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Rentier Wealth and Demographic Change in the Middle East and North Africa

Alexander Smith*

The bulk of the world's oil resources are concentrated in one particularly favored region. With more than 809 billion barrels of proved oil reserves, which corresponds to 65 percent of the world total,[1] the Middle East and North Africa (MENA) region[2] possesses the earth's most precious treasure. From the 1930s, when the first oilfields of the Arabian Peninsula were explored, onwards, the countries in the region were steadily gaining importance on the international scene. However, because hydrocarbon production and distribution was fully controlled by the major Western oil companies at that time, MENA's nations were not able to transform their unique resource endowment into political power. After a long struggle for control of the oil between the Western companies and the region's petroleum-producing countries, it was not until the early 1970s that the latter gained full control of their resources. As for the oil-addicted nations of the Western Hemisphere

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1 BP, *Statistical Review*, p. 6.

2 In its most common understanding, the Middle East and North Africa (MENA) region usually comprises the following countries: the Maghreb countries Morocco, Algeria, and Tunisia, as well as Libya; the Mashreq countries Egypt, Israel, the Palestinian territories, Lebanon, Syria, Jordan, and Iraq; the Gulf Cooperation Council member countries Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE); and Iran and Yemen. In some cases Israel and Iran are excluded to emphasize the predominantly Arab character of the region, whereas in others Turkey is included. In this study, MENA refers exclusively to the major oil-exporting countries in the region. These are Algeria and Libya in North Africa, the Gulf Cooperation Council members on the Arabian Peninsula, and Iraq and Iran.

access to MENA's petroleum was of paramount importance for their continuing economic prosperity, when they lost control of the region's resources, they were at the mercy of the oil-exporting nations. The first oil crisis of 1973-74, when the use of the 'oil weapon' by all Arab petroleum producers[3] caused panic in Europe and the world economy tumbled into recession, clearly showed the transformation of power relations in favor of Middle Eastern and North African oil producers.

The oil glut of the 1980s and 1990s undermined MENA's relevance and influence in the international petroleum market. But after the turn of the millennium the world's growing thirst for the 'black gold' in combination with decreasing production rates in many regions other than MENA brought the latter, with its unprecedented resources, back on the scene. Europe represents a prime example in this regard: The countries of the resource-poor European continent have always been highly dependent on petroleum imports. Today, twenty-two out of twenty-seven European Union member countries depend for 95 percent or more of their oil demand on imports. Europe's energy position, however, will further deteriorate in the future. Because of decreasing indigenous production in the North Sea and rising future demand, the continent's dependence on crude oil imports will increase considerably in the years to come. The bulk of the additional oil imports will come from the MENA region, which will literally fuel Europe in the future. Not only Europe but all net oil-importing regions will become significantly more dependent on petroleum imports from MENA's fossil fuel producers, whose market share of global oil supplies will grow substantially.[4]

As some observers interpret it, this significant gain in importance for the world's future energy supplies directly translates into enormous economic

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[3] The 1973-74 embargo of Western countries that supported Israel in the Yom Kippur War by Arab oil exporters was not the first time that the 'oil weapon' was employed. It already was used on the occasion of the founding of Israel in 1948, during the Suez War in 1956, and in the 1967 Arab-Israeli War. However, contrary to 1973, each of these embargoes failed.

[4] See IEA, *World Energy Outlook 2006*, p. 73 and 94. According to the International Energy Agency's reference scenario, MENA's petroleum producers will increase their net oil exports from about 24 million barrels per day (mb/d) today to more than 40 mb/d in 2030 (see Ibid., Figure 3.9, p. 101).

and political power for MENA's oil exporters.[5] Under reference to the use of the 'oil weapon' in 1973-74, when the Arab hydrocarbon producers successfully wrested political concessions from Europe, the increasing dependence on MENA's petroleum is interpreted as a danger to national security.[6]

Contrary to this notion, in this paper it is argued that the MENA countries' leverage in order to influence or even force their customers, particularly the industrialized oil-importing countries of the Western Hemisphere, to adjust their political agenda in their favor will decline considerably in the future. Due to the rentier structure of their economies, societies and political systems in combination with soaring population growth rates, these countries increasingly depend on a steady flow of cumulatively rising oil revenues in order to maintain their inefficient economic systems and, as a consequence, to guarantee the survival of their authoritarian political regimes. Because of MENA's great internal challenges any future employment of the 'oil weapon' is highly unlikely.

The paper is structured as follows: The first section describes the functioning of the inflexible rentier state system, which characterizes all the countries considered in this study. The theory of the rentier state allows to explain how the MENA petroleum producers depend on the oil-consuming nations for their very survival. After detailing the region's enormous population growth since the 1950s in the second section, the third part of the present study analyses the impact of the demographic change and the rentier systems on MENA's economic performance. The fourth section points to major socio-economic and demographic challenges resulting from the region's population growth and economic stagnation. The study concludes by arguing that the recently bullish oil market with record oil prices actually threatens MENA's oil producers because it undermines any willingness to reform the rentier economies, which, however, seems to be inevitable for guaranteeing the region's future prosperity.

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[5] See for example Luft, "Dependence on Middle East Energy," pp. 197-198. Luft quotes the chief economist of the International Energy Agency as saying that "[w]e are ending up with 95 percent of the world relying for its economic well being on decisions made by five or six countries in the Middle East."

[6] Luft, "Dangerous Dependence"; see also Minsk, "Ending Oil Dependence," p. 1.

