MStudies, The International Relations of the Modern Middle East

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Resources, Economics and Oil

Fundamental Issues:

1. What is available
2. What problems arise structurally

I. **Land, Water, Population**

1. Apart from Turkey, the Middle East and North Africa are composed of fertile strips, which surround a hinterland of desert or mountains.
   This means: a) the population is forced onto narrow parts of the land base, along the edges; b) agriculture is likewise confined to the coastal strips or narrow bands of alluvial plain surrounding rivers
2. The key to agriculture in the region: water, not land. There are very few rivers in the region: a) the Nile, b) the Tigris-Euphrates system, c: the Loukos and Sebu rivers in Morocco.
   Implications: the region has to survive on irrigation or dry farming – this latter being the use of rainfall, which is very low indeed in the region, and soil

absorption, that is, aquifers and ground water; in the dryer areas this is in the form of oases.

Water is the key to survival. We'll come back to the uses of this important resource later.

3. Resources: a) Oil and gas in the Persian Gulf: This region contains 72% of the world's reserves, and 40% of production.

   Libya and Algeria contain another 6% of the world's reserves. Finally, there is minor production in Syria and Egypt.

4. Other resources: b) Phosphates in Jordan and Morocco. Morocco in fact is the largest producer of phosphates in the world, and the largest exporter. Tunisia and Algeria likewise contain phosphate markets.

5. Another resource: c) Population. This is both a blessing and a curse. A blessing, because it provides the dynamism for economic activity; a curse because there are too many people, and they are not of the right age or distribution.

   Growth: Until the 1990s, the population grew over 2% a year, which meant a doubling every 25 years. This rate has now dropped below 2% (except in Libya, Yemen and the Gulf states), due to growth in income and education levels, and primarily as a result of the rise in the price of oil and oil investments.

   Implication: Today: 50%of the population in the region is below the age of 30 – and this is the case throughout – from Iran, to Saudi Arabia, Iraq, and Algeria.

   Over time: The age pyramid will become inverted, and a greater number of people will increasingly need support. This is a reversal of the situation since before and after independence, due to current higher life expectancies. This is taking place in a region that has never thought about, or needed to deal, with support of the elderly.

Today Problem 1: Though literacy rates have climbed drastically over the past two decades, and the education is broadly inadequate for the modern world. Islamic-based education remains a primary form of pedagogy in many areas – madrasas in which the emphasis is on learning the Koran by heart. This ill-prepares the young for advanced forms of social and administrative employment, and has serious affects for the employability of the young. The implication: high levels of economically inactive people needing support beyond the period in which state support of education and services is provided to pre-employability youth.

Today Problem 2: Location, that is, urban drift. Beginning in the colonial period, 90% of the people lived in agricultural communities. Now, less than 50% live on the land. Urban drift has not been only to the large cities, however. A large section of the population resides in medium sized towns, in slum housing, which is on the rise. The service provisions (education, housing, health, and infrastructure) in these towns is difficult to provide and maintain, and hence is dropping.

The result: Unemployment is sky-high: 17-20%. A) Taking up some of the slack is the informal sector – averaging 40% outside the state economy. This means that 40% of production, services, etc. are untaxed. B) The industrial sector is thereby hindered from lack of investment, and constitutes only about 10% of the total economy, a completely inadequate percentage.

In sum: The Population growth rate consistently exceeds state job creation.

II. **Agriculture**

6. **Water use**. 70% of all water is used for irrigation. This means there is limited availability for industrial use, and potability.

   Problem 1: Overuse of water has damaged ground water resources, and availability from this source is dropping. According to the World Bank, a minimum of 1000 cu/metres of water per person is necessary each year. In the Middle East, the World Bank estimates that there is 1,500 – 200 cu/meters of water available per person per year, everywhere but Turkey. This is particularly the case in: a) Palestine, which is very water poor. In Israel, water extraction has been adequate, though it is abandoning agricultural exports, a previous mainstay of the Israeli economy, because of lack of sufficient water.

   Problem 2. The effect on the River Systems. A) The Nile previous to the construction of the Aswan Dam in the 1950s, used to irrigate and fertilize the land on a yearly basis through flooding. Now, without flooding, Egypt has become a greater consumer of fertilizer on a per capita basis than the countries of Europe, contributing to extreme pollution through runoff, and to high economic expenditures for agriculture. B) The Tigris/Euphrates valley suffers from severe salinization as a result of modern irrigation mechanisms. **Exports of agriculture are no longer viable because it simply means exporting water**.

