.94
Nigeria	2.23	2.59	2.71	2.71
Qatar	0.39	0.39	0.4	0.4
Saudi	33.99	33.8	33.76	33.74
UAE	12.81	12.71	12.68	12.67
Venezuela	7.84	8.12	8.19	8.32

Source: Source: OPEC Statistical Bulletin, 2005.

Table 44. Oil Production in OPEC Members, 1989

Country	1000 Barrels per Day	Percentage of OPEC
Algeria	727.3	3.56
Indonesia	1,231.00	6.03
Iran	2,814.10	13.79
Iraq	2,785.80	13.65
Iraq & Kuwait	4,063.30	19.91
SP	1,129.20	5.53
Nigeria	1,716.30	8.41
Qatar	320.2	1.57
Saudi	5,064.50	24.82
UAE	1,593.00	7.81
Venezuela	1,747.40	8.56

Source: Source: OPEC Statistical Bulletin, 2005.

7.3.2 Responses: Internal and External Balancing

Because of the military nature of the threat, the Saudi regime responded with multiple strategies. On the domestic front the regime increased allocations to the military. In the years after the Iraqi invasion of Kuwait, spending on defense considerably increased. The average amount of spending on defense before the Iraqi invasion was 41 billion SR (1986-1990), but after the invasion the average increased to 51 billion SR (1991-2000). On the external front, the immediate response of the Saudi state was to seek American military support. Four days after the Iraqi invasion, Dick Cheney, then-Secretary of Defense, arrived in Riyadh on a mission to discuss security arrangements, including dispatching American troops. Hosting American troops, however, was not a small concern for the Saudi regime; mainly for fear that it might trigger strong domestic opposition to the royal family. King Fahd, however, was far more concerned about the military threat of Saddam Hussein. Therefore, on the next day it was announced that American troops and planes will be dispatched to the kingdom for the purpose of defense against an Iraqi invasion. The initial deployment consisted of 2,300 troops, but eventually the number of American troops in the kingdom was increased to approximately 430,000.

Meanwhile, the Iraqi invasion precipitated an oil crisis as a result of the disruption of oil supplies from Iraq and Kuwait. It led to the removal of about 4 mbd from the oil market.[300] In response to the panic created by the war and absence of supplies from two major oil producers, the oil price doubled in less than two months.[301] Figures in table 45 show the fluctuation in OPEC Reference Basket price before and after the invasion. The price climbed from the pre-war level of 16.26 dollars per barrel in July to 32.10 dollars per barrel in September, just after Saddam Hussein invaded Kuwait in August. One of the most vital roles played by Saudi Arabia during and after the Iraqi invasion was to moderate oil prices.

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[300] Three days after the Iraqi invasion of Kuwait the United States and the European community placed a full boycott on oil from Iraq and Kuwait, and a day later Japan took a similar step. *Washington Post*, August 05, 1990; *New York Times*, August 06, 1990.

[301] In a matter of days after the Iraqi invasion, the oil price jumped by more than 10 dollars to about 28 dollars a barrel. *Wall Street Journal*, August 07, 1990.

Table 45. Spot OPEC Reference Basket Price and its Components (US Dollars per Barrel), 1990-1991

Month-Year	Iraq Basrah Light	Kuwait Export	Arabic Light	OPEC Reference Basket
Jan-90	16	17.27	18.32	19.98
Feb-90	16	16.4	17.58	19.03
Mar-90	16.65	15.39	16.51	17.67
Apr-90	15	13.58	14.61	15.63
May-90	14.49	13.59	14.63	15.47
Jun-90	12.76	11.98	13.14	14.02
Jul-90	15.47	13.82	15.36	16.26
Aug-90	-	22.15	25.78	26.44
Sep-90	-	-	30.1	32.1
Oct-90	-	-	31.85	34.32
Nov-90	-	-	28.5	30.78
Dec-90	-	-	24.19	26.16
Jan-91	-	-	20.7	22.32
Feb-91	-	-	15.31	17.47

Source: Source: OPEC Statistical Bulletin, Various Years.

To make up for shortage of supplies and exert downward pressure on oil prices, Saudi Arabia initially sought to increase oil production under the cover of OPEC in order not to provoke Iraq. However, when Libya, Iran, and Algeria balked, Saudi Arabia finally moved unilaterally. On 19 August 1990, the Saudi Oil Minister, Hisham Nazer, announced that his country would increase oil production by 2 mbd with or without the approval of other OPEC members.[302] Saudi Arabia increased the production in the 1990s to an average of one-third of total OPEC production (see table 46). Meanwhile, Iraq considered the Saudi policy of higher production and lower price as "an act of aggression." Iraq was not only defying the military, but also intended to use higher oil prices as a pressure against Western powers and to hinder war efforts against Iraq. However, pressed for revenues and determined to shield Western countries from high prices, Saudi Arabia expanded its output. For instance, as shown in table 47, oil exports to North America, Western European, and Asia and Pacific continued to steadily increase.

[302] *New York Times*, August 19, 1990.

Table 46. Saudi Arabia Oil Production (1,000 b/d), 1989-1990

Country	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Saudi Arabia	5065	6413	8118	8332	8048	8049	8023	8102	8012	8280	7565	8095
OPEC	21138	22781	23056	24715	25076	25532	25588	25826	26527	28820	27311	28873
% OPEC	24	28	35	34	32	32	31	31	30	29	28	28

Source: Source: OPEC Statistical Bulletin, 2005.

Table 47. Saudi Arabia Oil Exports by Region (Million barrels)

Region	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
North America	380	481	664	615	488	521	504	491	489	544	534	577
W. Europe	321	380	623	636	628	602	598	531	591	646	454	484
Asia	389	593	862	958	986	957	1006	1031	1011	971	922	1045

Source: Source: OPEC Statistical Bulletin, 2005.

In addition to oil supplies, petrodollars were a crucial balancing mechanism. Unlike the conventional balancing in which armed forces are pooled, Saudi Arabia had little to offer the United States and other European powers in terms of military support, but had plenty of petrodollars. Hence, money was used to strengthen the coalition against Iraq and to pay for the war efforts. To win Russia's support, Saudi Arabia approved 4 billion dollars of credit line to the financially strapped Russian government. And to help ease the financial hardship caused by higher energy prices, Saudi Arabia provided 800 million dollars to Eastern Europe.[303] At the same time, the kingdom contributed about 400 to 500 million dollars a month to the daily costs of American troops, and paid as well for much of the transportation, equipment, and daily costs of many Third World troops.[304] Ultimately, according to one estimate, the kingdom spent about 62 billion dollars. [305]

In addition to balancing with Western powers, the regime also sought the support of other Arab and Muslim countries. Although American troops enforced the defense capability of the kingdom, the regime could not ignore domestic opposition to the hosting of non-Muslim troops in the Muslim holy land. To legitimatize the presence of American troops in the kingdom, the kingdom made two attempts. First, it approached the highest religious authority in the kingdom, the Grand Mufti, Bin Baz, to sanction the deployment of the American troops. Second, it sought and received support from other Arab and Muslim countries, such as Egypt and Turkey. Mubarak's Egypt accommodated the needs of the royal family.[306] It played a key role in the organization of an Arab League emergency summit on August 10 in Cairo, and for the active diplomacy behind obtaining 12 votes out of 20 attended members, which supported a resolution that condemned the Iraqi invasion and denounced the Iraqi force buildup on Saudi Arabia's border. The resolution provided the legitimate political cover for Saudi Arabia to request military support from the United States against a possible Iraqi attack.[307] The resolution set off a rally of criticism against using force and inviting non-Muslim/non-Arab troops to Saudi Arabia. Mubarak countered these claims by sending Egyptian troops to the kingdom, deploying 17,500 soldiers. In return for Mubarak's support, Saudi Arabia agreed to write off Egyptian debt and provided Egypt with aid of approximately 500 million dollars. Moreover, Saudi Arabia in concert with the United Arab Emirates and Qatar decided to

[303] Bronson, *Thicker Than Oil: America's Uneasy Partnership with Saudi Arabia*, 197-198.
[304] Chronology, *Middle East Journal* (Winter 1991), 87.
[305] Nadia El-Shazly and Raymond Hinnebush, "The Challenge of Security in the Post-Gulf War Middle East System," in Raymond Hinnebusch and Anoushiravan Ehteshami, eds., *The Foreign Policies of Middle East States* (Colorado: Lynne Rienner, 2002), 81.
[306] Arab countries that did not support Saudi Arabia were financially punished. Jordan, for example, did not support the use of international force. King Hussein of Jordan declared that the Kuwaiti crisis was "an Arab problem," and declined to send Jordanian troops to Saudi Arabia until Western troops pulled out. Consequently Saudi's oil shipment and financial aid to Jordan was suspended. Similarly, Saudi-Yemeni relations deteriorated, because Yemen did not support a military action against Iraq. The response of the Saudis was to financially squeeze Yemen, by withholding financial aid and canceling work privileges of Yemenis working in Saudi Arabia. In the end, hundreds of thousands of Yemenis were deported to Yemen.
[307] Ann Mosely Lesch, "Contrasting Reactions to the Persian Gulf Crisis: Egypt, Syria, Jordan, and the Palestinians," *Middle East Journal* (Winter 1991), 30.

revive the AOI, the Egypt-based Arab military-industrial complex.[308] Likewise, Turkey was rewarded with 800 million dollars and the kingdom pledged another 1 billion dollars for a Turkish special defense fund.[309]

7.3.3 Case Ten: Islamist Opposition[310]

The decision of the royal family to invite American troops to the kingdom (discussed above) precipitated a furious discontent among Islamist groups. Although Islamist opposition to the regime was a long-standing security problem, after the Gulf War it became a critical security issue.[311] Saudi Arabia has long been opposed to the idea of hosting American troops, for the reason that it might provoke opposition against the royal family. Ultimately the regime decided to risk a confrontation with Islamists, rather than risking a larger and most likely far grimmer military confrontation with Saddam Hussein.