The Theoretical Characteristics and the Empirical Reality of the Rentier State in the MENA Region

The Rentier State Concept

The concept of the rentier state was originally formulated by Hossein Mahdavy, according to whom a rentier state is simply defined as a country that receives on a regular basis considerable amounts of external economic rent.[7] Later this concept was picked up by Hazem Beblawi and Giacomo Luciani, who, in contrast to Mahdavy's exclusive focus on the state, point out the important role of the economy in rentier states. They conceive the rentier state as being a subsystem associated with a rentier economy, for which reason they prefer to talk about 'rentier economies' instead of 'rentier states.'[8] As outlined by Beblawi, the rentier state distinguishes oneself by the following four characteristics: First, by the rentier economy. The latter is characterized by a predominance of rent inflows in contrast to productive efforts to create sustained value. Second, the rent must originate from an external source. Third, only few are involved in the generation of rents, whereas the grand majority is distributing and consuming them. Fourth, the government or the ruling elite is the principal recipient of the rents.[9]

Thus, rentier states dispose of extensive external revenues, which are not, or only to a minor extent, related to productive efforts within the country. They rather rest upon a special resource endowment and usually accrue directly to the state or the ruling class.[10] This permanent inflow of external rents allows for a special autonomy of the state in regard to the people, because it does not depend on domestic taxation for its income. Quite the contrary, rentier states are veritable allocation states, which can afford to aliment the population instead of levying taxes. Spending is the primary objective of economic policy in an allocation state.[11] Since the government is *the* leading actor in the do-

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7 Mahdavy, "Patterns and Problems, Rentier States," p. 428. For an overview of the development of rentier state theory, see Yates, *Rentier State in Africa*, Chapter I.

8 Beblawi and Luciani, "Introduction," p. 11.

9 Beblawi, "Rentier State in Arab World," pp. 51-52; see also Yates, *Rentier State in Africa*, p. 14.

10 Perthes, *Geheime Gärten*, p. 124.

11 Yates, *Rentier State in Africa*, p. 15.

mestic economy and the primary source of welfare, the prosperity of private citizens depends on the acquisition of this government wealth, in the form of access to contracts, information, and jobs in the public sector.[12] Because the state is not taxing its citizens, in the perception of the ruling elite and on the basis of the maxim 'no representation without taxation,' the people does not have the right of political participation. The basic social contract of an allocation state consists of the provision of security and welfare by the state, for what, in exchange, the people accepts the legitimacy of the ruling family and does not raise political demands.[13] As a consequence, the logic of the rentier state is supporting authoritarian rule, which is the case in all oil-exporting MENA countries under analysis.

It goes without saying that these characteristics of rentier states have severe consequences not only for the political order and the economic structure of states, but for the societal self-conception. This fact can be summarized by what is called the 'rentier mentality.' As explained by Yates, "the rentier mentality is a psychological condition with profound consequences for productivity" and thus for a country's economic performance as a whole. In line with this mentality, "contracts are given as an expression of gratitude rather than as a reflection of economic rationale; civil servants see their principal duty as being available in their offices during working hours; [...] the best and brightest abandon business and seek out lucrative government employment; manual labor and other work considered demeaning by the rentier is farmed out to foreign workers, whose remittances flood out of the rentier economy; and so on."[14] The massive inflow of external rent literally indulges the people, because the government aliments it without any need for productive efforts.

In the following sections of the present study it is shown how the characteristics and the mentality of the rentier state, that were discussed only in theory so far, affect the economic and societal realities in the Middle East and North Africa.

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12 Okruhlik, "Rentier Wealth," p. 297.

13 Perthes, *Geheime Gärten*, p. 351; see also West, "Saudi Arabia, Iraq, Gulf," p. 198.

14 Yates, *Rentier State in Africa*, p. 22.

In fact, the rentier mentality was trained and practiced for decades during the time of colonial rule and then adopted by the newly formed states when––Iraq and Saudi Arabia in 1932, Libya in 1951, Kuwait and Algeria in the early 1960s, and Qatar, Bahrain, and the UAE in 1971—they became independent. In the same manner as the British allowances before independence, after decolonization, the fees paid by the oil companies and rising export revenues were accruing directly to the ruling elites, which, as a consequence, consolidated their rule.[15] Thus, even before the formation of modern nation states in the region, MENA's oil producers were incorporating a system based on the inflow of external rents.

In accordance with the explanations of rentier state theory, these rents, today primarily in the form of oil export revenues, are, as demonstrated by Table 1, by far the most important wealth generating factor of MENA countries' domestic economies. Luciani specifies that a rentier state is one "whose revenue derives predominantly (more than 40 percent) from oil or other foreign sources,"[16] which definitely is the case for all MENA petroleum producers. Oil revenues typically account for between at least 50 up to over 80 percent of total government income. The exact share, however, highly depends on the actual price of oil. Therefore, at times of record oil prices like in 2008 the figures in Table 1 (see next page) are still higher.

In the early decades of oil production these figures used to be even higher. In the late 1960s, for example, the governments of the Arabian Peninsula countries depended for over 90 percent of their total income on petroleum revenues. Accordingly, oil exports as percentage of total exports in 1968 amounted to 100 percent in Abu Dhabi, Qatar, and Libya and between 91 and 93 percent in Iran, Iraq, and Saudi Arabia.[17] From the 1950s onwards, virtually all of the Gulf countries' economic growth is attributable directly or indirectly to their hydrocarbon sectors.[18]

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15 Perthes, *Geheime Gärten*, p. 351.

16 Luciani, "Allocation vs. Production States," p. 70.

17 Rouhani, *History of O.P.E.C.*, p. 119.

18 Barlow, "Economic Growth in Middle East," p. 144.

TABLE 1
MENA PETROLEUM PRODUCER'S DEPENDENCE ON OIL EXPORT REVENUES

	oil revenues in percent of total export earnings (2004)	oil revenues in percent of total fiscal revenue (2004)	oil exports in percent of GDP (2000-2003 average)
Algeria	98 †	70 *†	36
Bahrain	72 *	71 *	49
Iran	80 †	>50 †	20
Kuwait	95	>80	46
Libya	95	75	37
Qatar	83 *	>70	55
Saudi Arabia	90	75	35
United Arab Emirates	50	76 *	35

* 2000-2003 average

† including natural gas

Sources: IEA, *World Energy Outlook* (2004 data); and IMF, *Resource Revenue Transparency*, p. 63 (2000-2003 average).