   Problem 3.: Despite this fact, the World Bank and IMF encourage agricultural-based export growth through capital-intensive agricultural programmes. What is worse, these emphasize non-traditional exports, such as flowers and strawberries, which are very high consumers of water. In addition, modern capital-intensive programmes, by relying on advanced large-scale machinery, are by definition not labour-intensive, which means they don't create employment. During the colonial period, in which export-based agricultural products (such as cotton) replaced subsistence farming, labour moved to marginal land, and the capital intensive agriculture moved to the best land. This trend continues since the exports earn capital – in hard currency – that can be used by the state. **The consequence**: Severe soil degradation and desertification. This equation means that fragile land and water resources are being damaged, while imperiling the survival of local populations.

III. **Market**

7. **Final resource problem: Insufficient infrastructure and market size.** The Middle East suffers from inadequate communications systems, particularly those linking the countries to each other. In other words, it is not well-integrated regionally, which discourages regional trade. This means that Middle East states cannot benefit from economies of scale or complementarity. As such, they are now too small to be either self-sustaining, or to grow. The World Bank calculates that GDP growth needs to be at 5-7% for the states to provide the services – health, housing, education and job creation - needed for their youthful, and unproductive populations. The actual growth in states outside the oil-rich Gulf

states is more generally at the 1-2% level. **The result: the population grows poorer every year in real terms.**

8. **Problem:** Economic and infrastructural integration are hampered by political divisions throughout the region.
9. **The structural problems as outlined above are enormous; how much are governments responsible?**

IV. **Non-Oil Economies:**

a) Until the 1980s, non-oil economies throughout the region were centrally planned, and based on import substitution. That is, rather than having to import and pay hard currency for products made abroad, the plan was to generate their own widgets. However, the economies were in all cases too small to be efficient, and both equipment and industry was under-utilized. Incompetency was another element: elites were corrupt, rent-seeking and exploitative. **The result:** Costs of production were too high, not only in capital investment per widget, particularly in energy costs for those states not producing oil, but likewise, in state expenditures on protections: tariffs to prevent imports, and state subsidies. **The consequence:** GDP remained low, while debt, particularly from energy imports, soared. By the 1980s, in the wake of the oil price shock of the 1970s, this had become a huge problem. Non-oil states could not pay their foreign bills, and encountered serious balance of payment problems, as their capital was spent on debt servicing.

b) World Bank and IMF conditions for economic restructuring were based on the Washington Consensus. Briefly, and put most simply, this meant that the problem of economic failure was considered in principle to be due to the misallocation of pricing for resources. The solution was to require the liberalization of these economies by opening them to the world market, which would force them to price their resources and products competitively, and thereby, or so it was expected, to re-equilibrate their economies. Later, further demands included transparency and accountability, in order to drain out corruption.

c) **The plan's implications**: 1. The state would be removed from the economic process – social services would be reduced, and opened to the market. 2. Entrepreneurs and outside investors would be able to capitalize on prices, with the intentioned result being a trickle down effect the would improve the material standing of the population at large. 3. Markets would be integrated into regional markets of adequate size: thus were created the Gulf Cooperation Council; the Maghreb Arab Union; the brief (in that it lasted only a month) Arab Cooperation Council composed of Iraq, Egypt, Yemen and Jordan; and finally, the Barcelona Process – the European policy to integrate the southern Mediterranean into a single market to trade with the EU, which in all cases was the largest trading partner of each separate country affected. The purpose, according to the document which launched the Barcelona Process, was 'to create peace, stability and prosperity.'

d) **The result**: Most of this failed. The economies worsened and remain in a mess. The one achievement: the debt problems declined. A further consequence, the Middle East was integrated anew, or more deeply, into the world market. I'll discuss the implications of this in a moment, as it affects both oil and non-oil economies.

V. **Oil Economies:**

Assumption: Oil is a benefit. The reality: it is a curse to economic development if not carefully managed. Oil (and gas) income, however, worked as a unifier for weak states, despite regional pulls. (Location of oil rich resources contributed to state aggregation – Saudi, Iraq, UAE –Abu Dhabi – etc.)

