

EUROCENTRISM OF THE RESOURCE CURSE THEORY

THE CASE OF SAUDI ARABIA

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## **ABSTRACT**

### **EUROCENTRISM OF THE RESOURCE CURSE THEORY: THE CASE OF SAUDI ARABIA**

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The main problem that the thesis addresses is the examination of the Saudi Arabian economic development through the resource curse theory perspective. That approach is found as Eurocentric. Rather than analysing the economic development trajectory of Saudi Arabia through the context of the resource curse theory, this thesis tries to demonstrate that the development trajectory of Saudi Arabia is unique and it has developed in accordance with its historical state building process. It argues that not only the resources alone, but also the existence of oil wealth and the country's relations with the West at its state formation and the historical economic pattern are the key issues in Saudi Arabian development case, which from the very beginning did not evolve/or intend to evolve according to Western development experience neither in terms of its historical economic realities nor in terms of its economic development programmes. Resource curse theory compares and contrast the economic developments of any given country with the Western countries. That approach is found problematic because historically speaking, Western countries and the countries which are analysed through resource curse theory has experienced different processes.

In order to analyse the Saudi Arabian economic development trajectory, the concept of rentier state will be used as a tool and the state formation of Saudi Arabia will be examined through that concept. Furthermore within the thesis specific focus will be given to Saudi Arabian economic development plans to see what Saudi Arabia aimed and what it has achieved.

Keywords: Resource Curse Theory, Eurocentrism, Rentier State, Saudi Arabia

## ÖZ

### KAYNAK LANETİ TEORİSİNİN AVRUPA BAZLI OLUŞU SUUDİ ARABİSTAN ÖRNEĞİ

Yakut, Sarp

Yüksek Lisans, Siyaset Bilimi ve Uluslararası İlişkiler Programı

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Bu tezin ilgilendiği sorunsal Suudi Arabista'nın ekonomik gelişim sürecinin doğal kaynak laneti teorisi çerçevesinden incelenmesidir. Bu yaklaşım avrupa bazlı olarak bulunmaktadır. Doğal kaynak lanet teorisiyle Suudi Arabistan ekonomik gelişim sürecini irdelemek yerine bu tez Suudi Arabistan'ın tarihsel devlet oluşum sürecine uyumlu olarak ekonomik gelişim süreci geçirdiğini savunmaktadır. Temel olarak kaynakların tek başına Suudi Arabistanın ekonomik gelişimini anlatmakta yeterli olmadığını, Suudi Arabistan ekonomik gelişim sürecinde petrol zenginliğinin yanısıra Batıyla ilişkileri ve tarihsel ekonomik modelinin en önemli etmenler olduğunu savunmaktadır. Ayrıca bu etmenlerden dolayı Suudi Arabistanın ne ekonomik gelişim sürecinde ne de ekonomik gelişim programlarında Batılı bir gelişim süreci deneyimini hedeflemediği savunulmaktadır. Kaynak laneti teorisi irdelenen bir ülkeyi temel olarak Batılı bir devletle karşılaştırarak yapmaktadır. Bu yaklaşım problemlidir. Batılı devletler ve kaynak laneti kapsamında irdelenen devletler tarihsel olarak farklı deneyimler yaşamışlardır.

Suudi Arabistan'ın ekonomik gelişim sürecini irdelemek için rantçı devlet kavramı bir araç olarak kullanılacaktır ve Suudi Arabistan devlet oluşumu bu konsept çerçevesinde irdelenecektir. Bu tezde ayrıca spesifik olarak Suudi Arabistan ekonomik planları incelenecek ve amaçlarıyla ulaştığı sonuçlar irdelenecektir.

Anahtar Kelimeler: Kaynak Laneti Teorisi, Avrupa Bazlı Yaklaşım, Rantçı Devlet, Suudi Arabistan

To My Parents

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## **LIST OF ABBREVIATIONS**

ARMACO	Arabian American Oil Company
CASOC	Californian Arab Standard Oil Company
CPO	Central Planning Organization
IMF	International Monetary Fund
MOI	Ministry of Interior
MOL	Ministry of Labour
MOP	Ministry of Planning
NTP	National Transformation Programme
GNP	Gross National Product
GDP	Gross Domestic Product
GCC	Gulf Cooperation Council
SME	Small and Medium Sized Enterprises
SOCAL	Standard Oil of California
UN	United Nations
US	United States of America
USA	United States of America
WTO	World Trade Organization

## **CHAPTER I: INTRODUCTION**

One of the interesting themes in Comparative Politics is the underdevelopment of resource rich countries in terms of democratization and human rights compared to democratic Western countries. “Resource curse” theory is a fundamental approach within this literature that explains the underperformance of resource rich countries. The development is seen as a universal approach, and the underdevelopment of any given country is treated as a puzzle to be solved in order to make sure that they develop as well.

Saudi Arabia is an important regional power in Middle East that was established in 1932. Saudi Arabia is often classified as a “rentier state”, whose economy is based on oil revenues. Ruled by a royal family since its establishment, Saudi Arabia is often criticized for its lack of progress in terms of human rights (particularly woman rights) and democratization. Yet, the country’s socioeconomic and sociocultural peculiarities are often ignored or judged from a Eurocentric standard/perspective.

The purpose of this study is to investigate the relationship between Saudi Arabian development model and Eurocentric model of development by focusing on the strengths and weaknesses of the “resource curse” theory and similar perspectives. The main argument (hypothesis) of the researcher is that the “resource curse” theory, by its Eurocentric assumptions, assumes that certain development trajectories had to be followed by the Saudi Arabian state in order to realize a Western type modernization, and the failure of Saudi state to follow prescribed development trajectories described as a “curse” from this perspective. In this thesis, the researcher

will argue that not only the resources alone, but also the existence of oil wealth and the country's relations with the West at its state formation and the historical economic pattern are the key issues in Saudi Arabian development case, which from the very beginning did not evolve/or intend to evolve according to Western development experience neither in terms of its historical economic realities nor in terms of its economic development programmes.

Thus, from the very beginning, this thesis will have the stance to judge resource curse theory as Eurocentric. While doing that, it will accept that the general findings of the resource curse theory are relevant, but it is only through a Eurocentric vision. Many valuable studies have been conducted to demonstrate the effects of the natural resources as a curse to the relevant country, especially if their institutions are weak and when they have started to gain wealth as the result of the **export** of the natural resources. Yet the value judgments contained within the resource curse theory in almost every case, compares the development trajectory of the resource rich countries to the Western experience.

On that basis, the thesis will try to seek to find answers to following questions:

- Even though we accept that arguments of the resource curse theory are valid, why the development model is expected to be universal?
- Can there be alternative development trajectories for different countries?
- How Saudi Arabian development trajectory differs from the Western experience?
- What impact does oil wealth and the relations of Saudi Arabia with Western countries made on its development trajectory?

- Why Saudi Arabia is being accused of suffering from the resource curse?
- Does Saudi Arabia inhibit the negative qualities associated with the resource curse even before the discovery of the oil?
- Should oil be associated with the resource curse theory or does it only enhance the economic pattern which was already in place?

In the light of these questions, this thesis will focus on how Saudi Arabian development trajectory differs from Western experience and it will show that Saudi Arabia cannot be accused as suffering from the resource curse when Eurocentric perspective is abandoned. In accordance with the purpose of the study, this thesis will not deny the assumptions of the resource curse theory, but it will treat it as the product of Eurocentric knowledge creation. As a consequence, the thesis, instead of looking at the development trajectory of Saudi Arabia from resource curse perspective, will try to seek the particularities of the Saudi Arabian development trajectory. Rather than accusing Saudi Arabia as a country, despite having high amount of natural resources, which could not simply develop as Westerners were able to, their development trajectory will be analysed through their special circumstances. Therefore, the thesis will also follow the logic that the development process cannot be universal.

When the universal approach is removed from the picture, it enables us to analyse the development trajectories within its unique context. As a consequence, the other is not created. Therefore, it also removes the chance to claim what is good or bad compared to the other. It gives us chance to analyse the phenomenon as it is rather than situating it in a cultural hierarchy where the judgement is based on Western experience. Thus, it will put Saudi Arabia into a different position than the

Western countries and their development trajectory will be analysed with their own dynamics rather than establishing contrast image of the 'other' (Said, 1978: 1).

To show the particularities of the Saudi Arabian case, first of all, the thesis will focus on the state formation of Saudi Arabian state. It will specifically look at the state formation in Saudi Arabia from year 1902 to 1932. In the year of 1902, Ibn Saud completed his conquest of Riyadh and from that date on, until 1932, he was involved in heavy diplomacy especially with Britain to consolidate his power in the region. Furthermore, he also had to consolidate his power internally by gaining the support of tribes and by raising an army. His diplomacy with a powerful foreign state and the methods he used to consolidate his power internally demonstrates the characteristics of a distributive state, long before the founding of oil in the region.

There are several resources which contributed to the budget of the Saudi Arabia even before the state was formed. These resources include revenues from pilgrimage, *zakat*, booties from wars, and foreign resources (Rasheed, 2010: 121). Before oil came into the picture, these resources have played a significant role for the Saudi Arabia and they were the main reasons which paved the way for the creation of Saudi Arabia. Understanding whether these resources were used as the same way that the oil is used today is highly significant to see whether oil is the only reason for the 'curse' that Saudi Arabia faces today. If the previous form of the resources is used as the similar way, then the oil cannot be the only reason of the curse. But due to the fact that it is an enormous revenue source and asset compared to the others, the oil may be the reason for the enhancement of the existing economic patterns. For all these reasons, those resources will be analysed to see the distributive

nature of the Saudi Arabian state, before the formation of the state and before the era of oil.

Furthermore, this thesis will also focus to the years 1932-1964 in order to see whether this pattern was also reflected to the dynamics of the state after the formation of it. The period of 1932-1964 gives researcher the chance to observe the policies of Ibn Saud, the founder of the Saudi Arabia and his predecessor Saud. Also this period enables readers to see the developments that has occurred with the discovery of the oil. It gives a great chance to see the role of the foreign states in Saudi Arabia which is heavily connected to the discovery of the oil. These years demonstrates that oil was only used to enhance the existing economic pattern and the causation of the curse was already in place before the discovery of oil. Moreover, this period is selected with the purpose of analysing the Saudi Arabian development trajectory before the oil price booms of 1970s. Most of the literature which specifically focuses on the oil and the resource curse is written after that period (especially after the OPEC Oil Crisis of 1973-1974). The part of the literature review which specifically focuses on resource curse theory and rentier state are all starting from the date back at 1970. Thus, with the boom in oil prices, the puzzle of the natural resources and its negative impact on the development grow wider. With the boom, oil rich countries were able to acquire enormous wealth. In a universalistic development perspective, that wealth needed to be converted into a Western development trajectory. Despite that these countries in most of the cases have failed that task. In this thesis, rather than focusing on the boom years, the researcher will focus on the years which had very little oil wealth compared to the boom period. The main logic behind that is to see whether the negative qualities associated with the oil

wealth were already in place before oil started to play the main role in the economy. If those dynamics were already in place, oil then only becomes a factor which enhances those dynamics and makes it more visible.

In line with the purpose of the thesis, this work will be divided into 3 chapters excluding Introduction and the Conclusion. Following the Introduction, in the second chapter, there will be a detailed literature review. First of all, the concept of Eurocentrism will be explained and it is going to be used as a tool to look at resource curse phenomenon from different perspective. Utilization of that perspective removes the obstacle of value judgments which are based on Western experience. Major part of the resource curse theory is loaded with value judgments which compare resource rich states to Western states based on Western experience. When that sort of understanding is established, this thesis will not dwell on the value judgments such as certain kind of development trajectory is good or bad. The comparative basis of the arguments will not be there. Consequently, the thesis will only focus on how Saudi Arabian development trajectory has developed.

On the second part of the literature review, the researcher will look into arguments and the solutions that resource curse theory offers to overcome the negative consequences of the curse. From the researcher's point of view, the arguments of the resource curse theory are all valid from a Eurocentric perspective. If one looks and analyses the arguments of the resource curse theory and applies it to resource rich state, empirically the general findings of the theory will be visible for particular cases. Yet that is only valid from a Universalist development perspective. Therefore, within the analysis, the researcher will try to show how the value

judgments of the resource curse is based on comparison -a comparison which is based on Western experience- and offers solutions to the what is labelled as curse solutions based on Western experience.

Thirdly, in the literature review part, the researcher will look at the concept of “rentier state” with a special focus on distributive states and allocation states. From the researcher’s perspective, both terms distributive state and allocation state are again -just like resource curse- is written with Eurocentric connotations. Giving names to resource rich states and analysing the politics and economics of these state in such fashion results once again the creation of knowledge against the other. The main comparisons of the qualities of these states are again based on Western experience. It distinguishes what is the Western state and what is the others. Most important components in this part will be distributive and allocation states. Their analyses are conducted under the aegis of the rentier state concept and their findings seems to suggest that the existence of the rentier state structure is the casual mechanism for the assumptions of resource curse theory to find manifestation. According to Luciani (1987), allocation states is “all those states whose revenues derives predominantly (more than 40 per cent) from oil or other foreign sources and whose expenditure is a substantial share of GDP” (Luciani, 1987:70). This holds true for the state of Saudi Arabia under the years which will be examined in this thesis. Despite having Eurocentric connotations, distributive and allocation state arguments are useful tool to analyse the particularities of the resource rich states. This is in turn conducive to analyse the particular development trajectory that resource rich states follow. The main diverging point from distributive and allocation state will be the importance that they give to oil. As a part of a literature which is largely Eurocentric,

distributive and allocation states while analysing the resource rich states are providing the ground to offer solutions for the problems of resource rich states through directing attention to their shortcomings. While doing that, the availability of the resources is the main consideration.

In resource curse theory there is an extreme version of Eurocentrism. This Eurocentrism is not a simple comparison of the resource rich states with Western states. It includes the element of ‘despite’ and ‘still’. Despite having enormous resources available to them, resource rich states ‘still’ cannot develop as Western states able to. Distributive and allocation state literature is again trapped within that approach, and they put the resources into their main consideration to try to bring an explanation to the backwardness of resource rich states. Instead of utilizing the term distributive and allocation state with primary importance given to the oil wealth, I will explore the historical economic pattern of Saudi Arabia, and I will claim that distributive and allocation practice of the state was already in place before the era of oil. That kind of approach elevates the status of Saudi Arabia from a state which cannot achieve certain things despite having advantage over the others to, a state which has followed certain kind of development trajectory.

Lastly, in the literature review, the researcher will try to situate the place of Saudi Arabia within the relevant literature. All the three components of the literature are intermingled in the case of Saudi Arabia. In this section, the thesis will demonstrate how the arguments of the resource curse theory cannot be applied to the rentier states. Both Eurocentric literature of resource curse theory and rentier state have been resulted in the creation of conflicting knowledge regarding the

development in resource rich state. To overcome those conflicts and to offer a particularistic development experience of a resource rich state, the researcher will utilize a critique perspective of Eurocentrism.

In the third chapter, a brief history of Saudi Arabia will be provided between the years 1902 and 1964. This time frame covers the formation of the Saudi Arabian state, discovery of the oil and how the foreign states interacted with the Saudi Arabian leaders both during the time of state formation of Saudi Arabia and after the discovery of the oil. The period between 1902 and 1932, the date until the Saudi Arabian state was formed will specifically focus on the revenues of Ibn Saud to consolidate his power in the region. These revenues include pilgrimage, *zakat*, war booties and foreign sources. It will argue that the distribution of the resources which was gathered by central authority which came from the foreign sources to the public, was a major force which led Ibn Saud to establish his kingdom in Arabia. This will help to signify the role of the deeply integrated system in Arabian politics. Rather than highlighting the ‘despite’s and ‘stills’ of the resource curse theory, it will demonstrate the ‘was’ and ‘still’ of the Saudi Arabian case (the system ‘was’ like that before the era of oil and it ‘still’ is).