Still, the Islamist threat of the 1990s was unmatched by any other internal challenge the kingdom had faced since the *Ikhwān* rebellion in 1929.[312] Unlike the Marxist and Nasserite threats in the 1950s and 1960s, because of the Islamic nature of the Saudi society, the message of Islamists enjoyed a wider appeal among major elements of the society, especially among the youth.[313] And unlike the 1970s threat, which emanated from the Shi`ia community in the Eastern province, the Islamic opposition of the 1990s was broadly Sunni-based, with leaders and followers from Najid (central Arabia), the traditional powerhouse of the Saudi ruling family. Even the uprising of Juhaiman Al Utaibi and his followers in 1979, which seized the Grand Mosque in Mecca, was not seriously threatening, because Al Utaibi was not backed by a popular support. On the other hand, capitalizing on a popular view of the royal family as corrupt and subservient to the United States, this wave of Islamist opposition struck alliances with different groups within Saudi society and penetrated state institutions and bureaucracy.[314] "Rather than strengthening state-society relations, the Gulf War exposed the fragile foundation of this relationship. Sa`udis society responded to the external threat posed by Saddam's invasion of Kuwait not by renewing its allegiance to the government and the ruling

[308] The AOI was set up in 1975 as a military-industrial joint venture between Egypt and the Arab oil-producing countries. As a response to Egypt participation in the Camp David Accords in 1978, along with other Arab oil-producing countries, Saudi Arabia halted financial support, causing the AOI to collapse.
[309] Bronson, *Thicker Than Oil: America's Uneasy Partnership with Saudi Arabia*, 197-198.
[310] By Islamist opposition I am broadly referring to various Islamist groups, including reformist, rejectionist, and Jihadist. Although these groups have different agendas and were shaped by different circumstances, they stand on a common ground in their opposition to Al-Saud. For more information on these groups, see International Crisis Group, "Saudi Arabia Backgrounder: Who are the Islamists?" Middle East Report Number 31 (September 2004).
[311] The presence of American troops in the Kingdom was not the only reason that led to an awakening of Islamic radicalism and militancy; the Israeli-Palestinian conflict and the perception of the Al-Saud as a pro-Western regime also fueled the anger of the Islamic opposition.
[312] The *Ikhwān* affair was discussed in chapter two of this dissertation; see pp. 32-34.
[313] `Abdulaziz O. Sager, "Political Opposition in Saudi Arabia," in Paul Aarts and Gerd Nonneman, eds., *Saudi Arabia in the Balance: Political Economy, Society, Foreign Affairs* (London: Hurst & Company, 2005), 253.
[314] Mamoun Fandy, "Serious Threats to Saudi Arabia's Stability," *Christina Science Monitor* 88 (January 19, 1996), 19.

group, but by launching a series of opposition opinions that undermined the legitimacy of the government at a time when legitimacy was most needed."[315]

In the immediate years following the Gulf War, Islamist opposition groups begun to publicly air out their views. Petitions were submitted to King Fahd. In May 1991 the "Letter of Demands" was presented with 400 signatories, among whom were Islamic scholars, university professors, and prominent preachers. In September 1992 the "memorandum of Advice" was prepared by 107 religious scholars. In 1993 Mohammed al-Massari established the Committee for the Defense of Legitimate Rights (CDLR). Prominent preachers like Salman al-Awda, Safar al-Hawali, Ayidh al-Qarni, and Nasir al-Omar became known for their zealous sermons, "denouncing the state's failure to conform to Islamic values, corruption, and subservience to the U.S."[316]

By the mid-1990s the relationship between the Islamists and the Saudi regime took a fatal turn, when some extremists concluded that violent confrontation was a necessary means for a political change. In November 1995, a car bomb exploded near an American military building in Riyadh, killing five Americans and two Indians and injuring 60 others. In June 1996, a second bomb exploded targeting the Al-khobar military housing complex in the city of Dhahran, killing 19 American airmen and injuring hundreds of others. The attacks were allegedly linked to Iran, but neither the Saudi nor the United States government proved these allegations with concrete evidence.[317] As a result of these attacks and threats of future attacks, the State Department authorized the departure of dependents of American military servicemen and civilian employees.[318]

7.3.4 Responses: Internal Validation and Internal Balancing

The regime moved to address two key issues, the perceived lack of loyalty of the citizens and inadequate capabilities of the Saudi military, both deemed serious threats to security. Thus, in the Sixth Development Plan it was pronounced as a top priority: "To continue supporting and enhancing the on-going development of the Kingdom's own defense capabilities, and to deepen citizens' loyalty and sense of belonging."[319]As concern over citizens' loyalty heightened, the royal family increased spending and intensified internal security. It increased allocations to both human and social developments in the Sixth Plan. The share of human development of total development allocation increased from 155 million SR in the Fifth Development Plan to 217 million SR in the Sixth Development Plan (see table 39). As shown in table 39, allocation to social development also went up. Similarly, current account expenditures, entailing wages, compensations, and defense expenses, were also increased. Internal security was tightened and a massive

[315] Madawi Al-Rasheed, *A History of Saudi Arabia* (London: Cambridge University Press, 2002), 171.
[316] See International Crisis Group, "Saudi Arabia Backgrounder: Who are the Islamists?"
[317] Gause makes the same conclusion, "The general trends in both Iranian policy and in Gulf-Iranian relations provide strong circumstantial evidence that Iranian involvement in the domestic politics of the Gulf Monarchies has, if not ended, been greatly reduced from the level of the 1980s." Gregory F. Gause III, *Political Opposition in the Gulf Monarchies* (Florence: European University Institute Working Papers, 2000), 14.
[318] *New York Times*, October 7, 1998; *New York Times*, July 23, 1996.
[319] The Kingdom of Saudi Arabia, Ministry of Economy and Planning, *Seventh Development Plan*, Chap. 2.

arrest campaign was undertaken in which hundreds of Islamists were arrested.[320] The regime increased allocations to security, as shown in table 42.[321]

7.4 Conclusion

By the mid-1980s the global demand for oil had de-accelerated, and supply had outpaced demand. As a result the balance of power shifted away from the producers toward the consumers. Thus, oil rentier states, including Saudi Arabia, became asymmetrically dependent on the consuming countries. By the same token, the vast amount of oil resources of the kingdom provided the Saudi regime with some influence over other rentier states. Given these conditions, two hypotheses were derived from neo-rentier theory to explain the kingdom's security behavior.

As indicated in hypothesis two, the Saudi regime continued with the dual policy of cooptation through internal validation and control through internal balancing, although at lower intensity than during the boom era. Internal validation proceeded with the rolling out of three development plans: the Fourth Development Plan (1985-90), the Fifth Development Plan (1990-95), and the Sixth Development Plan (1995-2000). The primary objective of these plans was not different from the previous plans – to raise living standards and create employment opportunities. Likewise, military allocation declined in the period from 1986 to 1990. It increased during the Gulf War, but afterward fluctuated until the end of the decade. To finance the budgetary deficits the state relied on different options. On the expenditures side, allocations were reshuffled in order to preserve public spending on key social welfare programs. On the revenues side, the government adopted different measures: it increased its reliance oil exports, turned to domestic debts, exhausted foreign reserves, and took foreign debt. Moreover, as predicted by hypothesis two, the kingdom did not resort to external balancing and external validation with respect to consumers.

In line with hypothesis three, in the case of the Iraqi invasion of Kuwait, the Saudi regime adopted a policy of external balancing. It cooperated with the United States and other Western powers in order to repulse Saddam Hussein from Iraq. While Western powers, especially the United States, employed military force against Iraq, Saudi Arabia resorted to oil power. It helped to calm the oil market, by making up for the missing Kuwaiti and Iraqi supplies. In addition, the regime used petrodollars to finance the war efforts against Saddam Hussein, providing billions of dollars to the United States as well as financial aid to other Arab and Muslims countries that dispatched troops to the kingdom.

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[320] *New York Times*, September 28, 1994; *New York Times*, September 22, 1994.

[321] In addition, the regime took other measures to quell the Islamic opposition. For instance, in 1992 seven members were dismissed from the Supreme Authority of Senior Scholars, the highest-level religious body in the kingdom, for declining to support the government. Prince Sultan, the Minister of Defense, was appointed to head the newly created Supreme Council of Islamic Affairs. *New York Times*, December 15, 1992.

CHAPTER EIGHT: CONCLUSION

Ever-increasing economic ties among nations have profoundly influenced states' quest for security, as their economic prosperity and political stability have to different extents become "dependent" on the political exigency of trading partners. It is therefore no wonder that the relationship between economic dependence and security has been the subject of an intense scholarly debate. The aim of this dissertation is to contribute to this debate, by examining the implications of oil dependence for security of rentier states.

Since the turn of the twentieth century relations of oil dependence have not only dramatically influenced politics among nations, but also oriented politics within nations. Oil dependence has motivated powerful nations to intervene politically and militarily in countries far beyond their frontiers; it has prompted unlikely alliances and provoked hostility between consumers and producers; and it has fueled resentment and ignited conflict among producers. Oil revenue has enriched otherwise impoverished nations, and therefore increased their military capabilities. Oil supply has also provided a novel source of power, and therefore enhanced otherwise weak nations' standing in the international arena. Moreover, it has provided crucial means for many authoritarian regimes to secure their hold on power. These issues, among others, underscore the importance of oil dependence for scholars and policy-makers working in the area of security.