Even though the government, i.e. in the case of most MENA countries the ruling families, is the principal recipient of the huge oil rents, in conformity with rentier state theory, the revenues are distributed to the whole indigenous population. According to Onn Winckler, the alimentation of the people is usually organized by the following two mechanisms: First, through a system of governmental employment, which encompasses almost the entire national workforce. Second, by the "provision of large-scale social services to the indigenous populations, either free of charge or heavily subsidized."[19]

Hence, in allocation states the citizens are used to be alimented by the government without having to be productive, which gives rise to the formation of the already mentioned 'rentier mentality.' All productive work is done by masses of imported labor. At the turn of the millennium, the Saudi Arabian civilian labor market counted about 7.2 million employees. Only 880,000 of them were Saudi citizens, of whom about two-thirds were employed in the

[19] Winckler, "Demographic Dilemma of Arab World," p. 629.

completely overstaffed public sector.[20] In the same manner, over 90 percent of Kuwaiti nationals in employment work directly or indirectly for the government.[21] In the other sheikdoms on the Arabian Peninsula the situation is similar.

Windfall profits from hydrocarbon exports also allowed for the establishment of generous social services and for subsidizing specific goods. Saudi Arabia has established a comprehensive system of public welfare, which includes free medical treatment and education, as well as highly subsidized food, water, electricity and gasoline, easy loans, land grants for housing, and stipends for good grades in school.[22] The Kuwaiti government provides retirement income, marriage bonuses, housing loans, virtually guaranteed employment, free medical care, and free education at all levels. Iran is subsidizing essential goods like bread and gasoline; direct energy subsidies account for 25 percent of government spending and 10 percent of GDP.[23]

In addition to the provision of social services and subsidies, which is essential for MENA's governments in order to legitimate and preserve their power, foreign exchange earnings from petroleum exports are also vital to pay for the imports of "much-needed manufactured goods and specialized services, and to keep the balance of payments in a favorable position."[24]

There is no doubt that the petroleum industry is of prime importance for the MENA region. George Lenczowski already remarked in 1960 that, since the national economies and state budgets of the main oil-exporting countries "have become heavily dependent on oil revenues, [...] any major disturbance in the steady flow of these revenues is apt to produce serious economic dislocations, and this in turn may easily affect the social and political stability" of these nations. He continues by stating that it would be no "exaggeration to say" that, in the case of disturbances, oil producers would face "economic and political disaster."[25]

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20 Perthes, *Geheime Gärten*, p. 370.

21 IEA, *World Energy Outlook 2005*, p. 412.

22 Steinberg, "Saudi-Arabien," p. 57; and Okruhlik, "Rentier Wealth," p. 301.

23 IEA, *World Energy Outlook 2005*, pp. 339 and 341.

24 Rouhani, *History of O.P.E.C.*, p. 108.

25 Lenczowski, *Oil and State*, pp. 106-107.

Since MENA's hydrocarbon-producing countries are still heavily dependent on the export of their natural resources, Lenczowski's assessment still possesses validity. Oil income and economic prosperity are inextricably linked. Thus, national welfare and public contentment, and, as a consequence, the survival of MENA's regimes depend to a high extent on a steady flow of oil income. The external rents are immediately absorbed by the rentier system, which ties up almost all resources. This restrains a country's scope of action and undermines its international power status. In these regards, the region's governments are victims of their self-established rentier economies. Even though the latter weakens the MENA's regimes' external scope of action, among other things because of their dependence on external welfare, on the other hand, as already mentioned, the maintenance of the rentier systems is essential for the governments' legitimacy.

There is one element, which poses an especially dangerous threat to MENA's rentier state systems: the region's exceptionally high population growth rates and its problematic demographic development. As will be shown in the following sections, no matter how high an oil-importing country's dependence on MENA's hydrocarbon resources may be, under these conditions, the oil exporters are not in the position to leverage any political or economic concessions.

MENA's Excessively High Population Growth

From the 1950s to the 1970s, the Middle East and North Africa had the highest fertility rate in the world at seven children per woman.[26] Despite the fact that the region's "Islamic culture contains a certain predisposition to high fertility,"[27] which is an important factor in the observed high rates, there are further reasons for it. As explained by Josh Martin, in traditional Arab societies large families were encouraged because the progeny served two functions: First, as children offset early mortalities, they ensured the continuation of the family. Second, children were regarded as an important support for

[26] Yousef, "Development, Growth and Policy," p. 100.

[27] Cassen, "Current Trends in Population Change," p. 333.

their parents.[28] Furthermore, the governments of the population-poor and oil-rich MENA countries actively encouraged high fertility. In the form of pro-natalist legislation they tried to increase the indigenous population with the objective of reducing the need for foreign workers as well as for prestige and security reasons.

At the same time, the introduction of modern medical services, such as antibiotics, immunization, and sanitation, as well as the establishment of cradle-to-grave government health programs, resulted in an eradication of diseases and caused death rates to plummet.[29] Infant mortality dropped from almost 200 deaths per 1,000 births in the early 1950s to less than 10 infant deaths today in the Persian Gulf sheikdoms,[30] and average life expectancy increased from only 36 years on the Arabian Peninsula and about 42 years in North Africa in the early 1950s to over 70 years at the beginning of the new millennium.[31]

This combination of very high fertility and early and very intense nuptiality with rapidly declining death rates due to improved health care resulted in a downright population explosion in the MENA region. Its population growth rates, at times well above 3 percent per annum, exceeded all other regions in the world with the exception of sub-Saharan Africa. In the last half century, the region's population more than quadrupled.[32] The highest growth rates were experienced by the Arabian Peninsula sheikdoms. As indicated in Table 2 (see next page), the Kuwaiti population grew by a factor of 20, the Qatari people by a factor of 35, and the United Arab Emirates multiplied its population 66-fold!

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28 Martin, "Population Time Bomb," p. 8.