The period of 1932-1964 will especially focus on the change of politics in Saudi Arabia. This change is not a systematic change, but it’s a change which is evolved around the change of the resource which constitutes the majority of the national budget of the Saudi Arabia. Discovery of the oil in the region has intensified the connections of the Saudi Arabia with the foreign countries, to not to change their own system, but enhance the pattern which already exists when the circumstances

proved to be exploitable. It is therefore highly essential to investigate the process of the shift on the main resource of income in Saudi Arabia and how it did not change the system in the state. This might be an important tool to reconsider our approach towards a particular resource which is seen as the source of the curse.

Also it is important to see the role of the foreign states in enhancing the existing patterns in Saudi Arabia. Not deliberately, but through the revenue flows from the foreign states to Saudi Arabia, they do take that part in sustaining the distributive characteristic of the Saudi Arabia. Without the financial resources they provide for the Saudi Arabia, Saudi Arabia would face with serious problems which could danger their distributive system. What the world needs is the oil of the Saudi Arabia, and the demand of the foreign countries to acquire that resource only intensifies the distributive characteristic of the Saudi Arabia. Therefore if there are going to be solutions to overcome the distributive characteristics of the Saudi Arabia, the actions of foreign countries towards Saudi Arabia together with the existing economic pattern has to be changed. Not focusing on these aspects, and thinking that the resource curse can be cured by focusing on the internal political and economic institutions to cure the curse, in this framework might be a problem. Focusing on the role of existing economic pattern and the role of the foreign states, can be used as an explanation tool to rethink that, there can be particularistic development trajectories apart from universalized development trajectory based on Western experience. Furthermore when the dynamics of the distributive and allocation states are analysed, they suggest that there is an important connection between taxation and representation. Accordingly, productive states gain their resources from public and in return they are obliged to represent the public. In the case of distributive and

allocation state their revenues are gathered from outside resource and because of that, they in certain conditions have to represent the interest of the outside sources. Thus, claiming that Saudi Arabia acts completely freely as it wishes to develop might again be problematic.

In the fourth chapter, the researcher will focus on the economic development plans of Saudi Arabia. There are ten economic development plans in Saudi Arabia which covers the five year time period. These development plans will be an important tool to investigate what were the major economic issues for the Saudi Arabian government. It will also show whether they have ever taken important steps to overcome the problems associated with the curse. The research will not only focus on what is written in the plan, but it will also look at whether they were able to achieve the goals which were written in the plan. Furthermore based on the plans researcher will argue that the plans were not written to achieve a certain universal development trajectory. Rather it will be argued that for most of the parts, plans were responsive to the special conditions at the time of the writing of the plan. Those special conditions that the Kingdom was facing were addressed in each and every plan, and instead of aiming to work towards universalistic approach, they tried to cure the problems that they face at that time. In other words the Kingdom has produced their own knowledge regarding their development trajectory within their development process based on their own conditions.

The thesis will end up with a Conclusion part, in which all the key findings of the research will be summarized and important question for future studies will be mentioned.

The methodology that will be employed for this study will be the analysis of official statistics (in terms of economic performance) and secondary resources related to historical political and economic development of Saudi Arabia. Accordingly, the researcher will focus on the “resource curse” theory and will try to show that it has a Eurocentric approach that prevents it to be applied completely to Saudi Arabia, a Wahhabi dominated country whose historical progress is totally different from European civilization. Consequently, the development phases experienced by these two different sets of countries are not similar. The study for the most of the part will remain as a qualitative study which intends to expand a theory to understand its weaknesses. The quantitative data for the economic performance of the Saudi Arabia are not completely reliable and the account of it changes from author to author in the years which led to the creation of Saudi Arabia and in the early years of the state. The lack of efficient state apparatus, recording and archiving during the early years of the state formation in the Saudi Arabia makes it controversial to rely completely on the quantitative data. Yet the quantitative data will also be used when it is reliable and necessary. The thesis will be a qualitative research while it is for most of the times remain as an interpretivist research. It will try to construct a knowledge which is outside the framework of Eurocentric knowledge. While doing that, the data collection will be almost entirely limited to the secondary source analysis. These will include books, articles from academic journals and e-news. Yet there will be parts where quantitative data which is based on secondary sources that will be used.

To sum up, Saudi Arabia’s development trajectory will be analysed separately from the arguments of the resource curse theory. The main aim will be to

demonstrate the particular development trajectory that Saudi Arabia has followed. While doing this, instead of interpreting the development trajectory from the perspective of resource curse theory, it will seek for other alternatives. Major driving force to do that is the ideas contained within the critiques of Eurocentrism. In order to achieve knowledge regarding those particularities of Saudi Arabia, distributive and allocation state perspectives will be utilized. Although those perspectives are equally Eurocentric, they will just be used as a framework to understand Saudi Arabia. Yet intellectually this thesis will greatly diverge from the Eurocentric viewpoint contained within them. It will utilize a broader view of the development trajectory which is not solely based on one paradigm. Focusing on a particular resource contributes the use of the words such as 'despite' and 'still' to situate Saudi Arabia as a backward country compared to the Western experience. Without using those words, the thesis will treat Saudi Arabia as a unique country with a particular development trajectory which do not face with 'despites' and 'stills'.

## CHAPTER II: LITERATURE REVIEW

### 2.1. Eurocentricism

Eurocentrism is a key concept to understand the problems of the resource curse theory. The problems of the resource curse theory are not about the outcomes that it finds, but the problem is in the approach that it utilizes to determine the resource curse. Edward Said, in his marvellous work directs the attention to that point. He demonstrates how the Orient is the reflection of the Occident. He demonstrates how the creation of 'other' is the result of power relations between the Occident and the Orient and how -in Gramscian sense- the Orient has established hegemony over the culture of the studies regarding the Orient. (Said, 1978). Within the resource curse theory, a similar approach can be found.

For Brohman (1995), 'Ethnocentrism, of which Eurocentrism is a special case, has been defined as 'the tendency to view one's own ethnic group and its social standards as the basis for evaluative judgments concerning the practices of others, with the implication that one views one's own standards as superior' (Brohman, 1995: 127). The speciality of the Eurocentrism is explained by Dussel (2000) as; 'even though all cultures are ethnocentric, modern European ethnocentrism is the only one that might pretend to claim universality for itself' (Dussel, 2000:471). Furthermore ,Orser (2012) claims 'what makes Eurocentrism different then the ethnocentrism is that, it gained immense power when it was combined with colonialism, capitalism and racialization' (Orser, 2012: 749). Thus, while thinking about Eurocentrism, it had to be within the line of the definition of ethnocentrism

with paying particular attention to the idea of universality within the superior European culture. Yet in contrast from a relativist approach, the development can only be understood within its own context and there cannot be universally applicable rules (Brohman, 1995: 122).

It is also important to notice the arguments of Immanuel Wallerstein. According to Wallerstein, social sciences suffer from Eurocentrism from the first day that it was institutionalized (Wallerstein, 1997: 93). He believes that this type of vision is highly problematic and it yields towards debates and arguments which are resulting in distortions within the domain of social sciences. For him, it is not easy to tackle the problems of Eurocentrism and one must be careful in doing it so. His remarkable quote demonstrates the seriousness of the Eurocentric problem in social sciences: “Eurocentrism, for, as we shall see, it is a hydra-headed monster and it has many avatars. It will not be easy to slaughter the dragon swiftly. Indeed, if we are not careful, in the guise of trying to fight it, we may in fact criticize Eurocentrism using Eurocentric premises and thereby reinforce its hold on the community of scholars”(Wallerstein, 1997: 94). Accordingly it should also be noted that we are all part of Western education system and while we are criticising eurocentrism, we might also follow up Eurocentric premises.

To understand what Eurocentrism is, it is important to look at the Eurocentric accusations in the very first place. These accusations are providing what is wrong with the Eurocentrism and how it is affecting the social sciences. For Wallerstein (1997), these accusations are the avatars of the Eurocentrism and he distinctly analyses five different accusations. These five accusations are historiography, civilization, universalism, orientalism and progress. Although he analyses them

separately, it could also be argued that all these five elements are interconnected to each other, and they are haunting the most of the theoretical tools that we are using within the social sciences. Resource curse theory is one of them.

For Wallerstein, “that whatever Europe did has been analysed incorrectly and subjected to inappropriate extrapolations, which have had dangerous consequences for both science and the political world” (Wallerstein, 1997: 104). For him what is most important is to think about whether this culture or specific patterns of it could actually be considered as a positive thing. For him, the Eurocentrism is actually the expression of the capitalist culture and in his own balance-sheet he believes that this capitalist culture is something negative and it is definitely not a sign of human progress (Wallerstein, 1997: 105). For him, ‘the idea that science is over here and socio-political decisions are over there is the core concept that sustains Eurocentrism, since the only Universalist propositions that have been acceptable are those which are Eurocentric’ (Wallerstein, 1997:106). In his view, the way to tackle the Eurocentrism lies in the idea not to deny the special position of the European culture, but to accept it, understand it and try to transcend it.

Another important contribution to the term Eurocentrism is produced by Samir Amin (1988). He is championed as the person to give the meaning to the term Eurocentrism. For most of the part, the approach of Amin coincides with the views of the Wallerstein, and they both approach to same phenomenon from a cultural point of view that was produced as the result of the capitalist system. For Amin, the manifestations of the Eurocentrism are hard to grasp in our daily and political life yet he summarizes Eurocentrism like following:

The European West is not only the world of material wealth and power, including military might; it is also the site of the triumph of the scientific spirit, rationality, and practical efficiency, just as it is the world of tolerance, diversity of opinions, respect for human rights and democracy, concern for equality—at least the equality of rights and opportunities—and social justice. It is the best of the worlds that have been known up until this time. This first thesis, which simply repeats facts which are in themselves hardly debatable, is reinforced by the corollary thesis that other societies—the socialist East and the underdeveloped South—have nothing better to offer on any of the levels mentioned (wealth, democracy, or even social justice). On the contrary, these societies can only progress to the extent that they imitate the West. And this is what they are doing, in any case, even if they are doing it slowly and imperfectly, because of elements of resistance based on outmoded dogmatisms (like Marxism) or anachronistic motivations (like tribalism or religious fundamentalism)

(Amin, 1988: 181)

For Amin (1988), as we have seen, there are at least two thesis of the Eurocentric vision. First thesis pictures Europe as the champion of everything, every positive achievements that have been achieved by the humanity. Second thesis is more considered with the spread of these achievements to the other civilizations as well. Yet as it is demonstrated, there is a specific type of development trajectory that was experienced in Europe. The first thesis directly excludes the other civilizations from the picture, which means that those civilizations did not experienced what the Europe experienced. Thus from the starting point, the neglect of the first thesis is evident for the other civilizations. Despite that Eurocentric vision leads to the second thesis and the second thesis brings the idea that;

Consequently, it becomes impossible to contemplate any other future for the world than its progressive Europeanization. For the most optimistic, this Europeanization, which is simply the diffusion of a superior model, functions as a necessary law, imposed by the force of circumstances. The conquest of the planet by Europe is thus justified, to the extent that it has roused other peoples from their fatal lethargy. For others, non-European peoples have an alternative choice: either they can accept Europeanization and internalize its demands, or, if they decide against it, they will lead themselves to an impasse

that inevitably leads to their decline. The progressive Westernization of the world is nothing more than the expression of the triumph of the humanist universalism invented by Europe

(Amin, 1988: 180)

Furthermore, Amin also equates this Eurocentrism and the Europeanization with Westernization. According to him, Westernization is a doctrine which imposes to the other parts of the world the adoption of recipes, cures which are based on European superiority. These cures include free enterprise, market, secularism and pluralist electoral democracy (Amin, 1988: 180). Moreover, Amin claims that these prescriptions also highlight the superiority of the capitalist system, the system's ability to solve most of the problems that the humanity faces. Marxism and all other different ideologies other than capitalism are treated as avatars of history, a little distraction which would eventually collapse and everyone will adapt capitalism. For Amin, Eurocentrism, under such conditions, the West does not have anything to learn from the other countries of the world, and the decisive evolutions which shapes the future of humanity continue to be found in West and the events in the other parts of the world are 'tumultuous' and necessary problems for the peoples of those regions to correct their backwardness.

Resource curse theory finds its place within the scope of development theory. Basic premises of the resource curse theory are about determining the shortcomings of resource rich states compared to the developed countries of the world. The gap between what developed countries were able to achieve and underdeveloped countries have failed to achieve is labelled as the resource curse. The distance between the Occident and the Orient, to follow a certain development trajectory,

while champions the superiority of the developed countries, it inherently demonstrates the backwardness of the underdeveloped countries.

Yet as Brohman (1995) points out, 'In order to understand and explain processes of development, we need to become more sensitive to the complexities of various development experiences and to forge more appropriate conceptual tools within development theory for interpreting such experiences' (Brohman, 1995: 121). According to him, the mainstream development theories, which are modernisation and neoliberalism are all rooted in the historical and social experiences of few industrialized Western countries. Despite that using a quote by Burton, he claims that a knowledge about a development in one part of the world cannot be transformed the other parts of the world. This is due to the fact that knowledge of development is created within the development process. What is achieved as knowledge of development is the product of the process, and this process can vary in different parts of the world.

Another critique of modernisation theory as Eurocentric is staged by Gulalp (1998). According to him, 'from the beginning of development studies, the central concern has been the nature of the original transition experienced by Western Europe and the possibility of its replication elsewhere' (Gulalp, 1998: 957). For him, apart from the Modernisation Theory, Dependency Theory is also equally Eurocentric. That is because Dependency Theory too, as it is with Modernisation Theory, sees the development as the replication of the Western model. The only difference in Dependency Theory is the claim that it is because of the imperial powers, the road to development is blocked. Yet, since the understanding of development either from

modernisation or dependency perspective does not change, both of them are accused as Eurocentric by Gulalp.

Kayaoglu (2010) on the other hand believes that the Eurocentrism of the developments trajectories stems from the Westphalian narrative. He claims that European exceptionalism in the Westphalian narrative has allowed the Western scholars to determine the hierarchical status of the Western countries against the others within international relations. Within the hierarchy, Western countries produce the norms, institutions and principles of the international society while others are just entities which have to socialize the norms of the international society. For Kayaoglu, this approach is normative in the sense that it 'has established an understanding of liberal progress toward an international order of political and religious tolerance embedded in European history, values, and political vision' (Kayaoglu, 2010: 195). He also suggest that this kind of approach has become a tool to excuse the coercion used against non-Western countries by Western countries in the name of 'necessary evil' (Kayaoglu, 2010: 195). He furthermore claims that the Westphalian narrative is also causing behaviours consistent with the ideas produced by Europeans in European countries to a European culture, while the behaviours which are not consistent are attributed to external and situational factors. Same holds true for non-Western countries and behaviours which are inconsistent with European ideals are attributed to history, religion and culture of those countries (Kayaoglu, 2010:214).