By gaining an understanding of the phenomenon of oil dependence, in effect, we gain a deeper insight into the more general relationship between economic interdependence and security. Such insight goes beyond the liberal-realist debate on whether interdependence causes cooperation or conflict. Instead, it specifies how and under what conditions economic interdependence is expected to influence security behavior. Utilizing the political economy approach, this dissertation theorizes how relationships among consumers and producers in the global oil market affect security strategies of rentier states. As a rentier state *par excellence* Saudi Arabia provides a good case to theorize the relationship between oil dependence and security. Moreover, the different patterns of dependence in which Saudi Arabia was involved in during the period 1950-2000 allows to examine evidence that would support or contradict the central argument of this dissertation: different patterns of oil dependence condition types and intensity levels of internal and external security strategies.

To begin with I summarize the shortcomings of rentier theory. According to rentier theory, rentier states are characterized by two features: the externality of state revenues, usually in the form of oil export receipts and public expenditures as high percentage of GDP. The core political logic of rentier theory claims that in times of oil boom rulers refrain from taxation and indulge in public spending in order to buy allegiance of the society. This simple logic, however, is fraught with ambiguity. It has four primary shortcomings.

First, it does not distinguish between government current and capital expenditures. The difference is crucial: by granting lucrative infrastructure and development contracts, capital expenditure performs as an effective mechanism of increasing the wealth of selective groups, namely members of the royal family, the commercial class, and state elites. On the other hand, current expenditure refers to allocation of social services, subsidies, and public employment. Therefore, in times of budgetary deficit, it is less risky for the government to cut capital than current spending.

Second, rentier theory sidesteps the era of bust. What are the implications of slumped prices for political stability? What are the likely security policies in times of financial crisis? For these questions rentier theory offers no explicit answer. Thus, the analyst is left to presume that the most likely outcome is political instability. Yet, in Saudi Arabia, during the bust phase, political crisis did not take place in the wake of a falloff in government spending. Third, rentier theory adopts a narrow view of economic resources, limiting the usage of oil resources to public spending. However, oil resources are highly fungible: oil supplies and revenues can serve as a source of power much more than rentier theory allows for. Oil revenues, for instance, can be converted into non-repressive power such as economic rewards, but also to build powerful internal security and military capabilities. Likewise, oil supplies serve not only as a source of revenues, but under certain conditions can be used as an instrument to influence other oil producers and consumers. For instance, the state might embargo supplies to Western consuming countries in order to boost its image at home. A case in point is the 1973 oil embargo.

Finally, there is no account of international politics in rentier theory, despite the fact that oil supplies and revenues are highly intertwined with the international political economy. Because the livelihood of the rentier state depends on the international economy, the omission of international politics is particularly puzzling. Consequently, rentier theory is incapable of explaining how domestic and international politics are interconnected through relations of oil dependence. In the same vein, chapter three of this dissertation turned to influential international relations theories for explanations of rentier states' external security policies. Similarly, theories of realism and liberalism were shown to lack explanatory power in the context of the rentier state. The commonly deployed Weberian conception of the state, in which taxation is taken for granted as the primary source of revenues, by default excludes the rentier state from the analysis. Because the rentier state does not tax, it constitutes a major paradox for international relations scholars. This is particularly true in the case of realism, which emphasizes taxation. Although liberal scholars are not immune from the charge of overlooking the rentier state, their privileging the concept of dependence is an advantage over the realist approach.

Building on the concept of dependence, some Middle East scholars proposed applying the concept "asymmetric interdependence" in order to account for Saudi Arabia external security. Their main shortcoming is the lack of conceptual clarity. The concept of dependence is often stated without a definition. Beyond briefly and vaguely introducing the term, what often happens is that the logic of dependence disappears from the analysis. The reader, therefore, is left with no clear idea as to what these authors have in mind as a definition for dependence – for instance, mutual or relative gain, or opportunity costs. Because the logic of dependence is not sufficiently explored in the Middle East literature, its explanatory power has contributed little, if any, in the way of demystifying the relationship between the rentier state and the international political economy. This dissertation fills this gap by combining insights from both disciplines: Middle East area studies and international relations.

In actuality the concepts of dependence and rentier theory are highly related, because the rentier state is embedded in the international political economy. In order to provide a fuller account of rentier state politics, it is necessary to provide a deeper understanding of both concepts: rentier theory and dependence. Although rentier theory is underdeveloped in various ways, it offers a powerful framework for conceptualizing a deviant case of Weberian states. Rather than throwing the baby out with the bathwater, in this dissertation I developed a new approach called neo-rentier theory. To enhance the explanatory power of rentier theory, assumptions and insights are incorporated from two influential theories of international politics: liberalism and realism.

Neo-rentier theory is based on two realist assumptions: security is the dominant objective of the state, and relative military capability is an effective means of ensuring security. But it departs from realism in two ways. First, the conception of security is broadened to include internal and external security. Second, the conception of power is broadened to include not only relative military capability, but also the concept of economic dependence. Without disclaiming the essentiality of military power, the theory demonstrates under what conditions dependence serves as a source of power and influence, and it specifies the causal mechanisms that drive different security strategies. Drawing on the liberal tradition, economic dependence as a source of power is defined in terms of opportunity costs for the actors involved in the relationship. To conceive dependence as a source of power for actor A over actor B, it implies that the opportunity costs are low for A but high for B. In other words, severing or altering the relationship causes hardship for B but not for A. If both actors have high opportunity costs, then the relationship is characterized as mutual or symmetric dependence.

The general argument of this dissertation is that in rentier states, oil relations play an important role in the formulation and implementation of security strategies. The model hypothesizes that different patterns of dependence generate constraints on and opportunities for the rentier state, influencing the availability and intensity of the following security strategies: internal validation, internal balancing, external validation, and external balancing. While oil revenue can be used for financing internal validation, internal and external balancing, oil supplies and prices can be used for external balancing and external validation. Different patterns of dependence between a given rentier state and other states (consumers and producers) not only affect the amount of accrued oil revenues, but also the possibility of manipulating supplies and price.

In the worst case, the rentier state can only employ strategies of internal validation and internal balancing at a low intensity, and has no access to external validation or external balancing. This occurs when the rentier state is asymmetrically dependent on other actors (oil consumers and producers). At the other extreme, the rentier state has the financial capacity to employ strategies of internal validation and internal balancing at a relatively higher intensity, and is able to apply external validation and external balancing. In this case, other actors (oil consumers and producers) are asymmetrically dependent on the rentier state. Between the two extremes the rentier state finds itself in a status quo of moderate internal validation and internal balancing, but has no access to external validation and external balancing. In such a case, both the rentier state and other actors are symmetrically dependent on each other.

In what follows, I review the past and predict the future of Saudi Arabia's security behavior. In the first section, I examine how well neo-rentier theory performed in the case of the Saudi Arabian state's quest for security during the second half of the twentieth century. Parallel to the organization of chapters five, six, and seven, the findings here are presented along three phases: pre-oil, oil boom, and oil bust. The summary describes the patterns of dependence that existed with consumers and producers in each phase, and the strategies adopted by the Saudi Arabian state in response to internal and external threats. At the same time, the analysis underlines to what extent the evidence confirms or disconfirms the hypotheses of neo-rentier theory. The second section forecasts Saudi Arabia's security policies for the coming two decades. As world demand for oil is expected to outstrip world oil production, the pattern of dependence is likely to shift in favor of producers. Under these circumstances, what are the implications for Saudi Arabia's security policies?

8.1 What has been Learned?

During the second half of the twentieth century the oil market experienced major structural changes, which can be divided into three eras: pre-boom (1950-1970), boom (1970-1985), and bust (1985-2000). These eras corresponded with different patterns of dependence between Saudi Arabia and oil-consuming countries, on one hand, and Saudi Arabia and producing countries on the other hand. In the pre-boom, Saudi Arabia was dependent on the consuming countries, but no relationship of dependence existed between Saudi Arabia and oil-producing countries. In the boom era, oil-consuming and producing countries were dependent on Saudi Arabia. In the bust, Saudi Arabia was dependent on the consuming countries, but oil-producing countries were dependent on Saudi Arabia. The variation in the patterns of dependence provide an opportunity to evaluate the explanatory power of neo-rentier theory, by examining whether the strategies predicted by the theory are congruent or incongruent with the actual strategies adopted by the Saudi state. As can be seen in chapter four of this dissertation, four hypotheses were proposed which identify the type and intensity of survival strategies that the Saudi Arabian state is likely to adopt under different patterns of dependence. Whereas hypotheses one and two draw attention to the dependence of Saudi Arabia on consuming countries and vice versa, respectively, hypotheses three and four are concerned with the relationship between Saudi Arabia and oil-producing countries. However, since in the 1950-2000 period the situation did not arise in which the Saudi Arabian state was dependent on producing countries, it was not possible to evaluate the evidence for or against hypothesis four. The findings are summarized in table 48.