Oil Questions:

1. **Why have oil exporters been unable to translate economic windfalls into self-sustaining, equitable and stable development paths?**
2. **Why does oil and debt dependence worsen over time in most instances?**
3. **Why does political turmoil and reduction in democratic practices accompany dismal economic performance?**
4. **Why are such different states as Iran, Libya, Algeria – and out of region entirely – Mexico, Venezuela, Nigeria – all plagued by such similarly disastrous trajectories? Is this pure coincidence? Or is there a link between their common commodity export and their unsuccessful and surprisingly similar development paths?**

A. **Let's return for a moment to the structure of the state. As the organization responsible for binding decision-making over the management of a given territory, a significant aspect of a state's responsibility is the collection and dispersion of revenue. It turns out, according to Lynn Karl, and others, that the origin of that revenue has a significant impact on how that state develops and what it develops into. To quote Karl:**

B. 'It matters whether a state relies on taxes from extractive activities, agricultural production, foreign aid, remittances, or international borrowing because these different sources of revenues, whatever their relative economic merits or social import, have a power (and quite different) impact on the state's institutional development and its abilities to employ personnel, subsidize social and economic programs, create new organizations, and direct the activities of private interests. **Simply stated, the revenues a state collects, how it collects them, and the uses to which it puts them define its nature.** Thus, it should not be surprising that states dependent on the same revenue source resemble each other in specific ways (and consequently, so do the decisions made by their leaders).' (p. 13)

C. What this means is that states that are on the periphery of the Western (and associated Anglo-American) economic centre are distinguished economically from those states in a fundamental way – namely, they rely on external rather than internal revenue sources. This makes their tax base distinctive from the developed countries. They tend to rely on external indebtedness, taxes on imported goods or foreign aid. The result: 'the absence of the coherent and highly institutionalized central bureaucracies that Eurocentric perspectives almost invariably assume as points of departure. Thus: constructs appropriate to state formation and institutional capacity and the kinds of decision-making that flow from them that apply to developed countries are largely absent in developing ones.

VI. **Key point: the origin of a state's revenues influences the full range of its political institutions – state, regime and government. For oil states, these influences are shaped by the binary of power and plenty, public- (government as recipient of revenues) over private-sector dominance, and rent-seeking throughout the society.**

A. **'These rents**, whatever their advantages, ultimately increase the difficulties of adjustment: they expand the state's jurisdiction while simultaneously weakening its authority by multiplying the opportunities for both public authorities and private interests to engage in rent seeking. In this way, they have a direct impact on the decisional framework of oil states.' (Karl)

B. **This creates four important structural constraints:**

1. **The petrolization of the policy environment:** production of oil and gas for export creates a common set of policy problems – great opportunity for gain and loss on the international level, and impediments to domestic development.
2. **Private vested interests as a barrier to change:** oil exporters generate specific social classes, organized interests and patterns of

collective action linked to the state and oil rent. These clases and interests militate against change.

3. **The Rentier state as a barrier to change:** dependence on oil revenue produces a distinctive type of institutional setting which encourages political distribution of rents. Public spending substitutes for state-craft, weakening state capacity.
4. **The boom effect:** often analyzed for the impact on importing countries and on the global economy, booms have pernicious effects on the exporting economy, leading to economic decline, regime destabilization and reinforcement of public and private oil-based interests, even though it appears to be doing the opposite.

a) **Oil states are rentier states.** As oil produces the states' income, the state no longer depends on the economy or the population for revenue generation, but purely on rent. Definition of Rent: income derived from an asset that is not the consequence of an investment – that is, it is a natural resource, and although investment is required to extract and refine it, the value or price of the resource is not related to these investments. Beblawi: 'Despite failing to participate in active economic production, rentier receives a share (often a big one) of the produce. ' Entrepreneurship is thus antithesis of the rentier. Other examples of rent revenue generators include remittances by emigrant populations abroad, and tourist revenues. . Only a few are involved in rent generation, the many receive its distribution (utilization of wealth an effect, not a cause); As such, the state is allocative, becoming responsible for revenue not obtained through taxation, and , for distributing the revenue without the input of population representation.

b) Legitimacy of state constantly in question – how it distributes, how it is managed. Result: such states require centralizing power to be unquestioned, leading to significant arms acquisition and strong security services.

c) Oil states suffer Dutch Disease. Revenue based on regular rent means that the currency becomes over-valued. This makes imports cheaper and exports more expensive. As a result, these economies tend to buy in everything, rather than making much locally. The ability to develop a diversified economy is undermined, and the state becomes import-dependent (as happened to Holland in the 1960s when it began to export natural gas – hence Dutch disease – though the term relates back to the time of the tulip monopolies of the 17th century, which, like oil and gas now, earned such sky-high prices that they generated a form of rent, and the Dutch government invested only in tulips at the expense of all else).