Thus for Eurocentrism to find itself a place within the literature, it has to take an example of a successful western experience on the terms of economy and development. Yet that alone is not enough to give it a meaningful place within the

literature. In order to do that, the other has to be created and only with the relationship of the superior culture with the undeveloped culture the effects of the Eurocentrism manifests itself.

If Said's (1978) arguments are taken into consideration, it would be easier to grasp how the other is established. The critique of Said's regarding the Orientalism can be found in the arguments of resource curse theory. For Said, Orientalism first of all means 'a way of coming to terms with the Orient that is based on the Orient's special place in European Western experience' (Said, 1978: 1). For him. 'The Orient is not only adjacent to Europe; it is also the place of Europe's greatest and richest and oldest colonies, the source of its civilizations and languages, its cultural contestant, and one of its deepest and most recurring images of the Other' (Said, 1978: 1). He furthermore adds that, the Orient was a helpful tool to define Europe or West as its contrasting image. This was made available as a contrast in ideas, individual and experiences. Said sees 'Orientalism as a Western style for dominating, restructuring, and having authority over the Orient' (Said, 1978: 3). He argues that the Orient itself and the knowledge regarding the Orient are made by Europeans. The Orientalization of the Orient for Said, was only possible because the power relationship between the Orient and the Occident is on the side of the Occident. Occident was able to, without facing any resistance, to create the Orient based on their own experience. Furthermore, Said, with reference to Deny Hays, claims that the idea of superiority of Europeans compared to the backwardness of the others is what made Orientalism culturally hegemonic. He further states that 'There is in addition the hegemony of European ideas about the Orient, themselves reiterating European superiority over Oriental backwardness'(Said, 1978: 7).

Within this perspective, while analysing Saudi Arabia, the researcher will not claim that Saudi Arabia should develop on the basis of classical Western development trajectory. The research will not try to accuse any external situation such as history, culture (both the culture of Occident and Orient), or religion as being the prime responsible to not to follow up that kind of development trajectory. Rather, the thesis will take the stance of Burton who claimed that the knowledge about development is contained within the process of development. Therefore, the researcher will have a deconstructing stance towards resource curse theory and he will utilize the rentier state approach to look at the particularities of the Saudi Arabia. Yet total submission to the thesis of the rentier state will be again Eurocentric and therefore the researcher will only utilize it as a tool and in certain aspects.

## **2.2. Resource Curse Theory**

“Resource curse is not a destiny” (Karl, 1997; Lederman and Maloney 2007; Humphreys, Sachs and Stiglitz, 2007). This sentence plays the key role and one of the starting points of this research regarding the topic. It may seem like a positive sentence, but from this sentence the Eurocentrism of the resource curse emerged. Admitting that resource curse is not a destiny is the starting point to find solution to the resource curse experiencing countries’ problems. These solutions are almost in every suggestions are based on Western experience and implementing the policies that Westerners implemented. Yet are the states which have abundant natural resources are the same with the Western type of states? There cannot be one precise answer to that question in general, but for the particular case of Saudi Arabia the answer is “no”. It is true that Saudi Arabia has been suffering from what resource

curse theorists label as curse, but it is not only the resource which causes the curse. Historical economic pattern, together with the involvement of the foreign powers and the existence of the high amount of oil, when they are combined are the actual cause of the curse for the case of Saudi Arabia.

Within the literature, there are three different effects of resource curse. First of all, it is regarding the political structure of the state. For example Ross (2001), looks at the relationship between the natural resources and ruling system of the resource rich countries and comes to a conclusion that oil hinders democracy. Secondly, it is about the economic structure and lastly it is about the effects on the society as a whole. Auty (1993) looks at how mineral riches have resulted in poor economic development in some mineral rich countries such as Bolivia, Peru, Chile, and Jamaica and so on. Karl (1997) also looks at to the theory of resource curse and analyse Venezuela through that lens and demonstrates how it affects the society as a whole. It is hard to distinguish which feature affects the other and all these effects in most cases can be seen as intermingled. Yet for the purpose of this thesis, the most important point while analysing the claims of the resource curse is to show that, both economic, political and societal effects of the curse are considered from Eurocentric perspective. The researcher does not claim that what is labelled as curse is actually not a curse, but he does claim that the state and the society of the Saudi Arabia has not tried to remedy what is understood as a “curse”. Rather the historical economic pattern of the Saudi Arabia together with its oil wealth and with the involvement of the foreign powers has preferred to follow up different line of development trajectory. This development trajectory does not aim to cure the problems of the curse and instead it is conducive to increase the effects of the curse. For all these

reasons, claims of the resource “curse” are true from a Eurocentric perspective, but the source of the “curse” has to be reconsidered.

Karl (2005) claim that ‘in its narrowest form, the resource curse refers to the inverse relationship between high natural resource dependence and economic growth rates’ (Karl, 2005: 23). She claims that mineral and oil export dependent countries are the weakest performers in growth despite having very high import and investment capacity. For her, studies show that, compared to the agricultural commodity exporting countries, oil exporting countries ‘suffer from unusually high poverty, poor health care, widespread malnutrition, high rates of child mortality, low life expectancy, and poor educational performance’ (Karl, 2005:22). This is strange when the revenues available to oil exporters exceed the amount which are available for the agricultural commodity exporters. Despite those huge revenues, oil exporters fails to overcome the above mentioned problems. For her, these surprising outcomes are labelled as resource curse.

There are two important things for Karl when she talks about the resource curse. First of all, when we are talking about the resource curse, it is not just about the countries which has high amount of oil reserves, but it also includes the countries which has high amount of minerals. Basically, economy, which is dependent on natural resource is considered within the framework of the resource curse theory. For her, not all resources are created equally, but resources which are considered as a ‘point source’, the ones which are gathered from narrow geographic or economic base such as oil and minerals are more conducive to the effects of the resource curse. Secondly, just having those resources are not enough, but being overwhelmingly

dependent on those resources are considered again within the framework of the resource curse theory(Ibid, 22).

One of her explanations regarding to this problem is about the price volatility of the oil markets. She claims that due to this high volatility, oil export dependent countries are prone to decline in their per capita income and a collapse of growth in huge proportions (Karl, 2005: 22).She gives an example from Saudi Arabia and shows that between the years of 1981-2001, the per capita income of Saudi Arabia has almost declined to \$21,800. The second explanation that she brings is the problem of “Dutch Disease”. Within the Dutch Disease, the oil sector drives up the exchange rate of the local currency which leads other sectors to become non-competitive (Karl, 2005:23).This makes the diversification – to also invest in other productive sectors other than oil sector- a hard task and the protectionist policies followed in response even makes the other sectors such as agriculture and manufacturing more dependent on the oil exports. This reduces the competitiveness of those other sectors even further.

The third reason for Karl is the lagging skill accumulation and heightened inequality(Ibid, 24). She claims that the depending on the export of one resource, especially oil, creates few jobs. Since oil is capital and technology intensive industry, usually foreign people are hired instead of locals to do the job. This, in the end, leads to wealth to be gathered by the few hands and the increase of inequality within the society. Lastly, she mentions about the enclave and tax problems. She claims that since the oil revenue is directly gathered by the government, it reduces the need on

the side of government to tax its own population. This in the end breaks the link between taxation, representation and state accountability (Karl, 2005:24).

She believes that, the weak state institutions and the rentier state are the reason for the existence of the resource curse. She claims that this is partly due to timing. 'If pre-existing institutions are weak or the state only partially formed, the influx of rents from petroleum tends to produce a rentier state—one that lives from the profits of oil' (Karl, 2005:25). This suggests that there could be a research conducted on the state formation of a resource rich country and to see whether the economic and political institutions of that particular state did ever intended to overcome the effects of the resource curse.

Sachs and Warner (1997) are also important two authors which direct our attention to the economic problems that the resource endowments bring. According to them, 'one of the surprising features of economic life is that resource-poor economies often vastly outperform resource-rich economies in economic growth' (Sachs and Warner, 1997: 2). They claim that this oddity is re-occurring in the history of the world. For example, they compare Netherlands and Spain of 17th century and show that how resource-poor Netherlands outperformed resource-rich Spain(Ibid).Their study is conducted with the purpose of testing this negative relation between natural resource endowments and economic growth. They basically test the arguments that are made about this relation in 95 developing countries with using cross country analysis on a regression model. They test various assumptions regarding the resource curse and at the end of their study they find that between the

years of 1970 and 1990, the assumptions regarding the resource curse are robust in resource-rich countries(Ibid).

According to them, between the years of 1970 and 1990 there is a negative relationship between the natural resource endowments and slow growth rate based on the cross country analysis they make (Sachs and Warner, 1997: 26). They find that this claim is true when the other additional variables are included to their cross country regression model including variables such as initial GDP, openness policy, investment rates, human capital accumulation rates, changes in the external terms of trade, government expenditure ratios, terms of trade volatility, and the efficiency of government institutions (Sachs and Warner, 1997: 26). According to them, all these additional variables are relevant and important based on the past studies which highlight the importance of these variables in analysing cross-country growth.

Within the literature there are some important works which have been conducted to see the development trajectory of Saudi Arabia. One of the most important work conducted to see how the natural resource effects the Saudi Arabian government is done by Chaudry (1997). Her work is conducted to see how the exogenous shocks of the 1970s and 1980s have affected the domestic political economy of Saudi Arabia together with Yemen which were heavily integrated in regional system. She conducts her research to see how the boom and bust periods of the oil prices affect the institutional setup of the both Yemen and Saudi Arabia. For her, the institutional setup which is organized during the boost periods, are changing in unexpected ways during the bust periods. This suggests that the institutional setup of the Saudi Araba is somewhat fragile. If the prices of the oil are determining the

outcomes of the institutional organization in Saudi Arabia, it could be argued that, the price fluctuations of the oil can seriously harm the institutions of Saudi Arabia. This also suggests that, any change in the price of oil could lead to different organizational setup in Saudi Arabia. As it will be shown within the research, this argument holds true for the Saudi Arabia. Most of the institutions to regulate the economy of the country, are created as a response to increasing amount of revenues through the sale of oil. Any changes that occur in the organisational setup of the Saudi Arabia is also closely connected to the prices of the oil.

Auty (2001), claims that when compared to Botswana, Saudi Arabia had a harder experience with the resource curse. Auty explains this situation with two main reasons. First of all, he claims that the consensual democracy and good levels of transparency has helped Botswana to follow up better development policies. On the other hand, the lack of transparency in Saudi Arabia and its political structure has led Saudi Arabia to not follow up better developmental policies. Secondly, Auty (2001) claims that the nature of the resource also was an advantage for Botswana. Compared to volatility of the oil prices, diamond prices have proven to be more stable. This also has enabled Botswana to pursue stronger developmental policies. Auty claims that ‘The Saudi government boosted the windfall from the 1974–79 oil boom by sharply expanding oil production and absorbed the rents too rapidly so that Dutch disease effects during 1974–81 rendered little economic activity competitive other than oil’ (Auty, 2001: 85). For him, this is due to the volatile nature of the oil prices. Furthermore, according to him the paternalistic distributive system in Saudi Arabia did not allow the government to be resilient and to choose different type of

policies(Ibid, 84). As it is seen one of the reasons of the bad economic performance in resource rich countries are also heavily tied to the politics of that country.

One of the main explanations to understand the reason for the continuation of the paternalistic distributive system that Auty mentions of Saudi Arabia can be provided by the work of Robinson, Torvik, Verdier (2006). This work also creates a framework to understand why the politics in resource rich countries are not ideal, and why these countries cannot convert their natural blessings to economic gains. These authors focus on the quality of institutions of resource rich countries. They believe that since countries such as Norway and Botswana proved to be good examples of sustainable development, not all the countries which have natural resource endowments has to suffer from the curse. Their main aim is to understand what is the difference between successful and unsuccessful examples of the resource rich countries. Their main focus is on the quality of the institutions. They also integrate the behaviour of the politicians to their model. In conclusion, they find four explanations to show why resource curse exists. First of all, they claim, politicians in countries suffering from the resource curse over-extract natural resources instead of following efficient extraction path because instead of thinking the future they think only about their time (Robinson et al, 2006: 450). Secondly, they claim that resource booms improve the efficiency of extraction path (Ibid). Thirdly, the prize of the resource booms creates the incentives for the politicians to misallocate resources even more for their own aims(Ibid). Finally, they claim that the overall performance of the country during booms heavily depends on the quality of the institutions (Ibid, 466). For them, if there are strong institutions which prevents politicians acting autonomously, that will highly reduce the probability of the

resource curse(Ibid). Their arguments also shed a light to the arguments of Chaudry (1997) who claimed that the institutional responses to the booms and bust periods in Saudi Arabia were somewhat fragile. Explanations of Robinson et al could be the reason for the weak institutions in Saudi Arabia.

In a pioneer work of his, Ross (2001),in his article poses the question ‘Does Oil Hinder Democracy?’. He tries to answer different sets of question which tests first of all whether oil impedes democracy? Is it only limited to the Middle East? Does other nonfuel mineral wealth also impede democracy? And what are the causal mechanisms that verify his claim. Through his cross country analyses, he comes to the conclusion that oil hinders democracy and it effects more on poorer countries compared to richer ones. Oil harms the process of democratization outside the Middle East as well and other non-fuel minerals also results with the same effect. According to him, the rentier effect of the oil, repression effect and the modernization effect can be used as a casual mechanism to explain this negative relation

The rentier effect for Ross has three main components. These include taxation effect, spending effect and group formation. For him, since these natural resource rich countries for most of the time find themselves free from the burden of taxation, in return there is no active demand for representation by public. Secondly, through the spending effect, they can ease the representation demands by buying of through social spending. Lastly, government of these countries through the resources that are available to them could block the formation of social groups which will seek rights and liberties. Thus, this prevention blocks the possibility of democratic

environment. Repression effect simply means the ability of government to use force. Since the control large revenues they also establish armed forces which are totally under their control. This enables them to silence any dissent voice which may arise. Modernization effect is separated from the state centric approach and it looks more into the effects within the society. According to the modernization effect, due to the economy heavily tied to the exportation of a point source, societal developments such as education, specialization do not occur. These are highly important cornerstones to shift to a democratic system which are not found in resource rich countries.

Arguments of Ross are further strengthened by the study that Aslaksen (2010) conducted. Her research is conducted with the purpose of answering the increasing scepticism with regards to relationship between negative effects of oil to the democracy. For her, challenges to this phenomenon were based on the arguments which claims that the argument was missing omitted variables. Yet after conducting her research by using a sample of 156 countries between 1972 and 2002, and by including country fix variables, she still shows that there is a negative relationship between oil and democracy.

Yet these arguments are challenged by Herb (2005). Although he does not deny the fact that natural resources could harm the process of democratization, he does not see the 'rent' as a casual mechanism. In the research he conducted, he finds no evidence that rent actually affects the democratization process. Therefore, one important element of the work of Ross is contested and it remains as a debate. Despite that, one of other explanation of Ross is found a robust example in the work

conducted by Chaudry (1994). Chaudry, in her work looks at the liberalization efforts in two oil rich countries which were ruled by *etatisme* for long time of periods. These countries are Iraq and Saudi Arabia. Although Chaudry does not directly look at democracy variable, she analyses the responses that were given by the public to the efforts of modernization. She mirrors the liberalization and modernization effort of both countries in the light of economic crises that they have faced in 1980s due to the volatile nature of the oil prices. Both countries has initiated reforms to establish national markets. This process was initially successful in Iraq whereas in Saudi Arabia the reforms have failed almost immediately. Chaudry believes that the existence of state sponsored class in Saudi Arabia, and unwillingness of Saudi government to antagonize them is the prime responsible for the failure of the reforms. She even shows that ‘protectionist laws that had never been implemented during boom began to be enforced in the recession’ (Chaudry, 94: 10). This highlights the argument of Ross on the issue of group formation. Government can decide which groups to be disbanded and which groups to be formed. Existence and non-existence of them could seriously harm the modernization and democratization processes in natural resource rich countries.