Table 48. Predicted and Actual Strategies

Oil Period	Pattern of dependence	Predicted strategies	Actual Strategies
pre-boom 1950-1970	Saudi Arabia is dependent on consumers, no dependence with producers	Low internal validation and balancing	Low internal validation and balancing, appeasement, external validation and balancing
boom 1970-1985	Consumers and producers are dependent on Saudi Arabia	High internal validation and balancing, external validation and balancing (consumers)	High internal validation and balancing, external validation and balancing
bust 1985-2000	Saudi Arabia is dependent on consumers, producers are dependent on Saudi Arabia	Low internal validation and balancing, external validation and balancing (producers)	Low internal validation and balancing, external balancing

Overall, the case study of Saudi Arabia from 1950 to 2000 provides strong empirical evidence for neo-rentier theory. In the next sub-sections, I briefly summarize the evidence for and against neo-rentier theory in the periods of pre-boom, boom, and bust. In all three phases of oil independence, the Saudi state employed internal validation and internal balancing in accordance with the prediction of neo-rentier theory. As for external validation and external balancing, only two cases in the pre-boom era contradict the prediction of the theory. Even though the evidence for neo-rentier theory is inconclusive, it demonstrates the ways in which oil dependence constrains and enhances security policies of rentier states.

8.2 The Pre-Boom Era, 1950-1970

Despite the growing demand for oil in the aftermath of the Second World War, Saudi Arabia was hardly in a position to influence supplies and prices, for two reasons. First, the levers of control over oil resources were in the hands of the oil companies (ARAMCO), not the Saudi state. Since oil was discovered in Saudi Arabia in 1938, until the early 1970s, the state had no active role in deciding on issues related to expanding production or determining oil prices. ARAMCO had full control over oil decision-making, while the kingdom was merely a receiver of oil royalties and profit sharing. Such income was a primary source of state income, providing an amount of 70 percent to 88 percent of total revenues (see table 12, chapter five). Second, during the 1950s and 1960s supplies of oil were plentiful in the world. Despite the worldwide growing demand for oil, in the non-communist world vast supplies were available from North and Latin America (see table 9, chapter five). Consequently, despite its considerable reserves and production capacity, the Saudi Arabian state was unable to exploit its oil resources for influence vis-à-vis consumers and other oil producers. On the other hand, during this period, the Saudi Arabian state was heavily dependent on income from ARAMCO (and by extension the consuming countries). In other words, the opportunity costs were low for oil consumers but high for Saudi Arabia. In this period (1950-1970), therefore, Saudi Arabia was dependent on oil consumers and had no relations of dependence with other oil producers. Such a pattern of dependence is captured in hypothesis two, which predicts that Saudi Arabia is likely to employ internal balancing and validation at low intensity, but it is unlikely to employ external validation and external balancing.

In agreement with hypothesis two, the kingdom employed minimal internal validation and internal balancing in comparison to later periods. Nevertheless, the arrival of oil revenues facilitated public spending on a higher scale and wider range of issues than in previous decades. The largest portion of spending was allocated to the development of armed forces and the internal security organization. Improvement in revenues also led the state to set up new institutions for overseeing the development of various social programs and infrastructure projects, including health, education, and communication and transportation. However, the scope of these programs was limited by the financial terms of the arrangement made with ARAMCO regarding royalties and profit-sharing schemes.

The threat cases, however, revealed mixed evidence for hypothesis two. In accordance with hypothesis two, the Saudi ruling family adopted neither external validation nor external balancing in response to Nasser's pan-Arabism in the period 1958-1962. Instead, the regime responded by employing an appeasement strategy. Despite the fact that Arabism embodied ideas which threatened the legitimacy of the Saudi monarchy, the Saudi regime settled for a policy of courting rather than dangerous confrontation with Nasser. Both King Saud and Crown Prince Faisal expressed some form of support for Nasser's pan-Arabism. In addition, the kingdom under the leadership of Fasial suppressed its connection with the United States and downgraded its relation with anti-Nasser Arab regimes, Lebanon and Jordan.

On the other hand, the embargos of 1956 and 1967 disconfirm the unlikelihood of external validation under the condition of Saudi Arabia being dependent on the consumers. The embargos of 1956 and 1967 reveal that external validation needs to take place not only if the consumers are dependent on Saudi Arabia: in both situations, the Saudi regime had no choice but to stop the flow of oil in order to mitigate domestic uproar and avoid isolation in the Arab world. While both cases of oil disruption challenged the consuming states and oil companies to come up with efficient and cost-effective schemes of sharing and rerouting oil supplies, neither embargo produced an energy crisis. In the case of the 1956 embargo, shortages begun to develop, but Western Europe, including the targeted countries, Britain and France, did not plunge into an energy crisis. Partly the oil shortage was attributed to the Arab embargo, but also partly due to the refusal of President Dwight Eisenhower to authorize emergency oil supplies until both countries withdrew their forces. A month after the Canal closed and with a promise from France and Britain to pull out their troops, supplies from the United States resumed. By the early months of 1957, the oil shortages came to an end.

Unlike the 1956 embargo, in 1967, from the very start of the embargo the United States came to the aid of Western nations. Its production increased by 1 mbd. Other countries (Venezuela, Indonesia, and Iran) also increased production. Moreover, the availability of supertankers made it easier and faster to transport oil around the globe. As a result, the embargo did not create an oil crisis in Western countries. However, the embargo proved to be costly for the Arab oil-producing countries, including Saudi Arabia, who had to forgo substantial revenues. In sum, although Saudi Arabia did use the strategy of external validation, its success was limited because alternative supplies were readily available to Western countries from other oil producers.

The third case, which also provides mixed evidence for hypothesis two, is the Saudi response to the coup in Yemen and Egyptian intervention on the side of the republicans. With the outbreak of the Yemeni Civil war and the deployment of Egyptian troops to Yemen, Nasser's political hostility was transformed into a military threat. It was a particularly unnerving threat for the Saudi regime, because of the geographic proximity of Yemen and the military capabilities of the Egyptian troops. The Saudi regime's response took several forms. First and foremost, the regime abandoned the appeasement strategy. At home, King Faisal initiated strategies of internal validation and internal balancing. As for validation, the regime sought to boost support at home with the ten-point reform and development program. With regard to internal balancing, the regime paid particular attention to internal security apparatuses. It increased allocations to the Ministry of Information, Ministry of Interior, Intelligence Bureau, and the National Guards.[322] Abroad, it employed external balancing on several fronts. Not all these balancing acts, however, were informed by oil resources. First, Faisal activated an alignment policy based on Islamic ideology. The purpose of this strategy was to thwart the spread of Nasser's Arab socialism at home and neighboring countries, but also to create an Islamic alliance. Second, the Saudi regime balanced with royalists against the republicans backed by Nasser. This balancing act of Saudi Arabia entailed mainly providing financial aid and arms.

Finally, Saudi Arabia sought to ally with the United States against Nasser's Egypt. The fact that American consumers were not dependent on Saudi Arabia yet becomes clear in the failed attempt of Faisal to acquire unequivocal support from the United States against Nasser. Its inability to more fully exploit oil dependence left the kingdom vulnerable to Nasser's subversion and military threats. Without any power over oil prices or the ability to influence supplies, Saudi Arabia could not extract the desired support from the United States against Egypt. In sum, the 1950s and 1960s provide evidence for the unlikelihood of external balancing as predicted by hypothesis two, while disconfirming the unlikelihood of external validation.

8.3 The Boom Era, 1970-1985

The structural changes in the oil market that took place in the 1970s and early 1980s created the conditions for oil resources to play a more prominent role in the internal and external security strategies of Saudi Arabia than in previous decades. By the early 1970s

[322] Between 1960 and 1970, allocations to the National Guard increased by 325 percent and the Ministry of Interior by 4570 percent. The Ministry of Information and Intelligence Bureau were created in 1965, with a budget of 75 million SR and 15 million SR, respectively. By 1970 allocations were increased to 99 million SR for the Ministry of Information and 18 million SR for the Intelligence Bureau. See table 15, chapter 5.

the two constraints of the previous decades had disappeared: first, world demand outpaced world supply. In large part, the transformation of the United States from a net exporter to a net importer intensified demand for oil. Because its own proven reserves had been declining at a rate greater than its discovery rate of new reserves, oil imports rapidly climbed. By the early 1970s the United States became the largest net importer in the world, importing annually an average of 8.5 mbd. Second, the Saudi Arabian state took control over oil decision-making from ARAMCO. The takeover put the Saudi state in charge of a vast amount of proven reserves and a massive export capacity. The combined effect of these two factors, a tight oil market and state control of oil resources, created a situation in which consumers were asymmetrically dependent on Saudi Arabia (as well as on other oil producers).

By 1981, however, the market started to turn against the producers, as oil glut began to develop in the market. As a result, rentier states became vulnerable to downward pressure on oil prices. Helped with its vast reserves and production capacity, Saudi Arabia was in a relatively stronger position than other rentier states to cope with lower prices. In sum, during the boom, both consumers and oil rentier states were asymmetrically dependent on Saudi Arabia. The case of consuming countries being dependent on Saudi Arabia is captured by hypothesis one, which predicts that Saudi Arabia is likely to employ internal balancing and validation at high intensity as well as external validation and external balancing. The case in which producers are dependent on Saudi Arabia is illustrated in hypothesis three, which predicts that Saudi Arabia is likely to employ external validation and external balancing.

Accordingly, the type and intensity of survival strategies adopted by Saudi Arabia during this period provide evidence in support of hypothesis one. Domestically, the strategies of the previous decades were intensified. As a result of the drastic jump in export volumes and oil prices, the state dramatically increased spending on internal validation and internal balancing. In terms of validation, new policies were instituted which substantially enlarged welfare services, consumption and production subsidies, and development projects.[323] In actuality, these policies not only aimed to buy societal acquiescence but also facilitated wealth accumulation for the dominant interest groups. In addition to the awesome magnitude of spending on internal validation, considerable capital was allocated to internal balancing. A vast amount of wealth was allocated to the development of military and internal security capabilities, making the kingdom the leading spender on arms in the region.[324]

[323] For instance, government expenditure during the Third Development Plan (1980-85) reached 783 billion SR, which is 751 billion SR more than what the government spent during the First Development Plan (1970-75). Likewise, in the period 1970-1985, government subsidies increased from 40 million SR to 6155 million SR. For more information on allocations to development, subsidies, and public employment see tables 21-24, chapter six.
[324] Allocation to internal security apparatuses (the Ministry of Information, National Guard, Intelligence Bureau, and the Ministry of Interior) increased from 888 million SR in 1970 to 33 billion SR in 1984. The Ministry of Defense, however, took the largest allocation, consuming alone in the period 1970-1985 about 70 percent of the total security budget. See table 25, chapter six.