29 Roudi-Fahimi and Mederios Kent, "Population of Middle East and North Africa," p. 5; and Martin, "Population Time Bomb," p. 8.

30 Roudi-Fahimi and Mederios Kent, "Population of Middle East and North Africa," p. 6.

31 See Tabutin and Schoumaker, "Demography of Arab World," Table 13, p. 546.

32 Whereas the total population of MENA's oil exporters grew by more than 420 percent between 1950 and 2009, Europe's total population grew by only 34 percent during the same period. At times when Middle Eastern populations grew by more than 3.5 percent per year, e.g. in the 1980s, Europe's average annual growth rate equaled no more than 0.5 percent.

TABLE 2
MENA COUNTRIES' POPULATION GROWTH FIGURES

	population in 1950 in thousand	population in 2009 in thousand	projected population in 2050 in thousand	population growth 1950-2009 in multi-tudes*	population growth 2009-50 projection in percent
Algeria	8,753	34,895	49,619	4	42
Bahrain	111	791	1,277	7	61
Iran	16,276	74,196	96,975	5	31
Iraq	5,198	30,747	63,995	6	108
Kuwait	152	2,985	5,240	20	76
Libya	1,029	6,420	9,819	6	53
Qatar	25	880	1,400	35	59
Saudi Arabia	3,201	25,721	43,658	8	70
United Arab E.	70	4,599	8,253	66	79

* ratio of the population in 2009 to the population in 1950

Sources: UN, *Demographic Yearbook*; and UN, *World Population Prospects*.

Since the mid-1980s, MENA's population growth rates are falling sharply. Due to declining fertility, the rate dropped from seven children in 1960 to an average of three in 2006,[33] the region's population growth rate declined from 2.9 percent in 1980-84 to 2.3 percent in 1990-94 and to 1.9 percent in the early 2000s.[34] Nevertheless, despite the substantial fertility reduction, the natural increase rate of the Middle East is still the highest worldwide, following sub-Saharan Africa.[35] Consequently, even though growth is slowing

[33] Roudi-Fahimi and Mederios Kent, "Population of Middle East and North Africa," p. 7. Saudi Arabia and Iraq are the only oil-exporting countries in the MENA region whose fertility rate exceeds four children per woman. According to the Population Reference Bureau, the rates are 4.0 for Saudi Arabia and 4.6 for Iraq in 2008. Besides fertility reduction, significant changes in nuptiality, i.e. the age at marriage has increased—sometimes dramatically, extension of single life, and decreasing polygyny, represent further reasons for the declining population growth rates. See Tabutin and Schoumaker, "Demography of Arab World," pp. 524-527.

[34] Tabutin and Schoumaker, "Demography of Arab World," p. 516.

[35] Winckler, "Demographic Dilemma of Arab World," p. 617; and Tabutin and Schoumaker, "Demography of Arab World," p. 516.

down, it will remain high at between 1.5 and 2.5 percent per year, leading to rapid population growth over the next decades to come.[36] In this regard, Winckler explains, "in terms of absolute numbers the population growth in the Middle East during the late 1990s was similar to that of the mid-1980s, simply as a function of the sharp increase in the number of couples in the reproductive ages. This phenomenon, known as 'the population momentum,' refers to the fact that the future population growth will be influenced by its present age structure."[37] Thus, as a consequence of past high natural increase rates, MENA's population will continue to grow substantially for several more decades. In line with the latest projections, the total population of the region's oil producers will grow around 55 percent by 2050.[38] As shown in Table 2, with the exception of Iraq, whose population will more than double, the countries of the Arabian Peninsula will grow fastest in the next four decades. Whereas the Bahraini and Qatari population will increase by about 60 percent over this period, the populations of Saudi Arabia, Kuwait, and the United Arab Emirates will grow by 70 to 80 percent.

Profound transformations of lifestyle and marriage patterns caused population growth rates to decrease. But no matter how strong and sustainable these developments may be, as long as MENA's governments continue to subsidize basic foodstuffs and provide free healthcare and education, all of which are positive incentives—particularly in rural areas—to increase fertility levels, the population problem cannot be solved.[39] Demographic pressure on essential goods and services like education, housing, food, and especially employment, is still very strong.[40] It stands to reason that MENA's incredible population growth within a short period of time puts a strain on its rentier systems. Since the latter is necessary to legitimize the region's governments' claim of power, MENA's challenging demographic trend threatens the continuity of its regimes. Furthermore, excessive population growth in a rentier state inevitably leads to poor economic development as described in the next section.

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36 Tabutin and Schoumaker, "Demography of Arab World," p. 519.

37 Winckler, "Demographic Dilemma of Arab World," p. 618.

38 Europe's population, in contrast, will decline almost 6 percent by 2050.

39 Winckler, "Demographic Dilemma of Arab World," p. 634.

40 Tabutin and Schoumaker, "Demography of the Arab World," p. 518.

The Unprecedented Economic Downfall of MENA's Oil Exporters

The Rentiers' disastrous Economic Performance

From the mid-1980s to 2003, real oil prices declined sharply, with a lowest value during the Asian economic crisis in 1998, when the real price of crude petroleum, i.e. the nominal price adjusted for inflation and exchange rates, was only one-fifth of its 1982 record level.[41] Ali Jaidah notes that oil export revenues are the MENA region's only source of foreign-exchange earnings, and, as a consequence, the "price received directly affects the lives of all inhabitants of these countries." He continues by saying that "[t]heir livelihood, their welfare, the prospects of long-term economic development, all critically depend on it."[42] For this reason, the oil price decrease of the 1980s represented a real threat to MENA's oil exporters. But the latter's position deteriorated even further. At the same time, due to a significant drop in world oil demand in the 1980s because of a severe economic recession in the Western Hemisphere and the development of new oil fields primarily in Mexico, Alaska, and the North Sea, which led to increased competition on the world petroleum market, MENA's average hydrocarbon production plummeted from more than 24 mb/d at the end of the 1970s to only slightly more than 10 mb/d in the mid-1980s.[43] Within only three years, the combined oil revenue of Saudi Arabia, Kuwait, and the United Arab Emirates plunged from 186 billion U.S. dollars in 1982 to only 58 billion in 1985.[44]

For a rentier state whose welfare depends nearly fully on petroleum export revenues, the calculation is simple: Sizeable reductions in oil export volumes at substantially lower prices, which causes enormous losses in oil income, in combination with excessive population growth leads to a dramatic decline of collective and individual welfare. That is due to the simple fact that there is a "smaller cake on the table that must feed a much larger family."[45] For this reason, it is no surprise that for the region as a whole, real export earnings in

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41 See OPEC, *Annual Statistical Bulletin*, Table 71, p. 117.