Moreover, Smith (2004) in his article empirically demonstrates that how the regime durability is effected by oil. Up until his time, he believes that the effect of oil to the regime durability was considered on three dimensions. He calls this as three “R”s. These are the rentier states, repression effect and rent-seeking. Yet in his research he finds that there are strong evidences for the long regime durability in developing parts of the world, but it cannot be only understood by looking at those three “R”s. For him, the assumption that regime durability increases in these

countries simply because of the ability of the leaders to constantly access to oil rents to buy legitimacy, create patronage and to rule by coercion is not enough. He finds that during the oil bust periods where the rents accrued by the state greatly reduced, these regimes were able to survive. Thus, he suggests that these states ‘may have had robust social coalitions that went much deeper than simple purchase of legitimacy’ (Smith, 2004: 242). Secondly, he suggests that these states ‘may have built institutions that could provide non-repressive, as well as repressive, responses to organized opposition (Smith, 2004:243). Thus, the “R”s in this work is once more contested, yet the author looks at another indication which is regime durability rather than democracy.

Furthermore, Shaxson (2007) looks at the relationship between corruption and oil rich countries. He is occupied with the question why do mineral-dependent countries tend to be more corrupt than others? (Shaxson, 2007: 1126). According to his research corruption is defined as ‘the misuse of entrusted power for private gain’ (Shaxson, 2007: 1129). Yet he believes that this definition is mostly about behaviour and there is a need for focus on more on systems and processes. Thus, he also brings tax and tax havens considerations to his approach on corruption. According to him the answer to get rid of the corruption might be the distributing oil revenues directly.

Yet not all the countries which are rich in natural resources face the same political problems. Countries such as Norway and Botswana, are one of the good examples to show how well natural resource rich country can develop. What makes them so special? How do they escape the economic and political problems of the resource curse? Omgba (2015) tries to bring an explanation to that type of questions.

According to him, to provide a reasonable answer to that question, we must look at the distance between the times that particular resource rich country gained its independence and the time they started to export their natural resource. In his idea, when the gap is too short countries suffer from the resource curse. For him, if state tradition was not established long ago before the oil production, they become more prone to extractive institutions. As Karl (2005) suggested previously, the argument of the Ombga also suggest that there could be historical approach utilized on resource rich state to understand the reasons of the curse.

In the case of Saudi Arabia, the state was formed in 1932 and the oil production has started in 1939. This suggests that there was a very little gap and nearly the creation of state has coincided with the extraction of the oil. Furthermore, revenues from *zakat*, pilgrimage, war booties, and foreign aid were the main resource of the Saud to consolidate his power in Central Arabia. Their economic activities were not based on productive sources. Instead, they heavily relied on extractive mechanisms. Therefore, it is appropriate to expect from Saudi Arabia to develop within the line of distributive states.

So far both economic and political aspects of the resource curse in resource rich countries have been analysed. The major theme that can be found in both type of arguments is the importance that they give to the strong state institutions. They are seen as the remedy to overcome most of the problems that are associated with the resource curse. If the answer is that simple why these natural resource rich countries has failed to establish strong institutions? Is it because they are not capable? Or did they never intend to do so? From the perspective of a distributive state, the answer to

this question seems to be that they never intended to do so. Considering a natural resource rich country as a distributive state and not as a conventional European state is important to understand what to expect from these countries both economically and politically. The researcher at this point must admit that many of the scholars who investigate resource rich countries accepts the fact that they are rentier states, and they demonstrate weak institutions as a result of the rentier system. Despite that as a good will, they remain optimistic for the possibility of these countries to show progress in European sense. Yet authors such as Karl and Omgba also accept that it is a hard task and they suggest that a historical research can be conducted to see the effects of the resource curse in resource rich countries. The optimistic will towards a progress in European sense and the suggestions of remedies based on European experience are Eurocentric and directs the attention from the particularities of these resource rich countries. Those particularities on the one hand necessities a different kind of development trajectory, and without understanding those reasons it is hard to imagine that these countries could ever adopt the Western remedies to cure the curse from Western perspective.

### **2.3. Rentier State**

The first definition of rentier state was used by Mahdavy (1970) and he explains rentier state 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, concern or governments to individuals, concerns or governments of a given country”(Mahdavy, 1970:428). Basically as this definition of rentier state is accepted one could easily argue that rentier states are characterized based on how

they accrue their revenues and in the case of rentier states this revenue is gathered from foreign resources.

Mahdavy (1970) finds himself occupied with some questions such as ‘Why the oil exporting countries, in spite of the extraordinary resources that are available to them, have not been among the fastest growing countries in the world? At the core of his explanation of Rentier State in Iran what he tries to seek is to understand why Iran wasn’t able to see economic growth like developed countries did? In his analysis he rightly demonstrates, compared to the developed countries of the world, Iran has failed to follow similar development trajectory to achieve the developments that the developed countries have achieved. In the third section of his article, he compares ten to twelve years of Iranian development with the developed countries. He looks at the participation levels in economic activity, sectoral patterns of output, sectoral distribution of work force, sectoral product per worker, manufacturing sector, and distribution of Gross National Product (GNP) by type of use, government revenues and expenditures, structure of foreign trade, behaviour of monetary system and patterns of income distribution. After analysing all of these aspects, he concludes that availability of high amount of capital and foreign exchange may not be conducive to growth; oil exporting countries have to organize themselves better for economic growth and there should be planning to shift to industrialization. While he reaches to the his last conclusions, he also identifies some of the characteristics of rentier states, such as the governments of these states are freed from taxation and therefore they do not have efficient bureaucracies to regulate the economy which they should change in positive direction, and he claims that these rents are collected

by the few hands in economy and therefore it may result in Rentier Class which could block the economic growth.

Yet to have a deeper understanding of the rentier state and to utilize the term distributive state as a theoretical framework to guide this study with particular focus on Saudi Arabia has to be provided. According to Delacroix, the distributive states do not show the characteristics of the states which are commonly associated with the Marxian or Weberian type of state. Service claims that 'The distributive state, as an abstract entity, is not describable in terms of the Marxist-Weberian model' (as cited in Delacroix, 1980: 9). However, Delacroix asserts that if these states are considered outside the Marxist view and accepted as a polity which is not rooted in class oppression; these polities may crystallize around allocative and redistributive tasks (Delacroix, 1980:10). If state is formed around allocative tasks that it performs, two outcomes are expected. First, 'elites in control of different states are differentially obligated to extract surplus to sustain themselves' and secondly 'a redistribution of value not extracted from the state's own population is simply a distribution' (Ibid). For Delacroix, although class struggle is important as an explanatory factor for most of the nation states, it is not in the case of distributive states. This is due to the fact that, the mode of production in distributive states involves very little production. For him, in these types of cases the relations of production will be something other than class. Logically these kinds of states will have different kind of dynamics compared to the states which has dynamics supplied by class struggle. The different dynamics of the distributive and allocative type of states can be found in the works of Vandewalle and Luciani.

The main reason for Luciani (1987) to not utilize rentier state and adopt new categorization of allocation states lies in the quality of rents. According to him there are other rent-like sources of revenue which is gathered directly by state. An example of that would be foreign aid. Furthermore, he believes that some rents do not gathered directly by the state, but it can be gathered directly by citizens. In that case we would have to talk about rentier economy rather than rentier state. Lastly, the income of the state may not be in the nature of a rent, but it could be earned from abroad. If it was earned domestically then the nature of the state would not be affected much (Luciani, 1987: 68).

Thus, what he suggests for a new categorization is to look these states income, whether it is originated from abroad or domestically. On that line his work is very similar to the work of Vandewalle (1998) which will be introduced later. He does that because for him 'the essential impact of oil production and exports is that they free the state from the need of raising income domestically. It is oil exports that play an essential role in this respect even more than oil production per se' (Luciani, 1987: 69). On that basis he says that, if we look at the origins of the state revenue, then we have to distinguish between the states as exoteric states and esoteric states. Exoteric states are the states which accrue their income directly from abroad and esoteric states are the ones which earn their income domestically. Yet he claims that looking at this distinction from a different angle is more enlightening and that is to look at the predominant function of the state. According to his view, there are two different predominant types of function of a state which are allocation and production (Luciani, 1987: 69). And his concept of the allocation state will constitute a major conceptual role in this research.

According to Luciani (1987), allocation states is “all those states whose revenues derives predominantly (more than 40 per cent) from oil or other foreign sources and whose expenditure is a substantial share of GDP” (Luciani, 1987: 70). These numbers may little bit arbitrary but what is at the core of his definition for allocation states is the fact that these types of states are filling state coffers from outside resources and they are spending enormously. If this definition of rentier state which was offered in 1987 applied to Saudi Arabia today, it is still valid. According to Natural Resources Governance Institute, ‘Saudi Arabia remains one of the world’s most oil-dependent economies with the sector contributing 78 percent of exports’ (‘Saudi Arabia Oil&Gas’, n.d.)

When it comes to the qualities of the allocation states it greatly diverges from the production states. First of all, allocation states ‘which depend on income from abroad, allocation is the only relationship that they need to have with their domestic economy, all others ride their domestic economies’ (Luciani, 1987: 70). On that point, it greatly diverges from the production states because even if the production state performs allocative functions, in those states allocation is not the only action. On that basis while production states aim the economic growth as their primary goal, allocation type of states only need a good policy of expenditure. Furthermore democracy is not a real concern in allocations states and if and only if these states fail to gather revenues from the outside resources which would be spent domestically fails to do those real oppositions against the state starts to emerge. Moreover allocation states does not need to construct national myths and other variants because rather than installing the image that the state belongs to every citizen which could create more demand for democracy or more participation, they rather want to keep it

as patrimonial non-national states because that idea limits the number of people who will have a say in government (Luciani, 1987).

More importantly Luciani (1987) claims that “allocation states are neither better nor worse than production states from a moral point of view, and they are neither more nor less modern. Each has its own rules of the game and evolves along a different path. There is no reason to expect that eventually they will converge towards some kind of modernity” (Luciani, 1987: 78). This view clearly demonstrates one could not expect the same kind of development trajectory in production vs allocation states and each has to be analysed through their distinctive characteristic.

Yet Luciani’s work alone does not enough to establish the required theoretical framework. Therefore I will be also using the term distributive state which was offered by Vandewalle. Vandewalle (1998) starts his analyses about distributive states with a very strong quote from Edmund Burke; ‘The revenues of the state are the state’ (Vandewalle, 1998: 17). This idea is a strong one because one could trace the arguments of Vandewalle back to it. His concept of distributive state is the reflection and the expansion of this idea. According to Vandewalle;

“How revenues are gathered, which compromises rulers must make with their citizens to obtain them, which institutional capabilities the state develops to accomplish this task, and how these institutional arrangements reflect the interest of both ruler and ruled: those questions are at the heart of every political system. They have also been based on historical processes observed in Europe, at the center of the literature on state formation”

(Vandewalle, 1998: 18).

He summarized the distributive states as the states “that do not rely on local extraction of revenues and that spend inflows of capital generated by commodity sales as their primary economic activity” (Vandewalle, 1998: 7). In other words these are the states which ‘derive their income most exclusively from the sale of commodity’ (Vandewalle, 1998: 17). Thus, this definition is also similar to the definition of Luciani and he also distinguished the type of state which are found in oil rich countries.

First of the distinction between the production vs distributive states is the result of the concept of taxation. According to study of Vandewalle(1998), taxation results in the development of two supplemental processes. First taxation results in the development of institutions to respond the growing demand to organize states complex economic organization and for the need to extract taxes. Secondly this extraction of taxes results in the demand for representation in return of the taxation (Vandewalle, 1998: 19). On one hand distributive states do not engage in the extraction of revenue from its citizens whereas on the other hand, classical productive states -European-, to create their national states were involved in ‘the interlocking iron triangle of revenue extraction, institutional development, and representative politics’ (Vandewalle, 1998: 20) which were forged relatively long periods of time. Furthermore distributive states gather their revenues from external rent and it is not the product of internal rent. Moreover, these rents as it was identified by Mahdavy earlier, is directly gathered by the state unlike the case for remittances, direct foreign investment or international aid which could also gathered by the private groups. These rents also are not converted into income for domestic labour or capital. State also needs very few individuals who are professional to

regulate the process of gathering the tax as well as few technocrats to manage those rents (Vandewalle, 1998).

Strikingly ‘the primary political and administrative characteristic of distributive states is the disarticulation of the integrative process that developed in Europe during the state formation period’ (Vandewalle, 1998: 22). The integrative process that developed in Europe for Vandewalle refers to the taxation and institutional development based on economic differentiation and lastly to taking place of political accommodation. He refers to this process as “Iron Triangle”. Accordingly in productive states the need for taxation provides incentives to increase the income base and economic growth is seen necessary for the functions of state. Furthermore ‘the state can expand and exercise its allocative function only as much as its extractive capacity allows; as a result, it creates interest groups that try to influence the adoption of fiscal instruments’ (Ibid). For Vandewalle, this disarticulation process leads to the escape from the constraints of the iron triangle in the case of distributive states. Within the production type of states there is a need to expand the economic base for the citizens, because taxes that are going to be collected from them are necessary for the state to function. Within distributive states, that kind of action is not necessary and leaders find little incentive to expand rights to their citizens to increase their economic activity.

Consequently state’s economic role in the distributive state leads to a wealth-for-power trade (Vandewalle, 1998: 24). When state assumes the primary role to regulate and licensing all economic activity, the normal division of labour which creates interdependence in a productive economy is not experienced in a distributive

state. The state involvement in the market means that more opportunities arise to capture rent from the state by the individuals, and it leads to more internal rent seeking. As long as the external rents can be gathered by the state and they can be captured in internal rent seeking, individuals do not need to influence the public agencies for material benefit (Vandewalle, 1998: 24). Moreover the internal constraints on rulers' behaviour are relatively few (Vandewalle, 1998: 25). The major constrain that they may face is external rather than internal. Pricing mechanism of international market can constrain the behaviour of the rulers'.

Furthermore, the institutions and bureaucracies in distributive states do not need to evolve in accordance to capture gains from trade. High amount of revenues that are available to the distributive states and the way that they obtain them diminishes the constraints which are found in productive economy. In production states the adoption of the development strategies are heavily tied to organizational capacities of the state and socio-political restraints that it may face. Yet these are removed from the picture for distributive states. This enables the possibility that the distributive states can be very flexible to make structural choices in their development goals and the strategies that they pick (Vandewalle, 1998: 25).

Politics in rentier states by nature atomistic and values personal ties over the interest of the group as a whole. As the result people's loyalty is on the side of the system rather than the people who is in charge. If system is sustained, it will provide a source for individuals to capture gain from rents. The absence of the institutions which are found in productive economies which performs supervisory, information-gathering, and regulatory duties have a particular important political consequence.

Rulers can easily hide the revenues that are available to them from the eyes of the public. 'They may fail to distinguish treasury from the pocket' (Vandewalle, 1998: 26). They can reward the people that they chose.