In the international arena, the kingdom acquired the capability to exert political pressure on consumers and other producers far beyond its own military capabilities, using external validation and external balancing. The four threat cases demonstrated the ability of exercising strategies of external validation and external balancing with respect to both consuming and producing countries. The cases of the October 1973 War and the 1978 Camp David Accords demonstrate the usage of external validation (hypothesis one), while the cases of the Iranian Revolution and the Iran-Iraq (1980-1988) War shows the usage of external balancing, through petrodollars and oil supplies (hypothesis three).

The events of the 1973 oil embargo demonstrated the kingdom's influence over consuming states. Acting in concert with other Arab oil producers, the kingdom employed cutbacks in volumes and a full embargo in order to influence the position of Western consuming countries on the Arab-Israeli conflict. Unlike the previous embargos of 1956 and 1967 – although the 1973 embargo did not roll back the occupation of the 1967 war – the consuming countries confronted a severe energy crisis and economic difficulties. By contrast, Saudi Arabia and other oil-producing countries were less hurt by the reduction in oil supplies, because their losses in volumes were compensated for by the surge in oil prices.

Likewise, albeit less drastic, is the case of the Camp David Accords. The fallout of the agreement caused a rift in the Arab world and introduced a new source of threat and hostility to the Saudi regime. The Arab leaders and public opinion were fully against Camp David. Under these conditions, the Saudi regime sought to serve its security interest by adopting a policy of external validation, in which the relationship with the United States was suppressed and the relationship with Egypt was broken off. As a demonstration of its disillusion with the United States and solidarity with the Arab cause, the kingdom decided to abandon its role as a price moderator. It announced a ceiling of 8.5 mbd, almost 2 mbd below its oil production level of September 1978. In an already tight market, the reduction had an escalating effect on prices. As a result, prices on the spot market reached as high as 23 dollars per barrel. With a net import of over 10 mbd, the United States was more than ever before sensitive to high oil prices. As for Egypt, all kinds of financial aid were terminated, including canceling credits and the suspension of the AOI.

With respect to the producing countries, the shift from a market driven by demand to an oil glut created the condition of asymmetric dependence between Saudi Arabia and other rentier states. As shown in the case of the Iran-Iraq war, the Saudi state exploited asymmetric dependence for security purposes. The case of the Iran-Iraq War demonstrates the usage of oil supplies and revenues as means for external balancing. Considering that the military and ideological threat of revolutionary Iran was perceived to be more immediate and dangerous than that of Iraq, Saudi Arabia sought to prevent an Iranian victory. Its effort to support Iraq included not only providing financial support, but also depriving Iran from oil revenues. At a critical turn in the course of the war, when Iran was in the process of mounting a massive offense against Iraq, Saudi Arabia enacted a policy of "netback," where the official oil price was to be calculated as the final-product price less refining and transportation costs. The kingdom also raised oil exports from 2 mbd in 1985 to a little over 3 mbd in October 1986.[325] By tying oil prices to the market rate, instead of charging fixed spot prices, and increasing production, Saudi Arabia effectively allowed the prices to fall: the oil price fell bellow 10 dollars per barrel. The collapse in oil prices had a dramatic budgetary effect on Iran, halving oil revenues in 1986. In sum, from the early 1970s until the mid-1980s both oil consumers and producers became dependent on Saudi Arabia. As a result, the relations of asymmetric dependence affected Saudi Arabia's security behavior at home and abroad. It provided greater resources for internal validation and internal balancing, and facilitated the deployment of external validation and external balancing vis-à-vis consumers and producers.

8.4 The Bust Era, 1985-2000

As the bust phase unfolded, the relationship between consumers and producers shifted in favor of oil-consuming countries. The oil glut lasted throughout the 1990s (see table 32, chapter seven). Weak world demand and excess world supply made the opportunity costs of severing or altering the relationship too costly for the producers, but not for the consumers. This was evident by the UN embargo on Iraqi oil exports. Despite the removal of 2 mbd of Iraqi oil, the existence of surplus capacity prevented a surge in oil prices. The absence of Iraqi oil was offset by increased production from other oil producers. The oil glut had a second implication for rentier states: considerable decline in revenue. With low oil prices and because of its considerable oil reserves and export capacity, Saudi Arabia remained powerful with respect to other producers. Accordingly, as stated in hypothesis three, it is predicted that Saudi Arabia could employ external validation and external balancing. At the same time, by definition, as a rentier state, Saudi Arabia was dependent on oil sales. It follows that Saudi Arabia was asymmetrically dependent on oil consumers.

Because of its dependence on the consumers, as stated in hypothesis two, not only was Saudi Arabia no longer able to use external validation and external balancing, but it had also to modify its spending on internal validation and internal balancing. In the case of validation, on the one hand, the government reduced allocations to infrastructure projects and economic development, including transportation, agriculture, service, and trade. Subsidies too were lowered, especially in the case of government loans to the public and private sectors (i.e., capital subsidies). On the other hand, more spending was allocated to services related to social and human development, such as health, education, and social security. Moreover, the state remained unwilling to introduce income tax. In other words, internal validation was not eliminated, but reduced to a level that was unlikely to provoke political instability.[326]

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[325] It was reported that Saudi Arabia aimed to raise production closer to its OPEC quota, 4.3 million barrels. See the *Washington Post*, September 20, 1985.

[326] The Saudi government reduced spending on development projects and subsidies. For instance, spending during the Fourth Development Plan (1985-1990) was near 325 billion SR, about half the amount spent during the Third Development Plan (1980-85). Government subsidies, especially non-capital subsidies, were drastically reduced, from 11 million SR in 1985 to 6 million SR in 1986. See tables 39-41, chapter seven.

Similarly, internal balancing was also affected by declining oil prices (see table 42, chapter seven). However, when comparing military expenditures in the 1990s against the late 1970s and early 1980s, the cutback is insignificant. For instance, in 1981, when the oil price hit 34 dollars per barrel and the budget had a surplus of 83 trillion SR, allocation to defense amounted to 61 trillion SR (in constant 1980 SR). In 1994, when the oil price sank to 15 dollars per barrel and the budget turned to a deficit of 34 trillion SR, spending on the military reached 47 trillion SR (in constant 1980 SR).

To finance the budget, the government used multiple options, including increasing production volume, exhausting foreign reserves, and borrowing from domestic and international sources. Moreover, the government reduced public spending. An in-depth analysis of government expenditures, as discussed in previous chapters of this dissertation, reveals that not all expenditures were equally reduced during the bust. While capital expenditure decreased, current expenditure did not. Although capital expenditure is more important for the economy in the long term, current expenditure is more important to buy off political support in the short term. This finding suggests two noteworthy points. First, oil price is not a reliable indicator of political stability in rentier states. Second, the indiscriminate use of public expenditures to draw conclusions regarding political stability, as often done by Middle East scholars, is problematic, as it overlooks the differential political weight of current versus capital expenditures.

The case of the Gulf War provides empirical support for the employment of external balancing against producers, by means of oil resources in the bust period (hypothesis three). With Iraq invading Kuwait and placing troops on the Saudi borders, the Saudi ruling family became convinced of Saddam Hussein's military threat. As a result, the Saudi regime sought and received military protection from the United States. Almost 43,000 American troops were deployed to the kingdom. Although the arrival of the American troops enforced the military defense capability of the kingdom against the potential threat from Iraq, it raised major internal security concerns. Because the kingdom is considered to be a sacred land, the presence of non-Muslim troops in the kingdom was strongly opposed by Islamists. To counter such criticism, the Saudi regime invited troops from other Arab and Muslim countries, including Egypt and Pakistan.

Market supplies also suffered because of the invasion, as both countries, Iraq and Kuwait, were major suppliers of oil, with a combined export of 4.5 mbd. In light of the invasion and fears of a large scale disruption, the oil price surged to 32 dollars per barrel. With the arrival of coalition troops and the start of the military campaign against Iraqi, however, oil prices retreated. Although the battle settled the question of price, the issue of lost supplies required the cooperation of oil-producing countries, including Saudi Arabia. Oil supplies increased from several countries, including the United States, Venezuela, Mexico, and Norway. The largest increase, however, came from Saudi Arabia, raising output from 6.4 mbd in 1990 to 8 mbd in 1991 (see table 46, chapter seven). Moreover, Saudi Arabia's balancing effort included funding the war chest of the coalition. Without oil revenues, the kingdom could have hardly afforded to pay for the cost of driving Saddam Hussein out of Kuwait. In sum, the kingdom heavily relied on oil resources to balance with oil-consuming countries against Saddam Hussein's Iraq.

8.5 What Lies Ahead for Saudi Arabia?

The brief summary provided above has shown that the hypotheses developed in this dissertation performed well insofar as demonstrating the impact of patterns of dependence on survival strategies of Saudi Arabia. However, a theory preferably does not only explain the past but also helps us understand the future. Therefore, in light of neo-rentier theory, what can be said about the security behavior of Saudi Arabia in the near future? In order to answer this question it is necessary to forecast the pattern of dependence between Saudi Arabia and oil-consuming as well as producing countries. Fortunately, future data on world consumption and production are available from EIA and OPEC, both of which make projections to 2030. Therefore, my brief analysis began in 2006 and concludes in 2030.