42 Jaidah, *Appraisal of OPEC*, p. 8.

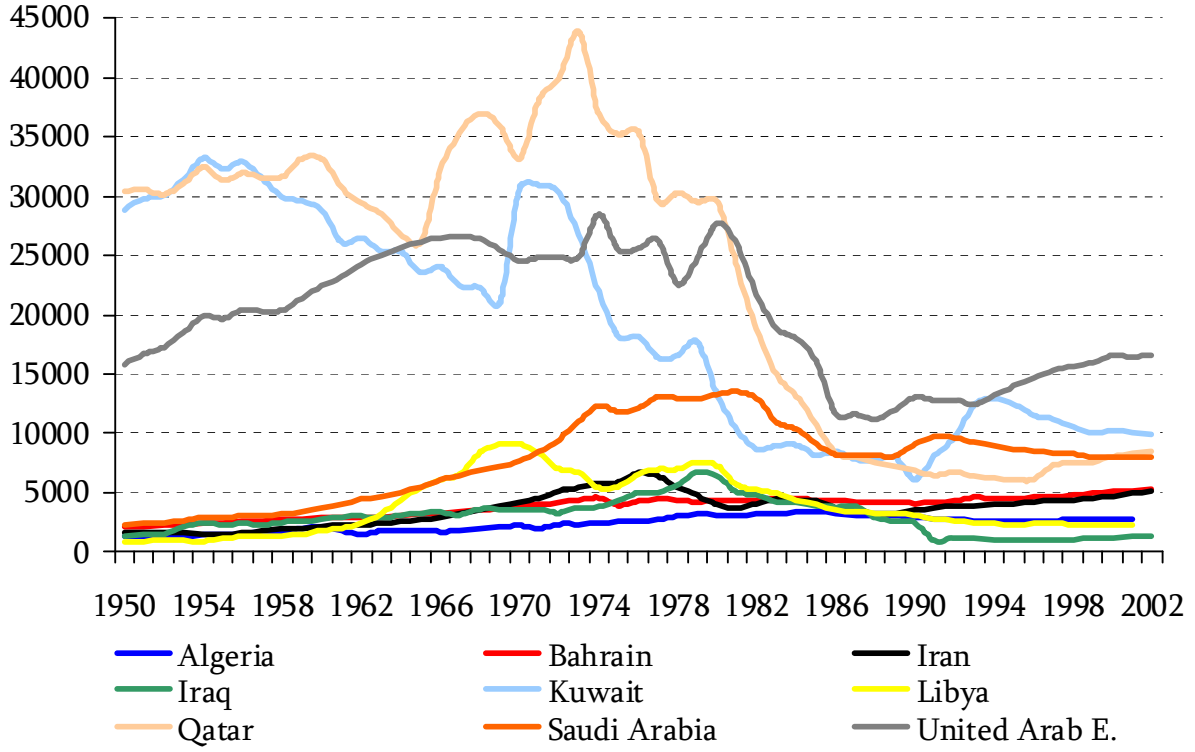
43 See OPEC, *Annual Statistical Bulletin*, Table 38, pp. 50-59.

44 Ali, *Oil and Power*, p. 156.

45 Maugeri, *Age of Oil*, p. 262.

2004 were 900 U.S. dollars per capita, which is only 32 percent of its peak level in 1980.[46]

FIGURE 1
GDP PER CAPITA OF MENA COUNTRIES 1950-2002
(in 1990 International Geary-Khamis Dollars)



Source: Maddison, *The World Economy*.

Figure 1 illustrates the sharp decline in real per capita GDP of MENA's oil-exporting countries, which commenced for most nations after the first oil crisis in the mid-1970s. The severest drop, however, occurred in the early 1980s, for the reasons already mentioned. Due to relatively low real oil prices and modest hydrocarbon export rates over the whole period from the mid-1980s up to 2003, and especially because of the rapid population growth, per capita GDP did not recover since then. For comparison, the average Western European GDP per capita constantly increased from about 5,000 dollars in 1950 to 20,000 dollars in 2002.

The Gulf countries suffered the greatest deterioration of their economic conditions. While their GDP per capita grew at an average annual rate of 3 per-

[46] IEA, *World Energy Outlook 2005*, p. 116.

cent in the latter half of the 1970s, it turned sharply negative in the following decade (-4.4 percent) and remained negative (-1.7 percent) between 1990 and 1998.[47] However, this does not mean that the region's overall economic performance since the 1980s was negative. As shown in Table 3, MENA's oil producers recorded positive GDP growth rates between 1971 and 2003, with the exception of Iraq due to the country's wars and international economic sanctions. Most notably the economies of Algeria, Saudi Arabia, and the United Arab Emirates grew extensively within the period. Nevertheless, the region's growth performance "has been weaker than that of any other region in the world with the exception of sub-Saharan Africa over the past two decades."[48] Despite these positive GDP growth rates, because of the region's population explosion, individual welfare of the people in MENA's oil-producing nations was declining. Particularly in the countries of the Arabian Peninsula, per capita GDP decreased substantially. According to Steinberg and Maugeri, Saudi Arabian per capita GDP was declining between the early 1980s and 2000s because of oil price decreases and high population growth from around 28,000 to only 7,000 U.S. dollars.[49] For the same reasons, Libya's nominal GDP per capita was reduced by half during the same period.[50]