1. What's called 'forward and backward links' are harder to make within the domestic economy – and instead, imports are turned to as a more immediate and simpler solution.
2. There is thus a tendency to adopt a bias toward unproductive activities, leading to poor development outcomes.

3. Policy can control this with already strongly established institutions. If institutions are being built from scratch – and policy is skewed – the economic dynamic appears unable to be counteracted.
4. In effect, Ross argues that political decision-making is critical, but that failures may arise in three areas (or according to three theories): cognitive, societal and statist.
    a) Cognitive: 'Oil mentality' – of boom and bust euphoria, leading to cycles of massive expenditure, and frantic retrenchment. Policy-makers become both myopic and risk-averse (Mahdavy)
    b) Societal: Rises in rent enable non-state actors to influence policy against the common good and for personal gain.
    c) Statist: **Oil state economies become dependent on externally earned revenues, the value of which varies according to the global market, making it difficult to develop annual and long term budgets, since income growth is not constant, and the producing countries exercise no control over the prices that generate that income.** This has different implications for low- and high-capital absorbers.

1) **Low capital absorbers** are states with small populations, such as most of the Gulf States. They cannot absorb the capital they earn each year, and therefore always have a surplus. They can therefore cope with variations of price, within limits.

2) **High capital absorbers** are states with large populations, such as Iran and Algeria. Oil price variation causes constant problems in balancing income against expenditure. This quite apart from corruption or economic efficiency.

10. The integration of the Middle East into the world market, as a result of the interventions by the World Bank and IMF, means that now, these economies must attract investment to further develop.

    Problem 1: The Middle East rich will export investment to more lucrative destinations to get better returns. Additionally, outsiders don't invest because the return inside the Middle East is too low – apart from the dangers that more recently have further slowed investment, not only in conflict-ridden areas such as Iraq and Algeria, but in all other areas, where terrorism or extremism is viewed as an economic liability. As a result, the Middle East and North Africa receive less than half the investments they seek. In fact, they receive just marginally more than most nations in Africa, and lag far behind Latin America and China.

    Problem 2: They lack any comparative advantage, particularly the non-oil states. In fact, wage levels are well above South east Asia, primarily due to the proximity of the region to Europe, where labour drift materially affects labour costs.

11. The good news of the last 5 years: a) for political reasons, post-2001, internal oil-rich states are re-investing in the Middle East. The global economic crisis has caused a decline, but it is likely to rebound, particularly with the rise in oil prices. b) there are new opportunities in the Middle East. One un-tapped resource is solar. The Middle East could generate massive amounts of electricity – but in order to do so, they need an integrated energy grid to accomplish the necessary

distribution. This is slowly being considered as an economically viable investment.

11. In Sum, the above points to structural explanations for the enormous economic problems faced by the Middle East. Of course, fundamental flaws in the behaviour of states exacerbate the situation. What is most worrisome, is that many consequences of these structural difficulties have yet to reach fruition – the costs of an aging population, the increasing impoverishment of a population residing within economies unable to generate sufficient employment or expansion, the growing desertification and salinization of the land, and the inability of the states involved to provide basic services, such as modern education, housing and health care, to a youthful population facing a global market increasingly defined by technological and financial advancement.

IV **Oil, The Politics, and the Geostrategic implications**

1. I will not review the complex history involved in the discovery and subsequent carving up of the oil-rich lands of the Middle East – Yergin in the pages of *The Prize* that I recommended you read does an ample job. Suffice it to say that once the oil had been struck, and the infrastructure in place to extrude it, refine it, and export it, that the producer nations very quickly came up against what is called **The Obsolescing Bargain.** This refers to a two-step process: the start-up costs in the oil industry are high – there is the cost of prospecting, which remains to this day a very unpredictable, in that oil flows can traverse horizontal strata of rock, often breaking off into small sections in the process, meaning that places that

appear to have oil will often not be appropriate for drilling. Once found, however, there is the cost of infrastructure emplacement, often in inhospitable territory, and transport construction. However, once these have been met, the costs drop precipitously, and the production cost-revenue ratio becomes highly lucrative. As producing states, particularly in the early days, were unable to afford the original start-up costs, they signed concessions or contracts that gave the foreign companies willing to invest – and take a risk - in the project, high rates of return. However, once the oil began to flow freely, the deal appeared considerably less appealing – hence, the obsolescing bargain. As a result, Middle East oil producing states, like their parallels around the world, attempted to nationalize the industry and pocket its income for themselves. This produced a cycle of: nationalizations, and then, growing dependency on foreign investment to develop new fields or upgrade old ones, and then nationalizations again, etc.