Although it is widely speculated that the post-petroleum order is approaching, most predictions show that oil will continue to dominate energy resources for the next 20 years. The figures in table 49 demonstrate that future demand for energy in general, including oil, is going up, not down. Even though the percentage growth rate of oil will be outpaced by renewable and other sources, oil will continue to claim the lion's share of total fuel consumption. The reason for oil's domination partly has to do with the cost of alternative sources of energy in comparison with oil prices, but also because switching from oil to other sources requires building up new infrastructures, which necessitates a huge amount of investment and time. Moreover, in many of the less developed countries, the lack of technology and financial means will also hinder diversification efforts.

Table 49. World Supply of Primary Energy, 2006-2030

Energy Type	Million Tons		Growth (Percentage)	Fuel Shares (Percentage)	
	2006	2030	2006–2030	2006	2030
Oil	4,031	5,360	1.2	37.3	32.7
Coal	2,989	4,655	1.9	27.6	28.4
Gas	2,400	3,993	2.1	22.2	24.4
Nuclear	731	1,022	1.4	6.8	6.2
Hydro	251	427	2.2	2.3	2.6
Biomass	349	674	2.8	3.2	4.1
Other renewable	61	258	6.2	0.6	1.6
Total	10,813	16,389	1.7	100	100

Source: OPEC, World Oil Outlook 2008.

Overall, world demands for energy will steadily climb, because of population growth and economic productivity. The world population is expected to increase from a historical level of 6.5 billion in 2005 to more than 8.3 billion by the year 2030. The largest increase will take place in developing countries (about 85 percent of the total population growth), which is also where oil demand is expected to rise significantly.[327] Economic growth plays a key factor in strengthening demand for oil. Because energy is the catalyst behind

[327] UN, the Department of Economic and Social Affairs, *World Population Prospects: The 2008 Revision*.

industrialization, transportation, and manufacturing activities, it is an essential prerequisite for economic development and growth. Most of the projected growth is expected to originate from developing countries in Asia, mainly China and India. Whereas China is projected to grow in the 2005-2030 period at a brisk average annual rate of 6.4 percent, India is not far behind with an average annual growth of 5.8 percent. During the same period, the annual rate of growth for the rest of the Asian countries is expected to reach an average of 4.6 percent. In contrast, the industrialized world's growth is expected to slow down. The United States is forecasted to grow at 2.6 percent, and OECD Europe at 2.3 percent. These projections imply that in 2030 China will have a GDP of 36 trillion dollars, the highest in the world, accounting for 23 percent of the world gross domestic product (GDP). Second to China will be the United States with a GDP of 20.2 trillion dollars, followed by the OECD Europe with a GDP of 20 trillion dollars; and in fourth place will be India with a GDP of 16.5 trillion dollars.[328]

The implication of these economic projections compounded with population growth is that world demand for energy, including oil, will also steadily rise. World oil demand from 2006 to 2030 will rise by 29 mbd. The largest share of this rise is attributed to China and other Asian developing countries. By 2030 China is projected to have doubled its daily consumption, reaching 15.4 mbd, while South Asian countries, dominated by India, will have quadrupled their daily consumption, reaching 8.5 mbd. In contrast, the industrialized Western world is expected to experience lower growth for oil, because of technological innovations and governmental policies of environmental sustainability. In absolute terms, however, North America and Western Europe will remain the largest oil consumers within the next 20 years. From 2006 to 2030, in North America consumption is expected to increase from 25.3 mbd to 27.3 mbd, while in Western Europe consumption is expected to modestly increase from 15.7 mbd to 16.2 mbd.[329] In comparison with the developing world, by 2030 OECD countries are projected to use five times more oil per person.

Meeting future oil demands will not only challenge oil consumers, but also oil producers. By 2030 many oil reserves around the world will be depleted and many oil producers will no longer have the capacity to produce for exports, except for a few countries. Six oil producers will dominate the oil market: Russia, Saudi Arabia, Iraq, Iran, Kuwait, and United Arab Emirates (see table 50). Among the six countries, Saudi Arabia will remain the biggest producer with the largest proven reserves. As a result, neo-rentier theory predicts that Saudi Arabia is likely to employ strategies of high internal validation and internal balancing. At the same time, a tight market will create opportunities for the kingdom to employ external validation and external balancing. Such predictions, of course, must be taken with reservations, for the complexity involving social science events are far too great to make forecasts about their future with a definitive authority. Nevertheless, such predictions provide a glimpse of Saudi Arabia's security behavior in the coming oil world order.

[328] GDP projections are in Purchasing Power Parity. See, EIA, *International Energy Outlook 2008.*
[329] OPEC, *World Oil Outlook 2008*, 32-36.

Table 50. Saudi Arabia Conventional Liquids Production, 2005-2030.[330]

Region/Country	History (Estimates)		Projections			
	2005	2006	2015	2020	2025	2030
Saudi Arabia (Million Barrels per Day)	11	11	12	13	13	14
Total World (Million Barrels per Day	82	82	89	94	98	103
OPEC Share of World Production (Percentage)	43	43	44	46	46	46
Persian Gulf Share of World Production (Percentage)	29	29	29	30	31	31
Saudi Arabia Share of World Production (Percentage)	13	13	13	13	13	13

Source: EIA, International Energy Outlook 2008, World Conventional Liquids Production by Region and Country, Reference Case.

8.6 Direction for Future Research

A final word remains to be said about the relevance of my argument for other rentier states: to what extent is the argument of this dissertation – patterns of dependence affect the intensity and type of security strategies – applicable to different rentier states, such as Iran, Iraq, and Libya? Rentier states differ in many characteristics, such as relative military capabilities, type of political system, and political culture. In spite of such differences, however, all rentier states are embedded in the international political economy. From the international oil market they derive a significant portion of national income, and under different conditions they are either influenced by or can influence levels of world oil supplies and prices. Consequently, the different patterns of dependence are likely to affect their security strategies.

As has been demonstrated in this dissertation, the pattern of dependence is determined by the relative position of a given rentier state in the oil market in terms of size of reserves and export volume, by world supply and demand, and consuming country's oil imports as percentage of total oil consumption from a given rentier state. There is no doubt that Saudi Arabia holds a unique position in the international oil market as the largest net exporter, and therefore enjoys a high degree of influence with respect to both consumers and producers. Still, other major oil producers such as Iran, Iraq, and Venezuela have the capacity to affect oil market conditions, because of the sheer size of their reserves and exports. While Saudi Arabia is unlikely to be asymmetrically dependent on these producers, other small rentier states and oil consumers are likely to be dependent on other major oil producers under conditions of bust and boom, respectively. Small rentier states like Qatar, Libya, and Bahrain are constrained by the size of their oil resources. They are invariably dependent on consumers and other producers. They are dependent on the

[330] EIA defines conventional liquid as "crude oil and lease condensate, natural gas liquids, and refinery gain." See EIA*, International Energy Outlook 200: World Conventional Liquids Production by Region and Country, Reference Case*.

consumers, since their limited supplies are likely to be compensated for by other major producers, regardless of boom and bust, and yet they derive the major share of their revenues from oil consumers. Only by acting in concert with other rentier states they may be able to shift the pattern of dependence in their favor. They are dependent on other producers, since they do not have the capacity to significantly pressure oil prices. In both cases, according to neo-rentier theory, the pattern of dependence is expected to influence the internal and external security strategies. This claim, however, is theoretically derived and calls for empirical examination.

In this dissertation the focus has been on developing neo-rentier theory and what Eckstein calls "Plausibility Probes." With the plausibility of neo-rentier theory for the case of Saudi Arabia having been demonstrated, future study needs to subject neo-rentier theory to stern tests, providing further opportunities for verification or falsification. Testing should be guided by the following criteria. First, different cases of rentier states should be selected from both inside and outside the Middle East, with various levels of proven reserves and production capacity. Second, the credibility of the theory will increase, if it is tested in cases of rentier states with different levels of military power. Third, it is imperative to examine as many empirical statements derived from neo-rentier theory as possible. The tests carried out in this dissertation examined three out of four different possible hypotheses. Additional tests should account for the case in which a given rentier state is dependent on other oil-producing countries. Finally, although this dissertation has focused on rentier states, the usage of patterns of dependence as an independent variable also offers a new avenue for research into the foreign policy behavior of oil consumers.

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SAMENVATTING

Olieafhankelijkheid heeft de politiek in de tweede helft van de twintigste eeuw wezenlijk veranderd. Het heeft olieconsumerende en -producerende landen kwetsbaar gemaakt voor buitenlandse druk, terwijl het ze tegelijkertijd nieuwe mogelijkheden heeft verschaft om hun macht en invloed te vergroten. Gebruik makend van de benadering van de politieke economie analyseert dit proefschrift de invloed van olieafhankelijkheid op de veiligheidsstrategieën van olie 'rentier staten' (Engels: rentier states). Rentier staten worden gedefinieerd op basis van twee kenmerken: Ten eerste verkrijgen ze het merendeel van hun inkomsten uit het buitenland, en ten tweede voorzien ze de maatschappij van een grote hoeveelheid gratis voorzieningen en subsidies.