TABLE 3
AVERAGE ANNUAL RATE OF CHANGE OF GDP AND GDP PER CAPITA 1971-2003 (in percent)

	Algeria	Iran	Iraq	Kuwait	Qatar	Saudi Arabia	UAE
GDP	4.1	3.3	-3.5	0.6	2.5	4.4	7.2
GDP per capita	1.5	0.7	-6.3	-2.8	-3.1	0.1	-1.7

Source: IEA, *World Energy Outlook.*

The oil crises of 1973-74 and 1979-80 each transferred the equivalent of 2 percent of global GDP to the petroleum-exporting nations.[51] It is evident that the region clearly failed in transforming its unprecedented revenues into sus-

47 UNDP and AFESD, *Arab Human Development Report*, p. 88.

48 Handoussa, "Quest for Economic Reform," p. 31.

49 Steinberg, "Saudi-Arabien," p. 54; and Maugeri, *Age of Oil*, p. 262.

50 Werenfels, "Algerien und Libyen," pp. 89-90. Real per capita GDP decline was even worse.

51 Auty, *Resource-Based Industrialization*, p. 3.

tainable wealth. The windfall oil export profits of the 1970s were invested, among other things, in prestigious but economically unviable infrastructure projects and domestic social services, including severe waste of public funds and corruption. The bulk of oil profits, however, was spent for modern armament and weaponry. "The explosion in oil revenues," explains Altaf Gauhar, "produced parallel explosions in military spending." Military expenditures in the Middle East escalated 10-fold between 1962 and 1980.[52] Likewise, the import bills of most of MENA's oil exporters were increasing 8-fold from 1970 to 1978.[53] A huge balance of trade surplus in 1974 was thus transformed into a deficit in 1978.[54] The same is true for the second oil crisis. In 1980, the main oil exporters ran a huge foreign-exchange surplus, but in 1982 they were again in deficit, where they have stayed for two decades.[55] In the mid-1980s, almost all MENA oil producers were in financial difficulties and were forced to dip into their financial reserves.[56] According to Steinberg, Saudi Arabia's average budget deficit between the mid-1980s and the end of the 1990s was at 13 billion U.S. dollars. At the beginning of 2004, the country's public debt reached almost 180 billion U.S. dollars, which equaled about 100 percent of its GDP. In the mid-1980s, when international oil demand was extremely low and prices were down, Saudi Arabia's petroleum production temporarily was only at 2.5 mb/d. Even though export revenues at that time covered only 50 percent of its budget, Riyadh refused to cut spending for political reasons.[57] At the beginning of the 1990s, Algeria's public debt was that high, that the country was short of economic collapse.[58] All the other oil producers of the MENA region ran into huge debts as well.

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52 Gauhar, "Arab Petrodollars," p. 447.

53 See Maull, *Europe and World Energy*, Table 4.2, pp. 114-115. Imports of Qatar and the United Arab Emirates were multiplied by a factor of 18 and 20, respectively between 1970 and 1978. Saudi Arabia's imports increased 32-fold during the same period! MENA's oil revenues, however, augmented likewise (see Ibid., Table 4.3, p. 116).

54 Seifert and Werner, *Schwarzbuch Öl*, p. 58.

55 Adelman, "World oil production," p. 178.

56 Bell, "European energy security," p. 140.

57 Steinberg, "Saudi-Arabien," p. 63.

58 Werenfels, "Algerien und Libyen," p. 94. In the last two decades, the country clearly failed in improving its economic situation. Today, Algeria actually is even more dependent on its fossil fuel export earnings than in the 1970s (Ibid., p. 83).

From the 1970s, when the first giant oil windfall profits were made, onwards, the Middle East and North Africa is the only region in the world, except sub-Saharan Africa, where total factor productivity has been consistently negative.[59] Between 1980 and 2000, the output per worker in MENA's oil-exporting nations declined at an annual average of between 1.5 and more than 3 percent.[60] While in 1980, the Arab world was responsible for about 3.5 percent of global GDP and its share on world trade was about 9 percent, by the end of the century, it contributed only 2 percent to global GDP and not more than 1.5 percent to world trade.[61] In spite of their unique resource base and enormous export earnings, the region's oil exporters were not able to maintain their people's standard of living. Quite the contrary, the region was performing so miserably that, in addition to the substantial loss of collective wealth, it accumulated excessive national debts.

MENA's unique Petroleum Endowment as a Curse

This negative correlation between resource abundance and economic performance is known as the 'natural resource curse.' Jeffrey Sachs and Andrew Warner have demonstrated in an empirical cross-country study that, on average, countries with a high value of resource-based exports to GDP tend to poorer economic growth during the following two decades.[62] There are many explanations for this counterintuitive phenomenon. Besides population growth, several structural causes are behind MENA's poor growth performance, including dependence on oil with the problem of volatility, weak institutions, political instability, and oversized public sectors.[63] The so-called 'demographic burden,' i.e. the differential between population and labor force increase, which is inversely related to growth, represents part of the explanation as well.[64] Additionally, as Frederick van der Ploeg points out, "[i]n general, a sudden increase in natural resource wealth may reduce the critical faculties of politicians and induce a false sense of security. This encourages politicians to invest in projects that are not really necessary, keep

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59 Yousef, "Development, Growth and Policy," Table 2, p. 97.

60 See IMF, *World Economic Outlook*, Box 2.1, p. 78. Iran is the only exception of the countries under consideration with a positive rate of 0.7 percent.