The question of legitimacy in distributive states for most of the cases remains very low and it is heavily tied to the ability of the rulers to sustain it (Vandewalle, 1998: 26). Vandewalle claims this in opposite to the how legitimacy is sustained in productive economies. For him, 'in the West, the state's legitimacy has been linked intimately to the power of the state to tax and to the resultant representation and participation among the state's citizens' (Vandewalle, 1998: 27). Thus, in that kind of state the legitimacy of the ruler is going to be high and it will only come under question in a circumstance, where the government will not be able to represent the will of the people who pays tax to it. In distributive state these constraints are void, and they are heavily bound to the distributive capacity of the external revenues that accrue directly to state.

Lastly, some of the distributive states have adopted formal constitutions yet these constitutions do not represent the rules on property rights and control of the state. Furthermore, these constitutions do not define political roles and relationships within these roles. Political parties which emerges to pursue and to represent the economic interests of the citizens will unlikely be formulated in distributive states. For Vandewalle any political opposition that may arise will be evolved around ideology or cultural orientation. (Vandewalle, 1998: 29).

Distributive states have a contradictory nature. For Vandewalle, ‘distributive state is in the charge of all economic activity that makes it, particularly during the boom periods financially autonomous. But this autonomy allows it to avoid creating institutions and mechanisms that could translate this strength into a long-term power base’ (Vandewalle, 1998: 34). This point is highly significant. As it was stated in the arguments of the resource curse scholars, there is a need in resource rich states to establish strong institutions. Arguments of Vandewalle highlight the importance to understand the political dynamics of the distributive states. That internal dynamic are preventing the distributive states to follow up Western type of development. ‘The financial autonomy in distributive states ... leads to the creation of strong bias against those institutions and bureaucracies that rely on technical qualification, impersonality, and complexity and that are needed for further national integration’ (Vandewalle, 1998: 36).

Finally, the availability of high amount of revenues during the boom periods enables the rulers of the distributive states to act as they please in economic arena. The only restraint that may face is again external and it’s about the pricing mechanism of the international market. Yet the institutions which are created during the boom periods to follow up the will of the rulers for Chaudry ‘have an ‘institutional obsolescence’ that distributive states must face in a recession that leaves them highly inflexible and undifferentiated’ (as cited in Vandewalle, 1998: 35).

These arguments have been criticized by Okruhlik (1999). Okruhlik puts Saudi Arabia into center of her research and he claims that ‘the windfall profits of

petroleum exports do not translate into a politically quiescent population' (Okruhlik, 1999: 295). In fact through her research, she shows how the decision to distribute the wealth available to regime in Saudi Arabia has ignited several opposition movements against it. These opposition includes business circles, protests of women, Sunni's and Shia's, religious bodies and regional movements within the country. Distributing the resources unequally, favouring one group over another, in reality conducive to the emergence of opposition movements.

The work of Crystal (1989) is also closely connected with the work of Okruhlik despite in their research they focus on different things. Crystal looks at the effect of the oil on social relations between the regime and merchant class. In her work Crystal focuses on Kuwait and Qatar and looks at the social relation between regime and merchant class both pre-oil era and post-oil era. In Kuwait, she suggests that, before the oil era the revenues of the *amir* was heavily tied on the economic activity of the merchant classes which constituted the economic base of his power. This led merchant classes to become effective in the decision process and they have also developed some kind of class consciousness. In Qatar, before the oil era the merchant class was smaller and weaker especially after the pearl crisis during the interwar period made them relatively weaker compared to the Kuwaiti merchants. Due to its geopolitical location, Kuwaiti merchants had other alternatives and their economic activity was not only tied pearl economy. Furthermore, apart from the merchants other agencies such as *amir*, his family, Britain and pearling work force was also active within the economy of Qatar. These developments in return resulted with weak merchant class in Qatar.

During the oil era, due to their strong position within the social relations within the pre-oil era, Kuwaiti merchants were able to remain economically strong but gradually their political power declined. This is one of the classic examples of wealth-for-power trade. Despite the weakness of the Qatar merchant class, they have benefited from the similar benefits that their counterparts shared in Kuwait. The protectionist policies and the favourable positions and contracts gained in Kuwait by the merchant class was also evident in Qatar. Yet the weakness of the merchant class in Qatar led the regime to have fewer constraints on its actions. It had the ability to decide which nationals to favour.

Both experiences of Kuwait and Qatar for Crystal highlight that, due to the oil revenues both countries were able to bypass the stages that European monarchs had to face. That stage required monarchs to crush the elites or absorb them into the political process has not taken place in Kuwait and Qatar. Available revenues for the regime made it possible for them to buy out the elites which had a strong role in the economic activity in pre-oil era. This in turn resulted in the 'lack [of] institutionalized co-optive and coercive capabilities, just the capabilities their rulers would need if organized opposition were to emerge' (Crystal, 1989: 441). Thus, Crystal suggests that contrary to the developments in Europe and in Third World, oil states have faced with very little domestic resistance. Therefore the continuity of the ruling family in oil states might appear as an evidence of strong ruling but they have not been tested yet. Lack of co-optive and coercive capabilities might in the future lead the ruling families to lose their privileged positions in the future.

To sum up, there are several characteristics and debates evolved around rentier, allocation and distributive states. Rentier states accrue their revenues directly from the outside sources. They do not rely on the revenue extraction from domestic economy. Because of that they do not develop coherent and capable bureaucracies to regulate the economic activity. As Chaudry(1989) suggests as the result what state can do and what it knows is highly constrained. Furthermore only few people is involved in the collection of rent.

Delacroix suggests that main distinction between the rentier state in comparison to allocation and distributive state is the fact that latter looks at the predominant function of the state. That function can either be named as allocation or distribution and it is Luciani who suggested to analyse the dynamics within rentier states from this perspective. According to him allocation is the relationship of the state with the domestic economy. These kinds of states do not need economic growth and they do only need good expenditure policy. Democracy in the case of allocation and distributive states are not a real concern and these states do not need national myths to consolidate power. Vandewalle when writes about distributive state agrees that there is no local extraction of revenue and spending is the primary activity of the state. Accordingly these states do not rely on taxation which in return leads to the development of weak institutions. They also do not need to expand their economic base. As the result politics result in wealth-for-power trade and the major constraints that these states face are external rather than internal. Yet this point is challenged by Okruhlik and he claims that the way that the regime choses to distribute could give rise to serious opposition against the regime which could create internal constraints. Furthermore, Vandewalle claims that politics are atomistic, and there is a lack of public scrutiny about the revenues available to the government. Legitimacy of the

rulers tends to be very low and political parties based on economic differences do not emerge. He further suggests that the financial autonomy on the side of the regime is preventing the formulation of strong institutions and bureaucracies. Crystal also admits that the weak institutions are the result of the wealth-for-power trade which can be seen in distributive states. The ability of the regime to buy off the opposition does not necessitate the development of co-optive and coercive institutions which may be a further indicator to prove the weakness of the regimes in distributive states that may appear as strong regimes at the first glance.

#### **2.4. Situating Saudi Arabia**

The arguments of both resource curse and rentier states have been analysed separately. Their converging point can be seen when the particular case of Saudi Arabia is analysed. In the close examination of Saudi Arabia it is evident that Saudi Arabia still poses the negative outcomes associated with the resource curse. On the other hand Saudi Arabia poses the most of the qualities of the rentier state. For Okruhlik; “Saudi Arabia, for example, is a classic rentier state. Its state is the functional extension of the ruling family. It is often a capital surplus oil exporter and has tremendous reserves in the ground (at least one-fourth of the world's proven oil reserves). Wealth has relaxed many of the traditional constraints of development and enabled the state to avoid really tough decisions or, when decisions are made, to repeal them quickly if opposition is met. Thus, the state can effectively postpone confrontations on property rights, monopolies, the enforcement of contracts, and efficient sectoral resource allocation” (Okruhlik, 1999, 297).

If both the arguments of the resource curse theory and the characteristics of distributive and allocation states are valid for the case of Saudi Arabia, how can one expect to find solutions to the negative outcomes of the resource curse? The dynamics of the distributive states are in fact not conducive to cure the problems associated with the resource curse. Although those problems still exist and they are naturally portrayed as negative consequences of the oil wealth, how a state can be accused of suffering from a resource curse when it does not need to cure the negative consequences associated with the curse? For example many resource curse theorists argue that the institutional and bureaucratic developments are essential for the cure while distributive state literature argues that kind of development is not possible within the dynamics of a distributive state.

Eurocentrism is at that point is a helpful tool to analyse this dichotomy. Assuming linear development trajectory without any significant problems which is based on the European experience in other parts of the world may not convert into reality for distributive states. These states have their own dynamics, politics and agenda. Assuming that they are same as the European states, and they can follow the same line of development trajectory experienced in the West, can be misleading. Although they are the product of extensive research and coherent analysis, they also inherit Eurocentric assumptions. Thus, highlighting the concept of eurocentrism is vital to try to understand distributive states from different perspective.

The research treats resource curse theory as a theory that is considered under the category of development theory. What we know to be as the resource curse is the product of Western scholarship and they are the ones who have created the knowledge regarding the development process in oil rich countries. If arguments of

Said are incorporated to the resource curse theory literature, oil rich states should be considered as the Orient, scholars that study this phenomenon becomes Orientals and the thing that they are doing becomes Orientalism. As the result of their final work, the contrast image of the Orient versus Occident is established. It is not to say that this kind of approach is a deliberate action on the side of scholars, but since they are part of the cultural hegemony of European ideals, they have followed these steps.

The contrast image, especially within the resource curse theory is highly important, because the literature cannot be considered as a simple variation of the Eurocentrism. On the contrary, the researcher finds resource curse theory as one of the extreme manifestation of the Eurocentrism. This is due to the way, how the problematic of the resource curse theory is constructed. In a simple Eurocentrism, the Orient and Occident are compared against each other. Within the resource curse theory the upper hand is on the side of the Orient. Despite having the upper hand (available natural resources to those countries) 'still' they cannot develop the way that Westerners were able to develop problematic is an extreme version of Eurocentrism. It renders the Orient into a position of extreme backwardness.

Saudi Arabia considering the proven oil reserves is the second largest country in the world. (The World's Largest Oil Reserves By Country, n.d.) Proven oil reserves are defined as the certainly recoverable oil reserves under the current political and economic conditions together with the technology. This proves that Saudi Arabia with its natural endowments poses the one of the biggest potential to grow rapidly. Yet as the resource curse theorists argue, due to the price volatility of

oil, up to now Saudi Arabia's growth is heavily influenced by price fluctuations of oil.

The oil boom of 1974 marked the highest Gross Domestic Product (GDP) growth rate in Saudi Arabian history. GDP growth rate of Saudi Arabia has reached to 27.49 in 1974. Oil prices in that year increased from 2.7\$ for per barrel to 11\$. During the bust period of 1986, in which the price of oil drop from 27\$ to 13.53\$ have marked the lowest GDP growth rate in Saudi Arabian history. Based on these two variables it's true that Saudi Arabia is facing the curse of resource based development trajectory due to the volatile nature of the oil prices. Still today Saudi Arabia seems to be not able to drift from this consequence. During the years of 2011-14 oil prices have reached historical high levels. In 2011 oil price was 107.46\$, in 2012 109.45\$, in 2013 105.87\$ and in 2014 96.29\$. But with 2015 the price of oil has decreased by half. In 2015 oil prices dropped to 49.9\$, in 2016 40.68\$ and in 2017 52.03\$. The effect of that is directly visible in the GDP per capita income of Saudi citizens. Between the years of 2011-14 the GDP per capita income for Saudi Arabia has almost reached 25.000\$ but in 2015 it has almost dropped to 20.000\$. Considering that with the oil boom period in 1974 that the GDP per capita income of Saudi Arabia has increased almost 4.000\$ in one year compared to 1973, the drop in current levels seems very significant. In 2008 GDP per capita income has almost reached 20.000\$ but 7 years after that, they do face with similar levels of GDP per capita. Thus despite having one of the largest proven oil reserves in the world, Saudi Arabia's economic indicators are still heavily bound to the price fluctuations of oil.

Closer examination of the economic indicators of Saudi Arabia in the years of 2011-2016 demonstrates how Saudi Arabia is still heavily dependent on the oil.

As it is seen in Appendix.2 majority of the exports of Saudi Arabia are based on oil and refined products. Oil revenue still constitutes the majority of the government revenue. With the decline of oil revenue, total earnings of Saudi Arabia through exports have also reduced significantly. In 2011 when Saudi Arabia was earning 364.7 US\$ billions and oil constituted the 317 US\$ billions, in 2015 and in 2016 export earnings reduced to 202.3 US\$ billions and 183.9 US\$ billions. In almost all indicators price decline in oil is reflected and starting in 2014 up until 2016 Saudi Arabian government has faced with trade deficits.

Table I Selected Economic Indicators, 2011-16

Selected Economic Indicators, 2011-16						
	2011	2012	2013	2014	2015	Proj. 2016
<b>Production and prices</b> (Annual percent change; unless otherwise stated)						
Real GDP	10.0	5.4	2.7	3.6	3.5	1.2
Real oil GDP	12.2	5.1	-1.6	2.1	4.0	0.6
Real non-oil GDP	8.1	5.5	6.4	4.8	3.1	1.6
Nominal GDP (billions of U.S. dollars)	670	734	744	754	646	646
Consumer price index (avg)	3.7	2.9	3.5	2.7	2.2	4.2
<b>Fiscal and Financial variables</b> (Percent of GDP; unless otherwise stated)						
Central Government revenue	44.5	45.3	41.4	36.9	25.4	22.7
<i>Of which: oil revenue</i>	41.2	41.6	37.1	32.3	18.4	14.2
Central Government expenditure	33.4	33.3	35.6	40.3	41.3	35.7
Fiscal balance (deficit -)	11.2	12.0	5.8	-3.4	-15.9	-13.0
Non-oil primary balance (percent of non-oil GDP)	-61.7	-60.4	-59.7	-64.0	-50.8	-39.3
Broad money (annual percent change)	13.3	13.9	10.9	11.9	2.5	2.2
<b>External sector</b> (US\$ billions; unless otherwise stated)						
Exports	364.7	388.4	375.9	342.5	202.3	183.9
<i>Of which: Oil and refined products</i>	317.6	337.2	321.7	284.4	151.3	132.6
Imports	-120.0	-141.8	-153.3	-158.5	-155.0	-149.4
Current account	158.6	164.8	135.4	73.8	-53.5	-41.1
Current account (percent of GDP)	23.7	22.4	18.2	9.8	-8.3	-6.4
SAMA's net foreign assets	535.2	647.6	716.7	724.3	608.9	542.9
SAMA's net foreign assets (in months of imports of goods and services)	29.8	33.8	33.2	35.4	32.3	27.9
Real effective exchange rate (percent change) <sup>1</sup>	-3.6	3.2	3.0	9.3	8.3	3.1

Note. Reprinted from International Monetary Fund (IMF) Country Report no 16/326 p.4 retrieved from <https://www.imf.org/external/pubs/ft/scr/2016/cr16326.pdf>

Recalling the definition of Luciani regarding the allocation states, it's also true that Saudi Arabia still fits the definition. According to his definition a point source has to constitute more than 40 percent of the revenues of the state. In the years of 2011-14 the share of the oil products in central government revenue was between 87 to 92 percent. In 2015, it has decline to 72 percent and in 2016 to 62 percent. Yet this is because of the price fluctuations in oil price and despite low prices of the oil, state revenues of Saudi Arabia are still heavily dependent on oil and refined products. Furthermore Luciani adds the condition of government spending to his definition and while he claims that the pre-dominant function in allocation states is the allocation of the revenues, it still holds true for Saudi Arabia. During the years of 2011-14 government has allocated its revenues 75 percent to 109 percent. With the fall of the oil prices, government needed to compensate and its expenditure has increased significantly. In 2015 this number was 162 percent and in 2016 it was 157 percent. This also resulted for the central government to operate in deficit.