De afhankelijke variabele van dit onderzoek is de variatie in de typen en intensiteit van vier oliegerelateerde veiligheidsstrategieën: *Internal validation, external validation, internal balancing* en *external balancing*. In het geval van *internal validation* worden olie-inkomsten gebruikt om binnenlandse legitimiteit en steun te kopen. In het geval van *external validation* worden olie-inkomsten, olieprijs en/of export gebruikt in de internationale arena om de binnenlandse legitimiteit te waarborgen. Met *internal balancing* worden investeringen van oliedollars in interne veiligheidsapparaten en de militaire dienst bedoeld, terwijl *external balancing* doelt op het gebruik van olie-inkomsten, olieprijs en/of -export om allianties aan te gaan in de internationale arena. Afhankelijkheid is de onafhankelijke variable en wordt bepaald door de alternatieve kosten (Engels: opportunity cost) voor de rentier staat en olieconsumerende of olieproducerende landen om de relatie te wijzigen. Hoge alternatieve kosten voor beide partijen in de relatie impliceert symmetrische afhankelijkheid (of onderlinge afhankelijkheid), terwijl hoge alternatieve kosten voor één van beide partijen asymmetrische afhankelijkheid impliceert.

De hoofdvragen van dit proefschrift zijn: Hoe beïnvloeden veranderingen in olieafhankelijkheid de veiligheidsstrategieën van rentier staten? Onder welke omstandigheden fungeert olieafhankelijkheid als machtsmiddel voor rentier staten? Door deze vragen te beantwoorden levert dit proefschrift een waardevolle bijdrage aan theorievorming en overheidsbeleid. Theoretisch gezien verschaft het nieuw inzicht in het effect van veranderingen in olieafhankelijkheid op veiligheidsstrategieën van rentier staten. De ontwikkelde theorie (neo-rentier theory) maakt verschillende typen van olieafhankelijkheid inzichtelijk en specificeert hoe de olieprijs en olie-inkomsten binnenlandse en buitenlandse veiligheidsstrategieën van rentier staten beïnvloeden.

Net zo belangrijk is de bijdrage aan beleidsmakers. Het belang van olie voor economische ontwikkeling en groei heeft olieafhankelijkheid hoog op nationale veiligheidsagenda's geplaatst. Olie-embargo's hebben de zorgen van olieconsumerende landen over de zekerheid van olieaanvoer en gematigde prijzen geaccentueerd, terwijl sancties de olie-inkomsten van rentier staten in gevaar hebben gebracht. Het is daarom van groot belang voor beleidsmakers om meer inzicht te krijgen in de manier waarop en condities waaronder oliehulpbronnen (aanvoer en prijzen) toegepast kunnen worden voor

veiligheidsdoeleinden. Dit inzicht maakt het mogelijk voor beleidsmakers om beleid af te stemmen op de afhankelijkheidsrelaties.

Het ontwikkelde argument is getest door een zogenaamde *plausibility probe case study* toe te passen. Daartoe bestudeert het empirisch de veiligheidsstrategieën van Saudi Arabië onder verschillende condities van olieafhankelijkheid tussen 1950 en 2000. Het onderzoeksontwerp is vergelijkend van aard: De veiligheidsstrategieën van Saudi Arabië zijn longitudinaal onderzocht, waarbij onderscheid is gemaakt tussen perioden van prehoogconjunctuur, hoogconjunctuur en laagconjunctuur. Dit onderzoeksontwerp maakt het mogelijk om andere factoren constant te houden en te onderzoeken wat het effect is van veranderingen in de onafhankelijke variabele op de afhankelijke variabele.

Het belangrijkste argument van dit proefschrift is dat de beschikbaarheid en intensiteit van binnenlandse en buitenlandse veiligheidsstrategieën van rentier staten geconditioneerd wordt door op olie gebaseerde afhankelijkheidsrelaties. Deze afhankelijkheidsrelaties worden bepaald door de relatieve kosten van het veranderen of verbreken van relaties tussen rentier staten en olieconsumerende en -producerende landen. Dit argument is ontwikkeld in hoofdstuk vier in de vorm van een theorie, wat ik ‘neo-rentier theorie’ noem. Neo-rentier theorie rust op de definitie van de rentier staat, en behoudt de logica van het afkopen van politieke steun. Het gaat verder dan rentier theorie in twee opzichten. Ten eerste biedt het een nauwkeuriger rekenschap van het mechanisme van welvaartsverdeling. Ten tweede neemt het aannamen en logica op van erkende klassieke theorieën van internationale relaties, namelijk het realisme en liberalisme.

Neo-rentier theorie is gebaseerd op twee aannamen van het realisme: veiligheid is het belangrijkste doel van de staat, en militaire kracht is een effectieve manier om veiligheid te garanderen. Het verschilt van het realisme op twee manieren. Ten eerste is de conceptualisatie van veiligheid verbreed door interne en externe veiligheid mee te nemen in de analyse. Ten tweede is de conceptualisatie van macht verbreed door niet alleen relatieve militaire macht, maar ook economische afhankelijkheid op te nemen. Zonder het belang van militaire macht te ontkennen, laat het model zien dat olieafhankelijkheid onder bepaalde condities ook kan dienen als bron van macht en invloed. Economische afhankelijkheid is in navolging van de liberale traditie gedefinieerd als machtbron in termen van alternatieve kosten voor de verschillende actoren in de relatie. Om afhankelijkheid als machtbron van actor A over B te beschouwen moeten de relatieve kosten laag zijn voor A en hoog voor B. In andere woorden, opheffing van of verandering van de relatie zorgt voor moeilijkheid voor B maar niet voor A. Als beide actoren hoge alternatieve kosten hebben, dan wordt de relatie gekenmerkt door symmetrische afhankelijkheid.

Volgens neo-rentier theorie creëren verschillende afhankelijkheidsrelaties kansen en bedreigingen voor de rentier staat, waardoor de beschikbaarheid en intensiteit van de vier bovengenoemde veiligheidsstrategieën wordt beïnvloed. Terwijl olie-inkomsten gebruikt kunnen worden voor het financieren van *internal validation*, *internal* en *external balancing*, kan olieaanvoer en prijs gebruikt worden voor *external balancing* en *external validation*. De afhankelijkheidsrelaties tussen een rentier staat en andere staten (consumerende en producerende) hebben niet alleen effect op de hoeveelheid olie-inkomsten, maar ook op de mogelijkheid om olieaanvoer en prijs te manipuleren.

In het slechtste scenario kan de rentier staat alleen *internal validation* en *internal balancing* op een laag niveau toepassen en is het onwaarschijnlijk dat het de veiligheidsstrategieën van *external validation* en *external balancing* gebruikt. Dit gebeurt wanneer de rentier staat asymmetrisch afhankelijk is van anderen (olieconsumerende en -producerende landen). In het beste scenario heeft de rentier staat financiële capaciteit om *internal validation* en *internal balancing* toe te passen op een hoog niveau en is het waarschijnlijk dat het tevens *external validation* en *external balancing* gebruikt. In dit geval zijn andere actoren (olieconsumerende en –producerende landen) asymmetrisch afhankelijk van de rentier staat. Tussen deze twee extremen bevindt de rentier staat zich in een situatie waarin het in gematigde vorm *internal validation* en *balancing* toepast, terwijl het onwaarschijnlijk is dat het *external validation* en *external balancing* gebruikt. Zowel de rentier staat als andere actoren zijn in dit geval symmetrisch afhankelijk van elkaar.

Het theoretische argument van dit proefschrift is empirisch getest in de hoofdstukken vijf, zes en zeven. De hoofdstukken zijn opgedeeld in de perioden van prehoogconjunctuur (1950-1970), hoogconjunctuur (1970-1985), en dalende conjunctuur (1985-2000) respectievelijk, waardoor verschillende afhankelijkheidsrelaties onderscheiden worden tussen Saudi Arabië en olieconsumerende landen aan de ene kant, en Saudi Arabië en olieproducerende landen aan de andere kant.

Zoals is beschreven in hoofdstuk vijf, is Saudi Arabië een rentier staat geworden in het prehoogconjunctuur tijdperk. Maar ondanks de groeiende vraag naar olie in de nasleep van de Tweede Wereldoorlog was Saudi Arabië nauwelijks in de positie om invloed uit te oefenen op de aanvoer en prijs van olie. Dit had twee redenen. Ten eerste limiteerden de olieconcessies de mate waarin de Saudische overheid oliebronnen kon aanwenden voor politieke doeleinden. Sinds olie ontdekt werd in Saudi Arabië in 1938 tot aan de jaren '70 had het internationale olieconsortium ARAMCO volledige controle over oliegerelateerde besluitvorming, terwijl het koninkrijk slechts licentiegelden ontving en deelde in de winst. Olie-inkomsten vormden wel de belangrijkste bron van inkomen voor de staat. Ten tweede was er ondanks de groeiende vraag naar olie meer dan genoeg olieaanbod in de markt. Onder deze condities is het waarschijnlijk dat Saudi Arabië *internal validation* en *internal balancing* zal aanwenden op een laag niveau, terwijl het onwaarschijnlijk is dat het *external validation* en *external balancing* toepast.

Dienovereenkomstig heeft het koninkrijk minimale *internal validation* en *internal balancing* toegepast in vergelijking met latere perioden. Wel heeft de Saudische staat zich snel ontwikkeld en belangrijke ontwikkeling- en infrastructurele projecten gefinancierd. Ook heeft het publieke ondernemingen opgezet die verscheidene sectoren van de economie domineren, waaronder de industrie, financiën en dienstensector. Door instituties op te zetten is er tevens een grote hoeveelheid werkgelegenheid ontstaan in het openbaar bestuur en de publieke sector. Tegelijkertijd werden militaire en veiligheidsapparaten van de grond af opgebouwd en ontwikkeld tot professionele organisaties uitgerust met moderne wapens, technologie en training. Nieuwe repressieve agentschappen zijn opzet om interne veiligheid en stabiliteit te monitoren, controleren en af te dwingen.