61 Perthes, *Geheime Gärten*, p. 128.

62 Sachs and Warner, "Natural Resource Abundance."

63 IMF, *World Economic Outlook*, p. 66.

64 IMF, *World Economic Outlook*, p. 73.

bad policies in force, and dress up the welfare state in a way which is impossible to finance once the natural resource revenues dry up."[65]

Besides these attempts of explanation, there is one model that provides especially plausible answers for the economic downfall of the resource-rich MENA region: the so-called 'Dutch disease.' In accordance with the statements of the model, the MENA countries, with their great natural resource endowment, export almost exclusively their natural resources, i.e. petroleum. The resulting massive inflow of foreign currency leads to an overvaluation of the domestic currency, which, in turn, reduces the competitiveness of other sectors (first and foremost agriculture and manufacturing). Due to overvaluation, imported goods, which become less expensive, flood the market and replace domestically produced goods, which "often cannot compete with foreign goods produced under economies of scale."[66] At the same time, a transfer of resources, mainly capital and labor, from the uncompetitive agriculture and manufacturing sectors to the booming and thus much more attractive oil industry takes place. This reallocation of capital and labor to the oil sector, where returns are highest, further strengthens the tendency to economic monoculture. The shrinkage of the agricultural and manufacturing sector is called the disease.[67]

Before the commencement of sizeable petroleum exports, MENA's oil producers were in fact primarily agrarian. But the inflow of huge oil rents caused the agricultural sector of several countries to collapse and many farmers left their farms in search of urban employment.[68] Agricultural production of most countries in the region thus fails to meet domestic demand. The Middle Eastern and North African oil-exporting nations are in a predicament. Their rentier systems, which are overburdened to aliment ever increasing populations, are ruining their economies.

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65 van der Ploeg, "Resource Rich Economies."

66 Yates, *Rentier State in Africa*, p. 24.

67 Sachs and Warner, "Natural Resource Abundance," p. 6.

68 Falola and Genova, *Politics of Global Oil Industry*, pp. 148 and 171.

Socio-economic and Demographic Challenges in the MENA Region

In this paper it was shown, so far, that MENA's oil exporters are rent-seeking allocation states, whose economic and political survival depends on the steady inflow of external revenues. The soaring population growth rates and the catastrophic economic performance during the last decades pose a real threat to the maintenance of their rentier economies. This chapter elucidates some challenges for MENA countries arising from their political and economic failures and the demographic transition. It is quite easy to imagine that the manifold multiplication of a population in a very short period of time poses enormous difficulties for a country. In combination with serious economic drawbacks, the severity of the situation seems almost insuperable.

A main challenge resulting of rapid population growth and the introduction of widespread public healthcare constitutes the age structure of MENA's populations. In the words of Martin, the main problem is that population growth is occurring simultaneously at opposite ends of life: youth and old age. "While millions of teenagers are entering economic life, demanding that their governments create jobs, millions of older citizens are laying claim to the retirement programs created by those same governments."[69] The percentage of population aged 15 and younger ranges from 20 to 25 percent in the United Arab Emirates, Qatar, and Kuwait, between 25 and 30 percent in Iran, Bahrain, Algeria, and Libya, up to about 40 percent in Saudi Arabia and Iraq.[70] One in every three people in the MENA region is between ages 10 and 24.[71] But at the same time, the share of the old age pensioners in total population will grow at least three-fold by 2050 in the MENA countries, except for the highly urbanized Gulf sheikdoms, where the old age populations will grow six-fold.[72] The absolute growth of the Saudi Arabian elderly population (aged 60 and older) is one of the highest in the world. While in 2000 the kingdom counted less than one million seniors—about 4 percent of the total

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69 Martin, "Population Time Bomb," p. 8.

70 PRB, *2008 World Population*, pp. 11-13; and UNDP, *Human Development Report*, Table 5, pp. 243-246.

71 Roudi-Fahimi and Mederios Kent, "Population of Middle East and North Africa," p. 3.

72 Martin, "Population Time Bomb," p. 9.

population at that time—, by 2050 the elderly population is expected to grow to 8.1 million, representing 18 percent of the total people.[73] This development will heavily burden MENA countries' budgets and social welfare programs. It will not be possible to maintain the latter in its present form.

The high youth population puts a strain on the labor market, which is not able to absorb the region's youth bulge. Yousef explains that "[f]irst-time job seekers—mostly between 15 and 24 years—make up more than 50 percent of the unemployed, suggesting that unemployment in the region is linked to the rapid growth of the labor force."[74] The MENA region has by far the highest labor force growth rates in the world. Whereas the labor force in Latin America, the Caribbean, South Asia, and Sub-Sahara Africa grew by slightly more than 2 percent annually in the 2000s, the MENA region experienced annual growth rates of 3.4 percent.[75] The MENA countries' economies would have needed to grow considerably faster than their labor forces just to create the necessary job growth. But the region's countries clearly failed to create the jobs necessary to match the increase of the working-age population. Because of the extremely poor economic performance during the last decades, MENA's unemployment rate is now the world's highest.[76]

One reason for the region's failure to create jobs lies in the conception of rentier economies itself. Because the petroleum industry is a labor-poor sector, in populous rentier states, which are characterized by economic monoculture, unemployment rates are *per se* relatively high, given that the government is not able to employ all job seekers in the public sector. Additionally, as outlined in the previous section, the massive inflow of external rents due to petroleum exports leads to a reallocation of resources to the booming, labor-poor oil industry, which causes shrinkage of the labor-intensive agricultural and manufacturing sectors. Dutch disease always involves massive job losses and thus high unemployment.

But the unusually high unemployment rate in the MENA region is not exclusively due to the inability of its governments to create jobs and to the oversized public sectors, which cannot absorb employees anymore. There is also a

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73 Roudi-Fahimi and Mederios Kent, "Population of Middle East and North Africa," p. 17.