When it comes to the political concerns of the resource curse they still hold true for the particular case of Saudi Arabia. The most important concern is the issue of democracy. According to the Economist intelligence unit democracy index based on five different categories which includes electoral process and pluralism; civil liberties; the functioning of government; political participation; and political culture, Saudi Arabia is listed as the number 159 country out of 167. It is classified as authoritarian regime and was only able to score 1.93 points out of 10.

Table II.

*The Economist's Democracy Index 2016*

2016 Rankings					
Democracy Index 2016 Top 10			Democracy Index 2016 Bottom 10		
Rank		Score	Rank		Score
1	Norway	9.93	158	Uzbekistan	1.95
2	Iceland	9.50	= 159	↓ 2 Dem. Republic of Congo	1.93
3	Sweden	9.39	= 159	↓ 1 Saudi Arabia	1.93
4	New Zealand	9.26	161	↓ 3 Tajikistan	1.89
5	Denmark	9.20	162	Turkmenistan	1.83
= 6	↑ 1 Canada	9.15	163	Equatorial Guinea	1.70
= 6	↑ 6 Ireland	9.15	164	Central African Republic	1.61
8	↓ 2 Switzerland	9.09	165	Chad	1.50
9	↓ 1 Finland	9.03	166	Syria	1.43
10	↓ 1 Australia	9.01	167	North Korea	1.08

Note. Reprinted from Economist, retrieved from <http://www.eiu.com/topic/democracy-index> retrieved at 26.05.2017

These are only few examples which demonstrate the dilemma created by the resource curse theory and the rentier state literature. The approach to the Orient has have resulted with conflicting arguments when these two theories are combined. It is therefore rentier state theory is an important tool to analyse the experience of Saudi Arabia. In turn Saudi Arabia provides a ground for the three approaches that have been analysed in this research. Saudi Arabia has the symptoms of the resource curse theory, it has the qualities of the rentier state, and it has been subject to creation of Eurocentric development knowledge. Therefore looking at the particularities of Saudi Arabian development trajectory, evaluating how the institutions of the Saudi Arabia has developed could provide an intellectual critique of Eurocentric resource curse theory.

## **CHAPTER III: THE HISTORY OF SAUDI ARABIA**

### **3.1. Introduction**

This chapter is going to be about the creation of Saudi Arabia and the reflection of the patterns of the formation process to the following decades on the Saudi Arabian rule. The historical background which will be given will be bound to the years of 1902-1964. 1902-1932 represents the period which led to the creation of Saudi Arabia. 1932-1953 represents the policies of Ibn Saud, the founder of Saudi Arabia after its creation. Lastly, 1953-1964 represents the time of Saud rule of the kingdom.

The selection of the dates to give historical background is done with the purpose to see a pattern which was established before oil started to play a significant role in the kingdom. Commercial quantity of oil has been found during late 1930s in Saudi Arabia, but it was only after the Second World War Saudi Arabia was able to sustainably export its oil. It was only after the 1970s Saudi Arabia was able to gain immense amount of wealth through its oil exports due to the boom in oil prices. The First Development Plan of the Kingdom which was initiated in 1970 only had 34.1 SR Billion budget, while the Second Development Plan had 347.2 SR Billion budget. This is the result of huge boom in oil prices and when the budgets compared it could be argued that only after the 1970s Saudi Arabia have gained immense wealth. Although Kingdom's revenues were still highly dependent of oil revenues before 1970s, their scale compared to the 1970s and afterwards were relatively small.

Resource curse argues that ‘despite’ huge revenues available to the oil rich countries they are ‘still’ not able to develop as Western countries able to develop. Thus, their arguments are mainly concerned with the influx of the oil revenues to a country and the following development process together with the oil wealth. Yet the dates the researcher selects in this chapter, rather than focusing on the effect of oil revenues to the Kingdom, it looks at the economic pattern before the influx of the oil wealth. This, in turn is quite helpful to see how oil has enhanced that economic pattern in Saudi Arabia rather than creating a pattern. It is conducive to show that Kingdom of Saudi Arabia was established on a certain economic and politic pattern, and that pattern was only enhanced with the discovery of oil.

The historical background of Saudi Arabia is highly important to see the contributions of the foreign powers to the creation of Saudi Arabia. The creation of the Saudi Arabia was only possible by the foreign involvement and rather than taking their power to rule the Arabia from people, Saud family had base their rule on the power of the foreign ally’s. Although the people of Arabia played a significant role in the creation of Saudi Arabia and constituted one of the two pillars of the creation of Saudi Arabia, without the foreign powers the outcome would not be the Kingdom of Saudi Arabia.

Furthermore, the historical background of Saudi Arabia also demonstrates how Saud was able to consolidate his power in region, how he was helped by Britain and after the creation of Saudi Arabia by United States, how he made local people to support him, what kind of ideology he utilized and how all those complex interplay of different mechanism was reflected to the relation between the ruler and its

population. Analysing those mechanisms will cast a light how the rule of Ibn Saud was established in Saudi Arabia and will reflect the nature of his rule. This will be vital to distinguish the dynamics of Saudi Arabia from European states and therefore to consider Saudi Arabia as a distributive or allocation state which should lead to the questioning of the resource curse theory. If Saudi Arabia fits to the definitions of the distributive and allocation states, most of the arguments of the resource curse theory are not valid and if the distributive pattern can be traced backed to the pre oil era, then also the arguments of distributive and allocation state are Eurocentric.

Saud consolidation of his power internally has witnessed a very strong distributive pattern. As it will be evident through the course of this chapter, the pattern of distribution played a significant role in the consolidation of his power. That distributive pattern was evident in the creation of Saudi Arabia, especially with *Ikhwan* movement. Distributive pattern was also evident after the creation of Saudi Arabia. Politic and economic institutions of Saudi Arabia were mainly established as the result of the expansion of distributive pattern in Saudi Arabian ruling. That will be the subject of the next chapter, but it is important to mention it because the distributive pattern which will be highlighted in this chapter, will also be found in the next chapter when the politic and economic institutions of Saudi Arabia is analysed.

### **3.2. Saudi Arabia 1902-1932**

The most significant event which initiated the creation of Saudi rule in the Arabia for the third time has started with the capture of Riyadh by Ibn Saud in 1902. According to Wynbrandt (2010), the capture of Riyadh has planted the seed of the

modern Kingdom. Although this event has marked the entrance of the Saud's to the Arabia for the third time in the history, it also initiated a series of events which will cause the three main tribes in the region Hashemites, Rashidis and Saud, and two important foreign actors Ottoman Empire and the Britain to clash with each other. To another extend, Germany was also included in the affairs of the region.

After the capture of Riyadh, Rashidi's who had close ties with the Ottoman Empire initiated attacks which has targeted Saud's to recontrol the area of Najd. Arabian Peninsula was an important theatre for two empires, Britain and Ottomans pursued their own interests in the region. Britain had Kuwait under her protectorate and Saud also had close ties with the emir of Kuwait. The entrance of the Saud to the region has created a threat against the Ottoman desires. As it is mentioned, in the region there existed three main tribes, Hashemites, Rashidis and Saud, and to that extend Ottomans had close ties with both Hashemites and Rashidis. Only it was the Saud, which Ottomans did not had a close ties and therefore his entrance to the region was a serious threat.

Moreover, the Rashidis were the one of the main reason in the collapse of the second Saudi state. According to Wynbrandt (2010), Saud's were the long-time enemies of the Ottomans, and the defeat of the second Saud state by the Rashidis has cemented the support of Ottomans towards Rashidis. Yet their efforts which had the target to topple Saud rule in Najd was not accomplished. Ibn Saud was able to defeat the Rashidis and Ibn Rashid was killed in 1906 in the war against the Saud. Later on, Saud has reached an agreement with the new leader of the Hail, *amir*JabalShammar and this has resulted with the Ottomans removal from the Saudi

Arabia. According to Wyndbrandt (2010), only 1000 Turkish soldiers out of 4500 which were sent to Central Arabia was able to survive. This event also points out the weakness of the Ottomans in the region and it shows that they are not in effective control of the region like they were in the previous decades.

According to Bowen (2008), despite Saud gained the control of the entire Nejd by defeating Rashidis in 1906, his rule was a weak one. The region under his control lacked the resources to build a sustainable political entity and he was surrounded by powerful empires which caused serious concerns for the Saud. For Bowen, the kingdom under the control of Saud during those years had to rely on the imports and consequently was running on with trade deficit (Bowen, 2008: 85). Meanwhile, concerned with their weakness in the region, and with the desire to strengthen their stance in the Arabia, Ottomans has appointed Sharif Hussain as the emir of Hijaz in 1908. In the first years of his rule as the *amir*, Hussain has supported the stance of the Ottomans in the region. There were several rebellions initiated against the Ottoman rule in the region which was also supported by the Saud. The hot point of this rebellions were Asir and Hussain was successfully able to suppress those rebellions.

From that point onwards, the struggle in the Arabia has turned into a struggle between Hussain against Saud. Yet their actions were not independent and they were also influenced by the two great powers of the time which were Britain and Ottomans. Without the desire of those two important empires, both Saud and Hussain was not in a position to initiate an independent action. This has also proven to be true by the agreements that were signed between Saud and Ottomans, and Saud

and Britain in 1913 and 1915 respectively. Yet before those agreements were signed there were again important events that brought Hussain and Saud against each other. In 1910, after Hussain was able to suppress the revolt in Asir, he has attacked to western Nejd. He has captured Saad the brother of Ibn Saud. To take his brother back, Saud has signed a truce with Hussain and he has accepted to pay tribute to Hussain, which was never materialized. In 1911 the region of Asir has again faced with rebellions which were supported by the Saud.

In 1912, Hussain once again attacked Nejd and he has even banned the people of the Nejd to go to pilgrimage. This had serious consequences for the people of Nejd, because pilgrimage was an important event which has bolstered the trade and it prevented them to undertake their religious duties. In order to be strong Saud was aware of the fact that he had to create an army. To that end, he has created the *Ikhwan* army. Establishment of the *Ikhwan* is a significant cornerstone within the process of state creation of Saudi Arabia. As Chaudry (1997) notes, the expansion and consolidation of Saud state in its early years was only possible by the external and internal dynamics which have weakened the nomadic economy and at the same time resulted with the creation of the tribal army. For her, the main drives for Al Saud to create a unified state and expand its rule to the other territories were in parallel with the state formation in Europe. He pursued to increase his tax base, thus revenues that he obtains. Because of that reason, the initial need for expansion was also not driven by religious zeal. That is also true for Ayubi (1995) who claims that ‘until 1915 ‘Abd- al-Aziz Ibn Sa’ud had no particular religious inclinations’ (Ayubi, 1995: 195).

Moreover, for el-Anazy (2010), Ibn Saud's central doctrine in its approach to foreign powers was effected by the Wahhabi doctrine. Furthermore, he believes that in the initial years of his rule Ibn Saud lacked territorial ambitions as well as pan-Arab or pan-Islamist visions. Saud's Wahhabi doctrine is originated from Islamic Hanbalist school of thought and this school of thought inherently is not aggressive, and known with its reactive disposition and anti-expansionist world view. Thus, rather than accepting Wahhabi ideology as aggressive in its nature, it is more appropriate to think it as defensive in nature.

After the establishment of *Ikhwan*, in 1913, the forces of the Saud has captured the region of Hasa. The region of Hasa was controlled by the weak Ottoman forces and it was a strategic location to choose to capture since Saud has already defeated the Ibn Rashid backed by Ottoman forces in 1906, and since he was still in conflict with the Ottoman supported Hussain. For him, the places that Ottomans actively had forces were strategic points to capture. As the consequence of the capture of Hasa in 1913, in 1914 Saud and Ottomans signed a treaty 'that accepted Saudi control of the region, but preserved nominal Ottoman sovereignty including foreign affairs' (Bowen, 2008: 87). Yet as the future events will demonstrate the only part of this agreement, which continued to live was the part which accepted the rule of the Saud in the region.

The beginning of the World War 1 has also brought about important developments to the region of Arabia. The promises that were given during the time of the World War 1 has shaped the destiny of the region. The main promise that was given was related to the role of Hussain. According to Wynbrandt (2010), Britain has

promised Hussain to ‘recognize him as Sharif and support him as king of an independent Arab kingdom made up of Ottoman Arab territories’ (Wynbrandt, 2010: 175). This was done only after the declaration of the Ottoman Empire to join the First World War on the side of Germany. Britain also showed its support to Saud and Saud has made his greatest gain during the World War 1 in 1915 by signing the Darin Pact with Britain. According to this pact, Britain has accepted Hasa and Nejd are part of the Saud’s Kingdom in return of Saud’s acceptance of British protectorates over the Gulf States (Bowen, 2008). Although Britain with this treaty recognized Ibn Saud as the Sultan of Najd, pact also aimed to ‘to make Ibn Saud politically, militarily and financially dependent on British benevolence, to ensure his full co-operation throughout the course of war’ (Al-Enazy, 2010: 53).

This agreement has also marked the first instance of British military and financial support to Saud. As the result of the agreement Saud ‘received £20,000 and 1,000 rifles from the British. The British also agreed to give £5,000 per month to Najd beginning in 1916’ (Wynbrandt, 2010: 175). It took Britain six years to give that military and financial support from the time that they have sent their first advisor to the Saud, who known as Captain J.D Shakespear.

Indeed on the remaining course of the war and the actions of the Saud, bolsters the claims of Al-Anazy regarding the Darin Pact. When Britain was able to occupy Palestine which also had contributions from the Ibn Saud, in the second phase of Ibn Saud and Ibn Rashid confrontation, -effective Saudi military raids against Ibn Rashid to facilitate counter-offensive by the Egyptian Expeditionary Force- Britain ordered Ibn Saud to not seize the territories of Ibn Rashid. Although

there was a perfect chance for Ibn Saud to seize those lands, he followed the orders of the centre and removed the siege of Ibn Rashid. It was only after the deterioration of the relations of British with both Sharif Hussain and Ibn Rashid after the Balfour declaration, Britain ordered to Ibn Saud to capture the territories of Ibn Rashid. Britain initially wanted to keep Arabia divided with three different centres, because of their fear that united Arabia might prove to be a threat for them in the future. Yet as a reaction to the Balfour declaration, a possible alliance between Hijaz and Hail emerged. To counter that possible alliance, Britain gave the green light for Ibn Saud to bring an end to the rule of Ibn Rashid. Ibn Saud was only able to accomplish that task with British money and military assistance. Furthermore although this alliance on the first glance looks as an expansionist policy from the side of Ibn Saud, it was actually justified from the Wahhabi doctrine

It is true that from the beginning of his rule he intended to create a unified state which is in nature Islamic under his rule. Yet the nature of the Wahhabism has to be analysed first in order to understand why it was a defensive doctrine. At the core of the Hanbalism – the ideological powerhouse of Wahhabism – there is the idea that all the sects which are created by Muslim regarding Islam are lost its purity. Therefore, Hanbalism ideology called for return to the purity of Islam. It has incorporated, articulated and crystalized certain Sunni principles, yet the outcome was something different than the mainstream Sunni Islam (Al-Enazy, 2010: 12). On its political philosophy, it accepted that, human beings need someone for the organization of the society. This permission was given by the god for the wellbeing of humans. Yet the organization had to be ruled by ‘the shadow of God on His

Earth'. Based on that, Wahhabism strictly out ruled any opposition to the ruler, because inevitably, it would mean opposition which is directed towards God.