In de internationale arena leveren de geanalyseerde bedreigingen gemengd bewijs op. Tijdens de Suezkanaal crisis en de zesdaagse oorlog in 1967 implementeerde de Saudische overheid de strategie van *external validation* door middel van olie-embargo's. Beide embargo's waren echter niet erg effectief en kort van duur omdat alternatieve aanvoer van olie beschikbaar was van niet-Arabische olieproducerende landen. Tegelijkertijd heeft het Saudische regime in antwoord op Nasser's pan-Arabisme en de militaire interventie in Yemen Amerikaanse steun gezocht. De Kennedy regering was echter niet erg toeschikkelijk, ondanks het belang van het koninkrijk also olieproducerend land.

Zoals beschreven is in hoofdstuk zes vonden er twee structurele veranderingen plaats in de oliemarkt aan het begin van de jaren zeventig waardoor de afhankelijkheidsrelaties drastisch veranderden. Ten eerste oversteeg de vraag naar olie het aanbod. De gegroeide vraag naar olie was voor een groot deel toe te schrijven aan de transformatie van de Verenigde Staten van een net exporteur naar een net importeur. Omdat bewezen reserves met een hogere snelheid gedaald waren dan waarmee nieuwe reserves werden ontdekt, was de olie import van de Verenigde Staten sterk toegenomen. In de vroege jaren '70 werd de Verenigde Staten de grootste olie-importeur ter wereld, met een gemiddelde van 8.5 miljoen vaten per dag. Ten tweede nam de Saudische staat de besluitvorming over van ARAMCO over de grote hoeveelheid bewezen reserves en de enorme export capaciteit. Het gecombineerde effect van deze twee factoren, een krappe markt en staatscontrole over oliebronnen, creëerde een situatie waarin consumerende landen asymmetrisch afhankelijk werden van Saudi Arabië (evenals van andere olieproducerende landen).

Zoals voorspeld door neo-rentier theorie heeft het regime *internal validation* en *internal balancing* toegepast op een hoger niveau dan in 1950 en 1960. Voor wat betreft *internal validation* heeft de staat een serie van vijfjarige ontwikkelingsplannen geïnitieerd, waardoor het op verschillende manieren afhankelijkheidsrelaties met de maatschappij creëerde. Ten eerste werd een aanzienlijk onderdeel van de productieve bevolking afhankelijk van overheidswerkgelegenheid in de publieke sector. Ten tweede verbeterde de verdeling van welvaart de levensstandaard en het inkomen door middel van beurzen, subsidies en welzijnsprogramma's. Ten derde vormden grote infrastructurele projecten gefinancierd door de overheid een katalysator voor de private sector. In termen van *internal validation* werden grote hoeveelheden olie-inkomsten besteed aan de ontwikkeling en ondersteuning van militaire en veiligheidsapparaten.

De reactie op belangrijke dreigingen in deze periode laat zien hoe oliebronnen werden ingezet voor *external validation* en *external balancing*. Het olie-embargo van 1973 en het antwoord op de Camp David Akkoorden demonstreert de inzet van *external validation* ten behoeve van het behouden van maatschappelijke steun en ter voorkoming van binnenlandse instabiliteit. In het geval van het embargo in 1973 heeft Saudi Arabië in samenwerking met andere Arabische olieproducerende landen de olieproductie met 25 procent gekort en verbood het olie verscheping naar de Verenigde Staten, Nederland, Zuid Afrika, Rhodesië en Portugal. Op een vergelijkbare manier legde het een plafond aan op de export van olie in het midden van een krappe oliemarkt om politieke isolatie in de Arabische wereld te voorkomen.

Om de dreiging van het revolutionaire Iran te confronteren, balanceerde Saudi Arabië met Irak en de Westerse olieconsumerende landen, vooral de Verenigde Staten. Terwijl de Verenigde Staten militaire hulp leverde en aan Saudi Arabië veiligheidsgarantie gaf, produceerde Saudi Arabië meer olie om de tekorten in de markt veroorzaakt door de ontbrekende Irakese en Iranese olie op te vullen. Tegelijkertijd gaf het steun aan Irak door middel van financiële hulp en olieaanvoer. Bovendien maakte het koninkrijk de olieprijs een politiek wapen tegen Iran. Om het Iranese regime olie-inkomsten te ontnemen produceerde het koninkrijk meer olie tegen lagere prijzen.

In het midden van de 80-er jaren is de wereldwijde vraag naar olie afgenomen en is er meer aanbod van olie dan vraag ernaar. Zoals beschreven in hoofdstuk zeven is het machtsevenwicht toen verschoven van de olieproducerende landen naar de olieconsumerende landen. Rentier staten zoals Saudi Arabië werden hierdoor asymmetrisch afhankelijk van olieconsumerende landen. Tegelijkertijd gaf de enorme hoeveelheid aan oliebronnen het Saudische regime beperkt invloed op andere rentier staten. Onder deze condities kunnen twee hypothesen worden ontleend aan neo-rentier theorie om de veiligheidsstrategieën van het koninkrijk te verklaren. Met betrekking tot de relaties met consumerende landen kan verwacht worden dat het koninkrijk *internal validation* en *internal balancing* op een lager niveau toepast, terwijl het onwaarschijnlijk is dat het externe *validation* en *balancing* gebruikt. Met betrekking tot de relaties met andere rentier staten voorspelt neo-rentier theorie dat het waarschijnlijk is dat Saudi Arabië *external validation* en *external balancing* gebruikt.

Het Saudische regime continueerde het duale beleid van coöptatie door *internal validation* en beheersing door *internal balancing*, maar de intensiteit was lager dan tijdens de periode van hoogconjunctuur. *Internal validation* wordt vervolgd met drie ontwikkelingsplannen: het Vierde Ontwikkelingsplan (1985-90), het Vijfde Ontwikkelingsplan (1990-95) en het Zesde Ontwikkelingsplan (1995-2000). Het belangrijkste doel van deze plannen was niet anders dan van vorige plannen: het verhogen van de levensstandaard en het verschaffen van werkgelegenheid. Ook militaire bestedingen gingen omlaag in de periode tussen 1986 en 1990. Bestedingen stegen tijdens de Golf Oorlog, maar daarna fluctueerden ze tot het einde van het decennia. Om begrotingstekorten te financieren maakte de staat gebruik van verschillende instrumenten. Aan de kant van de uitgaven werden bestemmingen herverdeeld om publieke uitgaven te reserveren voor de belangrijkste sociale welzijnsprogramma's. Aan de kant van de inkomsten paste de overheid verschillende instrumenten toe: het vergrootte de olie-export, het putte buitenlandse reserves uit, en het wendde zich tot binnenlandse en buitenlandse leningen. Het koninkrijk maakte niet gebruik van de strategieën van *external balancing* en *external validation* ten opzichte van consumerende landen.

In antwoord op de Irakese invasie in Koeweit wendde het Saudische regime zich tot *external balancing*. Het werkte samen met de Verenigde Staten en andere Westerse mogendheden om Saddam Hussein uit Irak te drijven. Terwijl Westerse mogendheden, vooral de Verenigde Staten militair geweld gebruikten tegen Irak, maakte Saudi Arabië gebruik van oliebronnen. Het hielp om de oliemarkt te kalmeren door de ontbrekende Koeweitse en Irakese olie te compenseren met een hogere productie. Daarnaast gebruikte het regime oliedollars om de oorlog tegen Saddam Hussein te financieren, door biljoenen dollars te verstrekken aan zowel de Verenigde Staten als andere Arabische en Moslimlanden die troepen stuurden naar het koninkrijk.

De case studie van Saudi Arabië van 1950 tot 2000 levert sterk empirisch bewijs voor neo-rentier theorie. In alle drie de verschillende fasen van olieafhankelijkheid paste de Saudische staat *internal validation* en *internal balancing* toe in overeenstemming met de voorspelling van neo-rentier theorie. Wat betreft de toepassing van de veiligheidsstrategieëen van *external validation* en *external balancing*, zijn er slechts twee gevallen die neo-rentier theorie tegenspreken. Hoewel het bewijs voor neo-rentier theorie niet afdoende is, demonstreert het de manier waarop olieafhankelijkheid het veiligheidsbeleid van rentier staten zowel belemmert als verrijkt. De bevindingen van dit proefschrift kunnen verder ontwikkeld worden in toekomstig onderzoek door andere rentier staten te analyseren binnen en buiten het Midden Oosten en door de effecten van veranderingen in afhankelijkheidsrelaties op olieconsumerende landen te bestuderen.

CURRICULUM VITAE

Islam Yasin Qasem was born in 1973 in Syria. In 1989 Islam finished high school from Franklin High School in Reisterstown in the state of Maryland, USA. After high school Islam studied engineering at California State University in Fresno, receiving a Bachelor of Science in Computer Engineering. He spent five years working as a software engineer in Silicon Valley in Northern California. Afterward he earned a Diploma in General Management from the Executive Program at Harvard Business School in Boston. He continued his education at Columbia University in New York and obtained a degree of Master of International Affairs. In 2006 Islam received a Diploma De Estudios Avanzados in Political and Social Sciences (M.Phil.) from Universitat Pompeu Fabara in Barcelona, Spain. In addition, Islam received academic training at various European and American universities, including Central European University (Budapest), George Washington (USA), and the University of Maryland (USA). His teachings include guest lectures on domestic and foreign politics of Saudi Arabia, international politics of oil, and conflicts in the Middle East as well as courses on qualitative research methods, social theory, and the Middle East.