2. The first nationalization was in Iran, by Mohammad Mossadeq. It caused significant economic and political upheaval both inside and outside the country. Although Mossadeq was considered a hero by the populace for engineering a move that thwarted the supreme power of Britain, it was not fully supported by those in the oil industry – since nationalization only pertains to those assets inside the country, and Iran's oil industry had financed the discovery and development of Iraq's oil industry, the building of the British tanker fleet, and exploration projects in several other locations, including Kuwait. Iran's claims to these assets would be lost entirely with nationalization of its oil. However, their loss was considered a small price to pay by an Iranian population hungry to control its own

resources, and it rallied behind Mossadeq, even during the ensuing 2-year oil embargo practiced against Iran by the British and the US, and which brought Iran to its knees economically.

3. When Mossadeq was overthrown, the control of Iran's oil exports passed to a consortium of oil companies – including many of what was then called the Seven Sisters, along with several smaller ones, who managed Iran's oil according to terms not significantly different than those that had been offered by the British. What is more, Iran was still dependent on the fluctuating global price over which it had no control, meaning that in essence, it likewise had no control over its annual budget – making it difficult to plan and carry out an economic programme, let alone, project economic planning into the future.
4. It is not surprising, therefore, that when Venezuela, a growing oil producer outside of the Gulf, mooted the idea of bringing producer states together into a cohesive organization that could exert some counter-weight to the companies in terms of price and quantity of output, the Iranians were enthusiastic.
5. Thus, **OPEC, the Organization of Petroleum Exporting Countries**, was born. It included Iraq, Saudi Arabia and Kuwait, and later, Algeria, and Libya, and although it at first did not exercise much clout, it gradually came to reflect how price and quantity of output could be manipulated so as to control world markets. Iran's Mohammad Reza Shah quickly saw its utility in political terms, and moved to dominate it, insisting on price hikes that often dismayed the US and its allies. By the early '70s, Saudi Arabia and Iran were closely allied, each serving as part of the Twin Pillar Policy engineered originally by Nixon, to police the Gulf, and

keep its lanes open for oil export. Their close collusion turned OPEC into an effective cartel which for many years influenced the world economy and showed itself capable and 'eager to capitalize on its economic position for political gain' (Adib-Mohgaddam, p. 13) (IN fact, although not all OPEC members were Middle Eastern, they did play a dominating role, and in many ways OPEC was the most successful mulit-national organization in which they played a significant part – and was much more effective than, for example, the Baghdad Pact, CENTO or the Arab League, and much more internationally important than the GCC.)

6. 1971 was an important year for the Oil World. Companies until then had set a price, and used that to calculate what taxes they would pay. The price bore no relation to the actual value of a barrel of oil. In 1971, building on a UN Resolution passed some years before enshrining national sovereignty over natural resources, and such critical matters as taxes and equity participation as the province of *national* law, an agreement was signed in Tehran that shifted control over price to the governments and out of the hands of the companies. The **consequence**: the companies were reduced to dealing only with refining, transportation and distribution – they lost control over access to the resource. In their place, national companies take over extraction, production and sale.
7. This spawned a cascade of nationalizations across the Middle East –Algeria in 1971, Libya a few months later, Iraq in 1972, fulfilling a pattern: first to seize the asset, then to seize the price.
8. Saud Arabia, Kuwait, Abu Dhabi and Qatar followed soon after, in that they forced the companies in October 1972 to sign a General Agreement on

Participation, in which they agreed to allow the Gulf oil producers to nationalize 25% of their holdings right away, and another 50 % over the course of the decade.