74 Yousef, "Development, Growth and Policy," p. 102.

75 See Yousef, "Development, Growth and Policy," Table 4, p. 101.

76 IMF, *World Economic Outlook*, p. 66.

problem of mentality in indigenous populations. Indulged by massively inflowing external rents and, for a long time, virtually guaranteed jobs in the public sector, most MENA nationals, especially on the Arabian Peninsula, are reluctant to do menial work or other jobs associated with low social standing. To fill private sector demand for hard-working and inexpensive employees, masses of expatriate workers were flowing into the region's oil-exporting countries. The share of foreign-born ranges from 26 percent in Saudi Arabia, and 62 percent in Kuwait, up to 71 and 78 percent in the United Arab Emirates and in Qatar, respectively.[77] Today, foreign workers in the Gulf States, most of them originate from India, Pakistan, Bangladesh, Indonesia, and the Philippines, fill more than 90 percent of private-sector jobs in Kuwait and Qatar.[78] In Saudi Arabia, nationals earn at least twice as much as foreigners, in all categories, from unskilled labor to top managerial positions.[79] Private sector employers thus prefer expatriate workers to remain competitive, and Saudis work predominantly in the public sector.

Concluding Remarks

There is no doubt that oil is the MENA rentier states' lifeblood. The survival of their economic and social systems fully depends on it. Up to the early 1980s, when oil prices were high and the indigenous populations relatively small, the region's oil exporters had no difficulties in maintaining their rentier economies. When oil prices and demand were reaching record levels in the 'golden 1970s' and the early 1980s the massively inflowing external rents were exceeding by far the absorptive capacity of most oil producers. MENA's governments had all resources at hand to aliment the people. By introducing extensive development programs and social services and by employing the vast majority of citizens in the public sector, the political leaders were quite successful in indulging the people so that it does not demand political participation. In this spirit, excessive public spending policies are an important element of regime survival.

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77 Roudi-Fahimi and Mederios Kent, "Population of Middle East and North Africa," p. 12.
78 Roudi-Fahimi and Mederios Kent, "Population of Middle East and North Africa," p. 12.
79 Winckler, "Demographic Dilemma of Arab World," p. 628.

As in the 1980s and 1990s oil export revenues plummeted and the region's economic performance turned negative, the rentier state was called into question. Especially MENA's enormous population growth and its demographic transition constitute a strain on the economic performance, because "[t]he more people there are, the more thinly national resources are spread, and the steeper wealth per capita falls."[80] During the first oil crisis in 1973-74, Saudi Arabia, the region's most important oil producer, counted about 6.5 million people. Additionally, at that time, the social services were not that extensive and thus expensive as they are today. Since the country could impossibly absorb the massively inflowing oil revenues, it could afford to threaten the West to use the 'oil weapon.' The picture has changed completely since then. Riyadh now has to aliment 26 million people—in 2050 almost 44 million—with quite demanding expectations towards the government. Saudi Arabia turned from a so-called 'low absorber' to a 'high absorber,' i.e. to a rentier state whose oil receipts can never be too high and that is critically dependent on ever increasing rent inflows.

MENA's oil producers are hence in a structural dilemma. To maintain the rentier system, which seems unavoidable if the anti-democratic governments wish to remain in power, they are forced to collect taxes and to cease generous subsidies. But this would run counter to their doctrine of 'no taxation, no representation,' and would put into question and undermine the power structure. As a consequence, MENA's regimes are in an awkward position: either they reform their rentier economies, which would inevitably lead to social upheaval and would thus peril their continued existence, or they avoid any reform, which would jeopardize their leadership as well, because the social services could no longer be financed. There can be no doubt, that "[t]he stakes for producer governments are ultimately social and political stability, and hence the very survival of present regimes."[81] For this reason, the power of MENA's regimes is very fragile. Consequently, it has been repeatedly argued that the region's oil producers are in fact "much more dependent on consuming countries than the latter are dependent on them."[82]

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80 Handoussa, "Quest for Economic Reform," p. 46.

81 Maull, *Europe and World Energy*, p. 119.

82 Maugeri, *Age of Oil*, p. 262; see also for example Maull, *Europe and World Energy*, p. 118.

Of course, the present study did not consider the recent developments in the international oil markets. In 2008, nominal petroleum prices reached new record levels at almost 150 U.S. dollars per barrel. The recent demand-driven price increases led, as in the 'golden 1970s,' to a huge transfer of wealth to MENA's oil producers. Due to the massive inflow of external rents, the region's governments managed to achieve budget surpluses and to reduce external debt. Moreover, they allowed governments to postpone reforms of their rentier systems. Since oil prices and export volumes, and thus revenues, are expected to increase in the future, MENA's regimes feel secure and try to avoid the otherwise indispensable reforms. Such a policy, though, is absolutely nearsighted. It not only endangers the region's future prosperity but the governments themselves. For MENA's oil producers it is important to recognize that "[t]he higher the price today, the greater the stimulus to lower demand and more non-[MENA, A.S.] supply, and the more likely is a lower price later."[83] This means that all predictions of stable high future oil prices are by no way guaranteed, which exacerbates MENA's rentier economies' structural dilemma.

The current world economic crisis, which caused oil price to drop to one-third of its 2008 record level within a few months, is the best example for the oil markets' inherent volatility and unpredictability. For the fiscal year 2008-09, MENA countries' average break-even oil price, i.e. the price per barrel required to be able to cover public expenditure, amounts to 57 U.S. dollars.[84] In historical perspective, this is a high price. Due to the unforeseen fall in oil prices, exporters already report financial difficulties and huge budget deficits. But according to Philip Verleger, a renowned petroleum expert and former U.S. government adviser, the situation will get a lot worse. Because of strongly decreasing oil demand due to the worldwide recession, he predicts a collapse of crude oil prices to 20 U.S. dollars a barrel, with severe consequences for the petroleum-producing nations, by the end of the year.[85]

The downright population explosion confronts MENA's rentiers with almost irresolvable problems. Internal challenges severely restrain their scope of action in petroleum politics. For this reason, the once powerful 'oil weapon' has

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83 Adelman, "World oil production," p. 187.

84 See IMF, *Regional Economic Outlook*, Table 4, p. 30.

85 See Smith, "Verleger Sees $20 Oil This Year."

shot its wad. Any future use of it would be suicidal for the region's rentier regimes. The governments of the world's most important hydrocarbon-producing region have lost their leverage over their customers, no matter how import-dependent they may be.

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