When this doctrine is applied to the international relations, since the ruler had the duty to preserve the well-being of its population, it could enter into bilateral negotiations and treaties with even non-Muslim countries. It was not their religious belief, but the benefits that the treaties or agreements bring to his society were the priority. After all for it was God's command for Hanbalists towards faithful people to tolerate other religious groups and to not to force them to turn into Islam (Al-Enazy, 2010: 16). He was responsible from protecting the people of Najd, and alliance with Britain was his only chance to achieve that. Therefore he had to follow the orders of the Britain plus the newly acquired territories would serve as a buffer zone to further increase the security of the people of Najd.

In 1916, 'The Sharif of Mecca Hussein Ibn Ali, after being assured of British support, declared an Arab revolt seized Mecca and declared himself king of Arabia' (Bowen, 2008, 88). The support of Britain to Hussain is also evident in the account of Wynbrandt (2010). According to him, 'the British provided Hussein with £125,000 per month in gold to pay for the revolt, as well as supplying weapons and military advisers. The most well-known adviser was T. E. Lawrence' (Wynbrandt, 2010: 178). As the results of the revolts initiated by Hussain and his sons, in 1918 with the help of the British, son of Hussain, Faisal has captured the Damascus. Most of the places that the Ottomans has controlled was being seized by the Arabs which were supported by the Britain and the power in the region was shifting in the favour of the Britain. According to al-Anazy, that revolt against Ottoman rule proved to be

successful yet the promises of Britain to Hussain did not take the material form at the end of the war. Hussain wasn't granted a territory to rule under his leadership which united whole Arabia. He further believed that Britain was going to let him take the Palestine. Yet when he learned about the Balfour Declaration and the Sykes-Picot agreement he felt furious against the British. To appease the Hussain, Britain took several actions. Most importantly, 'The instalment of Husayn's sons, 'Abdullah and Faysal, as rulers of Trans-Jordan and Iraq, as decided by the British Middle East Conference in the spring of 1921'(Kostiner 1993: 50) was materialized.

Hussain also took side against his own sons on the basis that they were acting contrary to the Muslim interests. Abdullah one of his sons, agreed to sign a treaty which would recognize the Transjordan borders in return of his recognition of British mandate in Palestine. He even sent a letter to his father advising to do same with his British advisers. Yet again with the effort to humiliate those intentions, he returned back the letter in closed envelope which would mean that he wouldn't even spend a time to read it. After the failure of the many attempts from the British side to reconcile with Sharif Hussain, they had no chance but to unleash the Ibn Saud against Sharif. In multiple efforts, Britain warned Hussain that, they will cut the subsidies which they were giving to Ibn Saud if he didn't come into agreement with them. In case Britain ceased the subsidies, it would mean that Ibn Saud will be deprived from his main income resources and he will be in position to not to financially support its population and military. Facing with that, he would have no option but the attack on Hejaz, which was hostile against him since the day he re-captured Najd from Ibn Rashid in 1902. Economic resources of Hejaz would replace the sources that were coming from Britain.

Hussain paid no attention to the threats and in the end Britain decided to cut her subsidies to Ibn Saud which immediately resulted with the capture of Hejaz by Ibn Saud in 1926. In other words ‘The throne of Sharif Husayn was sacrificed in favour of Ibn Sa’ud’ (Al Rasheed, 2010: 2). Soon after that in 1927 Britain signed Jeddah Treaty with Ibn Saud and recognized him as the King of Hejaz and Sultan of Najd and its dependencies. They further with this treaty fixed the borders of Saudi Arabia. In the case of Saudi Arabia, Britain desired for divided Arabia or Rashidi Arabia, or Hussaini Arabia, yet it turned out to become Saudi Arabia. As Bowen (2008) argues, ‘The existence of Saudi Arabia owed its early existence to the suffrage of the British government’. The events also quite vividly demonstrate the role of the foreign power Britain in the creation of the kingdom of Saudi Arabia. Without the subsidies and the support provided by the Britain to the family of Saud, it would be impossible to think about the existence of the Saudi Arabia.

Main dynamic within this creation is the idea that, the entire existence of the creation of a country was bind to the foreign power. With that situation, the established entity had no choice but to appeal to the interest of that foreign power. If it failed to do so, it neither had the economic, military and political power to sustain his kingdom. Therefore, from that moment on it was only natural to expect Saudi Arabia to serve the interest of the factors which Saudi Arabia was heavily dependent. Up until now the internal dynamics which led to the creation of Saudi Arabia is neglected. It was firstly done with the purpose to show how the creation of Saudi Arabia was bind to the interest of a foreign power, but analysing the internal dynamics is also highly important to see the existing ruling pattern in Arabia before

the oil wealth. To show that is highly crucial to demonstrate how oil has only made the pattern more visible rather than creating the pattern.

The main internal dynamic that led to the creation of Saudi Arabia was the establishment of the *Ikhwan* movement. To understand that relation it is important to look at *mutawwa'a* and *Ikhwan* which played a great role for Sa'ud the capture the regions of Arabia. Without them there could have been another history in Arabia other than Saud. '*Mutawwa'a* of Najd were the first instrument used by Ibn Sa'ud to conquer Arabia' (Rasheed, 2010: 56), after his capture of Riyadh in 1902. These religious preachers were heavily affected by the Wahhabi movement. They constituted the key element of the movement and their role was to spread the teachings of Wahhabi ideology to both sedentary and nomadic people. 'Under the guise of religious education, enforcing the *shari'a* and guarding public morality, the *mutawwa'a* ensured the submission of most of the population that came under the authority of Ibn Saud between 1902-1932' (Rasheed, 2010: 56). The *mutawwa'a* had close alliance with Saud family when the first Saudi state was established and the return of the Saud to Riyadh sparked the memories of old times among *mutawwa'a* about their fortunes and their involvement in the political, economic and military affairs of the states. Return of Sa'ud fuelled the desire of *mutawwa'a* to re-ally themselves with Saud line once again.

Furthermore, the establishment of the *Ikhwan* movement, trying to settle them in agricultural lands known as '*hujjar*' to constitute an army on the side of Saud also marks the distributional policy that Saud has followed. Long ago, the discovery of oil Saudi Arabian leaders has realized the political gains it can accrue as

the result of distributional policies. As Jones (2010) argues, ‘indeed, the equation of political power with control over the non-petroleum natural resources produced in the Arabian Peninsula has been a central part of the calculus of Saudi power from early in the twentieth century’ (Jones, 2010: 24). According to his account, agriculture was one of the central pillars within the peninsula before the discovery of oil. Apart from the agricultural production, Saudi Arabia was cash poor until it has commercially started to produce oil. For him the main revenues that was obtained by the government was the result of the taxation of foreign visitor which has come to Arabia for pilgrimage. Yet despite being important as only productive activity, agriculture has played a more significant role for Saud to consolidate his power in the region. As Jones (2010) perfectly explains, “Less than a decade after establishing control over Riyadh in 1902, the Saudis launched a two-pronged strategy to bring the Bedouin under control. The first plan was to promote their loyalty to the ruling family by exposing them to an intensive proselytizing and recruiting campaign that used faith to gain fealty. The second part of their strategy was to restrain and manage the Bedouin through settlement, by transforming them into a *hadari*, or settled, farming and warrior class subordinate to the centralized power in Najd. As warriors, they were indoctrinated as the *Ikhwan* and became a terrifying military force that proved instrumental in helping the Al Saud conquer the Arabian Peninsula. Adept at war, the *Ikhwan* proved less adept at farming.” (Jones, 2010: 30).

Thus, even before the creation of Saudi Arabia, natural resources have played an important role to gain both economic and political gains. They were used as a distributive tool to consolidate power in the region. According to arguments of the

Jones (2010), since the distribution of lands have proved to be successful policy tool to consolidate and centralize the power of Saud in the region, Saud has given permission for foreigners to search more natural resources in the kingdom. Apart from the economic importance of the natural resources, the search for more natural resources was also a political move. Either in direct distribution of lands or the distribution of the wealth accrued by the natural resource has played a significant role in the Saudi Arabian political economy. The effects of this distributional scheme on the creation of Saudi Arabian economic and politic institutions will be the subject of the next chapter.

On the other hand, other than Britain's support, Sa'ud needed to further strengthen his legitimacy in his quest to conquer Arabia. Thus the interest of the both factions, Saud and Wahhabi's coincided to create an alliance in the region. Yet to say that *mutawwa'a* was hundred percent loyal to Sa'ud would be a total mistake. It is after all when it became clear for them that the Sa'ud would in reality capture the Riyadh and killed Rashidi's in the region they offered allegiance oath to Ibn Sa'ud (Rasheed, 2010: 60). The *Ikhwan* movement was the military branch of *mutawwa'a*. They were recruited from the tribal confederations in Arabia and they were 'the first organized military force to be subjected to the *mutawwa'a*'s education programme among the nomadic population' (Rasheed, 2010: 57). These nomadic populations under the guise of religious education were converted to live a sedentary life in the places which are called as *hujjar*. The tribal confederations at the end of the day had to convert their lives from nomadic to sedentary in *hujjars*, and to practice Islam the way that *mutawwa's* taught. Furthermore, they were required to do agricultural work. Among them an army was raised (*Ikhwan*) which helped Ibn Saud to achieve his

conquest of the regions of Arabia. In one hand while *mutawwa* exerted the mental coercion in the process of the application of Wahhabi ideology, *Ikhwan* constituted the physical coercion to help to the spread of Wahhabi ideology and the rule of Sa'ud (Rasheed, 2010,59). Yet the *Ikhwan* movement was crushed by Ibn Saud due to the fact that Ibn Saud what to centralize power in his hand while tribal chiefs of *Ikhwan* wanted to share it with Ibn Saud (Rasheed, 2010: 63)

For Kostiner (1990), the main reason behind the problems generated by the *Ikhwan* movement was due to 'superstructure of sedentarization, religious revivalism and army duties imposed on a tribal infrastructure inevitably generated certain unpredictable results' (Kostiner, 1990: 231). The *Ikhwan* was in no way ready to be subjected to rule of a central government. They were conducting raids without the permission of Saud, and they were acting independently. In the words of Bowen (2008), '*Ikhwan* advocated continuing the war to unite the Arabs beyond the traditional boundaries of Arabia, Ibn Saud realized that to do so would cause war with the British Empire' (Bowen, 2008: 92). As the result, in 1930s, the *Ikhwan* movement which was created by Saud, was also destroyed by the Saud.

As the result of all these events on September 23 1932, Ibn Saud has declared the establishment of the Kingdom of Saudi Arabia. The main factors which led to the creation of the Kingdom was the involvement of Britain, and the alliance of the Ibn Saud with the Wahhabis. Without the support of Britain and Wahhabism, Saud would not be in the position to establish his kingdom.

### 3.3. Saudi Arabia 1932-1964

The first contacts of the Saudi Arabia and United States has started in 1911 due to the medical reasons. In 1923, they have treated the illness of Ibn Saud and Ibn Saud was astonished by the care that was given to him. This first meeting with people from US has left good impressions about the US for Ibn Saud. After the end of the First World War, the representative of the Wilson the president of the US was dispatched to Saudi Arabia. After his meetings with the Crane, Ibn Saud realized that the US would be a good ally for Saudi Arabia since he felt that they were more generous and trustworthy than Britain.

The year of 1933 marks a dramatic shift, a change of international policy of Saudi Arabia. In 1933 Saudi Arabia has signed its first oil concession with Standard Oil of California (SOCAL). It marked for the first time the entrance of United States in Saudi Arabia. According to Ayyubi, Saud wanted to bring USA as a counterbalance the involvement of the Britain in the region. He was solely dependent on the interest of the Britain and he needed a space to manoeuvre. Furthermore, for Rasheed, at the year of 1933, because of Sa'ud's attempts to destroy *Ikhwan* movement and his focus on the internal affairs resulted in Sa'ud having more than 300.000 Pound debts. Furthermore, as Yergin (2009) points out, it was also the years of Great Depression which also reduced the pilgrimage. He was not in a position to collect that from his population and furthermore since the day he re-captured Riyadh in 1902, he continued his presence in the region through foreign aid. This point is also made clear in the writings of Yergin (2009) who claims that 'Ibn Saud did not have the luxury of taking a very long view during those years. He had pressing problem; he needed money for his treasury, and quickly' (Yergin, 2009: 266). In

parallel with that, he served the interest of the country which he gets the debt from till the last minute.

In 1933, he was again in same situation and this time it was the USA rather than Britain who came to the help of Ibn Sa'ud of course with lots of expectations. For Britain, Saudi Arabia was no more valuable as it was during the course of First World War. They have already achieved what they wanted in the region and furthermore they already draw the lines of the Saudi Arabian country. There was no imminent danger posed by the Saudi Arabia, and if the situation was in like the First World War they might not have easily declined to give the needs of Saud for oil concession agreement. In the end it was the USA which made the offer to Sa'ud. According to the agreement, SOCAL agreed to give 35.000 Pound payment to Saud immediately in gold (30.000 pound was loan and 5.000 was first years loyalty) and they further agreed to loan 20.000 Pound in gold eight months later. Furthermore, SOCAL agreed to give loan of 100.000 pound in gold on the discovery of oil and the total loan was to be repaid only out of any oil royalties the government was due.<sup>1</sup> Concessions were given for 360.000 square miles (Yergin, 2009: 274). Later on, SOCAL places its oil concession with Saudi Arabia under its subsidiary known as Californian Arab Standard Oil Company (CASOC) which later became Arabian American Oil Company (ARMACO).

The drive for USA to search for oil in the Arabia was because its company SOCAL was not prohibited by the Red Line Agreement, which prohibited the

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<sup>1</sup> It should be noted that the amounts for authors are not consistent. Rasheed (2010) argues that SOCAL agreed to pay immediate loan of 20.000 pounds and 5.000 pound of annual rental (Rasheed, 2010, 88). Lippman (2004) argues SOCAL agreed to give total loan of 50.000 pounds in gold, 5.000 pound yearly rental and 4 shilling golds for per ton oil produced. They further agreed to pay 50.000 pound gold once oil was found in commercial quantities (Lippman, 2004: 16)

companies as a partner in Iraq in acting independently search for oil in the many parts of the Middle East. Unlike Gulf Oil, SOCAL was not part of the Turkish Petroleum Company, and thus was not bound by the Red Line restriction (Yergin, 2009: 265). Since SOCAL was exempt from this prohibition, first it got access to oil concession in Bahrain in 1932.<sup>2</sup> Furthermore, they have found oil in the region which increased their appetite for seeking more oil in the region.

Yet to claim that with reaching to agreement for oil concessions planted the seeds for future changes in Saudi Arabia would be misleading. It only started the process of which old patterns to be conducted in higher scale. To understand why this is so, it is important to see what Rasheed (2010) argues. ‘The redistributive economy behind political centralization in Arabia had been in place before oil wealth. Surplus appropriated from one group as a result of tribute/zakat or raids had always been partially redistributed among other groups, while keeping a portion for the maintenance of chiefly lineages and their military force. The rest had always been used to buy loyalty. ... Subsidies from the British, and the Ottomans before them, created polities that lasted for a long time. The perception of the ruler as a provider was not novel in the Arabian context. Oil only consolidated what had already been the foundation of rule, namely ‘generosity’ (Rasheed, 2010: 121).