9. This set the stage for one of OPEC's first real successes: the price hikes in response to the Arab-Israeli 'October War' in 1973 – and, for the subsequent Oil Embargo later that year, conducted by the Arab producing states against specifically, the United States, Britain and Holland (Of course, because they didn't provide Israel with oil, they couldn't boycott Israel). 'Never before,' complained US Sec. of State, Kissinger ' had nations so weak militarily – and in some cases, politically- been able to impose such strains on the international system'. The price of oil going into this period was $2 a barrel – it went up 350 percent to $7 by the end of the embargo, an unheard of price at the time.
10. Iran did not cooperate with the embargo. Benefitting instead from the high oil prices, it sold oil to Israel and its allies the US, Britain and Holland, however, not in the quantities to which they had become accustomed, causing driverless Sundays in Holland, where people picnicked in the middle of the highways, and long lines at the gas stations all over the US.
11. Saudi Arabia by this time was growing as a player on the Arab scene, becoming a voice for Arab moderate states. It however was part of the embargo due to a confluence of events: the struggle over oil prices and assets coincided with US support of Israel, and it felt a need to protect its economic sovereignty. At the same time, it had expressed support for the rights of the Palestinians – and felt therefore it important to go forward with the embargo.

12. In 1975, inflation caused by a 4-fold increase in the price of oil reduces the value back to the 1971 level. At the same time, non-OPEC production starts in the North Sea, which is not susceptible to OPEC-controlled prices. Instead, **a spot market** grows up based in both Rotterdam and Singapore.
13. Then, in 1979, the Islamic Revolution occurs in Iran. **One consequence:** it removes 3 million b/d from the oil market, not just at the time of the revolution, but subsequently as well, since at the time, Iran said it wanted to conserve its resources and would produce no more than 2 million b/d. Already the price had spiked because of the revolution – now there was a reduction in capacity.
14. This forced consumers increasingly to turn to the spot market and compete against each other for product. **The result**: the spot market gradually began to take away control of the price from the governments.
15. This coincided with a decision by the US to reduce its dependency on Middle East oil and shift toward the Caribbean and South America. It had lost Iran, the Great Mosque in Mecca had been seized that same year in an attempt to spark a revolt against the Saudi monarchy, and the Shia in the eastern Saudi oil fields had began to rise up – all of which was giving the US administration the jitters. Yet, ironically, 'getting off Gulf Oil' no longer meant anything, since the spot market control of prices had globalized the trade of oil, meaning that oil was now fungible, and any oil from anywhere cost the same as anywhere else. Thus, after 1979, it is the market that controls the price. The main mechanism Western states developed as a hedge against price swings and production downturns were stockpiles or oil reserves.

16. This meant that the only way for OPEC to control prices was to reduce production. A programme of **quotas** was instituted, but in effect, throughout the 1980s, Saudi Arabia was the only one with sufficiently large production capacity to become a swing producer. This gave it enormous power to manipulate the market to try to control price. However, the result was that its overall sales dropped from 6.7 million b/d in ’82 to 3.6 million in ’85.
17. In 1986, Saudi abandons its role as swing player and looks instead to volume sales. The price tumbled by 50%, from $27.5 a barrel in ’85 to $13 in ’86.
18. Over the next several years, OPEC tried to recoup losses on price through the quota system, which continued in a fashion, but was seriously undermined by Kuwait. In 1990, as Saddam’s war with Iran drew to an end, he turned on Kuwait. In his view, by exceeding its quota, Kuwait was undermining the oil price, upon which Saddam’s recovery crucially depended. Not only was Kuwait, in his view, reducing his income, but it had had the effrontery to demand he repay the war debts he had incurred. Saddam resuscitated an old territorial claim that Kuwait was actually part of Iraq before the arbitrary borders of the imperial era (1913) had been drawn, and accused it of stealing oil from a major oil field that lay on the Iraq-Kuwait border. When Kuwait rejected Saddam’s demands, he marched 100,000 troops across its border, triggering the US-led Coalition invasion five months later.
19. Interestingly, the effect of the Gulf Wars on the oil market, though causing initial shocks, was much less of a difficulty than one might imagine. The global market

had learned to adjust to these sudden reductions in capacity, and was no longer rocked in the same way that it had been at the time of the Iranian Revolution.

20. In the past decade, a new factor has affected the oil industry in the Middle East – namely, the lack of investment by international companies that once again have come back into the region because the national companies have proved inefficient and their expertise has been needed. Instead of investing in refining and growth in capacity, the companies were more interested in satisfying their shareholders by distributing dividends. This was partially due to the consolidation that has taken place as well – the number of major oil companies dropped from 45 to 16.
21. The lack of investment in refining and shipping, however, means that demand exceeds capacity. This has been partially driven by the growth in Chinese oil imports – a trend that is expected to continue, and has contributed to the increase in Chinese investment in the region, particularly Saudi Arabia and Iran. Additionally, the increased need for Western security in the Gulf region has translated into direct costs per barrel, raising cost of petrol at the pump by 25-50%.