Thus, as it is clearly seen, oil wealth only contributed to the existence patterns to rise dramatically. When this approach is taken, it is also hard to accept the concept of distributive state and the allocation state as the result of oil revenues. Those structures existed even before the oil revenues and oil revenues only made

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<sup>2</sup> Which they took from Gulf Oil to develop foreign supplies.

them more vivid. To use the terms distributive and the allocation state as the result of oil revenues directly accruing to state, it is more appropriate to think that, scholars such as Vandewalle and Luciani only understood the dynamics of the Saudi Arabian society with enormous oil wealth they possessed, because the oil wealth contributed to highlighting of those aspects. Yet even when they have realized that, they still lacked to see the influence of the foreign powers.

Without the foreign powers, Saudi Arabia is not in a position to sustain the dynamics which made the Saud family to preserve its leadership in Arabia since 1902.<sup>3</sup> In order to make sure that they have something to distribute, they had to rely on the foreign powers. As el-Anazy's account demonstrated, from the very beginning Ibn Saud was aware of that fact and it constantly sought the alliance of Britain and the benefits of the alliance that it will bring to him. Even when he was deprived from the direct foreign country subsidies, between the years of 1925-1932, he still gathered *zakat* from the foreigners who came for their duties of pilgrimage<sup>4</sup> which was distributed again to the society. In other sense, the internal dynamics of European state was diametrically opposed in the case of Saudi Arabia. While a European state collects the tax from its citizens and tries to represent them accordingly, Saudi Arabia government revenues comes from foreign powers and the Saudi government distributes that money to its citizens. In other words they distribute it to buy legitimacy. Accordingly, it is the natural outcome of this process in which Saudi government seeks representation (loyalty) from its citizens rather than vice versa.

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<sup>3</sup>The researcher takes the year 1902, because Ibn Sa'ud consolidated his rule around distributions from the first day he re-captured Riyadh

<sup>4</sup> As it was mentioned earlier when Britain stopped giving subsidies to.

This attitude have not changed but only intensified the existing patterns. As Kishk in the account of Habib (2003) points out, 'It is difficult to substantiate one allegation that would show that any United States success in using Abdel Aziz's friendship to serve American interest or an American objective conflicted with the interest and objectives of Ibn Saud' (Habib, 2003: 48). Thus, based on the existence patterns of the Saudi Arabia, the mutual interest of both countries started to be served with the involvement of US in the region under the guise of special relationship. It is therefore important to analyse how this relation developed and what consequences it produced.

After the foundation of oil in Bahrain, as the American companies were thrilled by the prospect of finding also oil in the mainland Arabia, Ibn Saud was faced with a dilemma. On one hand he immediately needed money, but on the other hand he knew that the foreign capital and the technicians which will come to the Arabia to search for oil could disturb, traditional values and relationships. (Yergin: 267). He eventually came to conclusion that by the appropriate financial returns, granting oil concession was something acceptable. Yet as Rasheed (2010) points out, starting from that day, Saudi leaders found themselves in dual relationship which was tense. Exposure of the country to the foreign capital and workers on the one hand and the internal Wahhabi ideology which legitimized the rule of Saud in Arabia, found themselves in constantly odds and the reason for tension in the country evolved around this duality. After the granting of concessions to US company and after they started to operate in Saudi Arabia, the political game in the country turned into one where Saudi leaders have to serve the needs of the foreigners on one hand and to make this look acceptable to the public on the other hand.

Revenues of the state came from the foreigners and the security of Saudi Arabia was dependent on them. Yet they also needed support locally and from then on Saudi Arabia, used its oil revenues, and distributed them accordingly to justify the existence of foreigners. If Saudi Arabian leadership fails to serve the needs of this duality, it is hard to envisage their continuity.

Most importantly this was not the result of the existence of oil. Yet the existence of oil only intensified the foreign contact with the country. It was much before the foundation of oil Saudi leaders had to satisfy the duality, especially during the times of Britain who had the control over the region in 1902-1932. This duality was evident, when *Ikhwan* movement rise against Ibn Saud on the grounds that Saud is backsliding from Wahhabism (Yergin: 268). Lippman (2004) shows perfectly how this duality is handled. For him, 'having cowed Saudi Arabia's reactionary religious leaders into accepting the prospect of infidels' taking up residence in their midst, Abdul Aziz thus weathered his immediate cash crisis' (Lippman, 2004: 16). After all it was Ibn Saud's ability to dispense tribal subsidies constituted one of the most important glues bonding a disparate kingdom and unrest developed throughout his realm (Yergin, 2009: 269).

As the results of the concessions, SOCAL started to explore oil in Saudi Arabia around 1935. Yet all the attempts of the SOCAL was null and discouragement on the side of company was rising. They even ordered no more drilling to be made in Arabia in 1937. But in 1938, they have found large quantities of oil 3 years after the drilling started in Damman. Well Number 7 in Arab Zone was rich with oil (Yergin, 2009: 283). With the founding of oil, many countries raced to

get concessions from Saudi Arabia. Japan, Germany, Italy were in all race to obtain concession from Saudi government. Yet based on 1933 agreement, CASOC had preference rights to Saudi territory extended their concessions to 440.00 square miles. To obtain those rights SOCAL repeatedly made loans to Saudi Government which accounted for several million dollars and the shipment of first oil from Saudi Arabia happened in 1939. (Yergin, 2009: 283-84). With the outbreak of the Second World War and the bombing of Dhahran by the Italian forces halted the production in Saudi Arabia and it was put 'in a state of suspended animation' (Yergin, 2009:284). Yet the importance of the Second World War in Saudi oil is enormous. With the start of the Second World War and the oil supplies that US needed, Arab oil has become a strategic imperative for the US. Before the start of the World War, the US was easy on the idea to leave the political control in the region to the UK (Lippman, 2004: 26). This also seems to be a valid argument because it was only after the Second World War, the US has decided to establish political mission in Saudi Arabia. Before that whatever relations the US and Saudi Arabia had, was channelled through ARMACO.

Furthermore, when the oil production – at least the expansion of oil production – was halted in Saudi Arabia, the government continued to have access to foreign cash. This was due to rising interest in the region because of its potential oil reserves. Britain for example in this period paid more than 40 million in dollars, hoping that the future oil concessions can be shifted to Britain. At the same time 'as a transit point between theatres of war' (Lipmann, 2004: 27), Saudi Arabia's importance was escalating for the US. As the result, in 1943, President Roosevelt included Saudi Arabia into strategically important category for US and made them

available for direct Lend-Lease economic assistance (Lipmann, 2004: 27). In the year of 1944, first US consulate in Saudi Arabia was established in Dhahran. This has followed in 1945 for the first time the meeting between Ibn Saud and Roosevelt. After 1945, when consulate was opened and Ibn Saud had a meeting with the Roosevelt, the relations between United States and Saudi Arabia rapidly expanded. The first seeds of the military relations were also planted around this time when Ibn Saud authorized the construction of airfield by American military in Dhahran (Lipmann, 2004: 34). Yet the passing away of Roosevelt and the replacement of the presidency of US by Harry Truman seemed to escalate the tension against US in the Middle East on the basis that President Harry Truman showed that he would take more pro-Israeli turn in the conflict between Arabs and Israelis. This was diametrically opposite of the stance which was adopted by Roosevelt who promised equivalence and consultation between both communities (Wynbrandt, 2004: 214).

Yet as the stance of US in Arab-Israel relation was a problematic situation for US relations with all Arab countries, they were more pressing concerns which threatened the relationship between Saudi Arabia and US. That concern rose because of the Baghdad Pact which was signed in 1951. Although the US was not involved in the pact, but based on its Eisenhower Doctrine<sup>5</sup> it actively supported the creation of the pact. Arabia felt uncomfortable with the pact because it also included Iraq which they perceived as enemy of the kingdom. As a result of this, they have signed an agreement with Nasser – a pro soviet leader – to irritate the US. Even they have agreed with a Greek company to take the task of shipping the Saudi oil out of the

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<sup>5</sup> A doctrine which was formulated to contain Soviet spread to the regions of the world and to promote alliances to stop that.

country. Yet this attempt was boycotted by the foreign firms and the company of Onassis had no chance but to cease its operations.

With Nasser's success by nationalizing the Suez Canal and his rising threat started to be seen as a threat to the rule of Saud in Arabia. Ironically to counterbalance that threat, Saudi Arabia allied itself with Jordan and Iraq which came from the family of the last Hashemite ruler of the Hijaz. While they were perceived as a threat in the past, now they were more imminent threats to the rule of Saud which necessitated the creation of these ties. The U-turn, which Faisal made in this occasion, can be best attributed to the US interests and policies in the Middle East. According to Hethlain (2010), 'the US was also seeking to weaken Nasserism, and adopted a two-part strategy that sought to discredit Nasser ... while trying to encourage and unite conservative Arab leaders (Hethlain, 2010: 37). Within this context it makes more sense to understand the logic behind the decision of Faisal to ally itself with his perceived rivals throughout the history of Saudi Arabia.

Beforehand, the attempt to create an alliance with Nasser was problematic. Nasser's politics had a discourse which appealed to the society, wanted to enhance the living conditions of the people and led to the establishment of the idea that there could be a leader which would truly represent them. If these kinds of ideas started to be more heavily exported to Saudi Arabia, they would definitely find their rule in danger because it would harm one of their founding principle, to buy the loyalty of the people. The power of the ideas could have been so huge that, no money would be enough to retake their loyalties. Furthermore their own security historically was in the hands of foreign powers and their revenues were directly coming from them.

Allying with Egypt would directly antagonize the relationship of Saudi Arabia with the west on one hand, and on the other hand it would create discontent among Saudi population against their rule. Therefore this policy was not carefully constructed one and it is no surprise that Saudi Arabia eventually turned its stance back to US once again.

The unavailability of the cash on the side of Saudi government when the foreign companies started to come to the region meant that, no infrastructural work would be done by the side of government to make sure that the companies could operate swiftly. It was left to the companies to create the favourable conditions for their own businesses. Between the years of 1945-50, there were major discoveries of oil in Saudi Arabia. There was a dramatic shift in the production levels from the war time in the post war era. The flood of production left the ARMACO officials with serious questions. They were started to become more considered how to transport the oil to the consumers rather than to find it. In the end they have decided to construct a giant pipeline which would travel the oil from Dhahran to Mediterranean Sea. This would be going to be build up by Trans-Arabian Pipeline Company which is also known as Tapline(Hethlain, 2010:42). Yet ARMACO alone was not enough to build up the infrastructure of Saudi Arabia alone and the company of Bechtel also got into the business in Saudi Arabia for the infrastructure of the country. Bechtel have completed lots of project during these years. These projects included building of ‘airports, hospitals, power plants, highways, office buildings, water desalination plants, petrochemical factories, and the entire industrial city of Jubail, on the Persian Gulf coast north of Dhahran (Hethlain, 2010:44).

Furthermore, Saudi Arabia lacked the qualified workers to complete all the projects which were mentioned above. Thus out of necessity the company of ARMACO has brought many foreign workers to the country. In addition to that they have also created schools in order to educate local people to match up the needs of the new developments in Saudi Arabia. From the very beginning ARMACO and its workers were not just in Saudi Arabia to get the oil, but also to build up a system which would guarantee that the future of the country will be in oil industry, and to develop all the required labour skills and infrastructural work. This was also favoured by the Saudi leaders firstly because of the direct cash availabilities on the one hand, and the knowledge that these cash will continue to flow to them, if they are able to successfully create an oil industry which would work smoothly.

An example illustrates the point mentioned above pretty well. It was after all the need by the side of government to pursue the interests of ARMACO which also served their own interests. During the 1950s, there was rising scepticism against the foreign involvement in the country and there were many protests flourishing. In the Eastern Province, where ARMACO, US air base and population of oppressed Shia located, King Saud has faced with demonstrations when he visited Dhahran in 1956. Protestors requested the closure of the air base, but King Saud has banned all the activist movements and announced that it will be subject to criminal penalty. Later on the violators of the rule – names were provided by ARMACO – were taken into custody and beaten (Wynbrandt, 2003: 213).

Tapline was completed in 1950 and its effects were immediately seen. At the end of the war Saudi Arabia had 58.000 barrel per day production capacity which

reached to 761.000 in 1951 and over 1 million barrel per day in 1958 consecutively. The building of the Tapline increased the Saudi oil exports by 320.000 barrels per day (Hethlain, 2010:46). From then on Saudi Arabia assumed a great role in the oil industry. Between 1953 and 1963 several ministries started to emerge following the death of Ibn Saud, and political rivalry between his two sons Saud and Crown Prince Faisal -who later became the king-. These ministries included Communication (1953), Agriculture and Water (1953), Education (1953), Petroleum and Mineral Resources (1960), Pilgrimage and Islamic Endowments (1960), Labour and Social Affairs (1962), and Information (1963) (Rasheed, 2010). As it is seen neither the economy nor planning ministry was established as the ministries started to emerge. It was not a pressing concern for the Saudi Arabia to plan their economy, and convert its society to follow the footsteps of the economic development in Western world. They had their resources; they were flowing to the country by the exportation of oil.

As it is clearly seen, the revenues of the government almost increased 10 times in 1950 when it is compared to 1946. This eliminated the need for immediate economic planning. What they needed was the ministries to enhance the distribution of the revenues that government obtained. In accordance with that, due to the it's relations with the foreign actors (as the security and cash provider of the Saudi Arabia), and it population (which they needed to distribute money for their support), Saudi Arabia established new ministries between 1953-63 to serve those needs. As Chaudry has suggested previously, the rise in the income gathered by the oil revenue have resulted in the creation of those ministries.

### 3.4. Conclusion

As it is clearly demonstrated, the creation of Saudi Arabia was heavily dependent on the involvement of foreign powers in the region. The existence of those foreign powers has allowed the Kingdom of Saudi Arabia to be found. Without the moves of the Britain, its changing commitments in the region, declining power of the Ottomans, the importance of the region to foreign powers in World War One it could be not be possible to imagine the creation of Saudi Arabia in 1932.

Furthermore, the way that Ibn Saud has organized his people and the way he has utilized the Wahhabi doctrine shows, what were the demands of the local population from the ruler and how Ibn Saud satisfied those demands. As Rasheed pointed out, the ruler was seen as a provider, the distributor, in return of the total obedience by the people. When that obedience was shattered as in the case of the *Ikhwan* movement, the ruler has crashed the movement. It was not the people which provided the required financial aid to the ruler to create his own rule but rather, it was the ruler who assumed the duty to finance its population.

From the very beginning the creation of Saudi Arabia was bound to the foreign aid and support. Internally revenues gathered from the foreign sources were used to consolidate the power of the Saud in Arabia. Distributive mechanism that Saud had utilized was in place long ago the discovery of oil. As Jones (2010) pointed out, since the third entrance of Saud to Riyadh in 1902, natural resources were seen as an important tool for political power. Distribution of the natural resources made Bedouins to settle and create an army which would help Saud to capture entire

Arabia. Furthermore, foreign sources acquired from Britain also made it possible for Saud to establish his own army.

After the establishment of the Saudi Arabia, since there was not a productive activity in the region and since Saud as financial sources only had to rely on zakat and foreign sources, the idea to use natural resources for economic and political gains once again was in place. Thus Saud has allowed Americans to do research in his kingdom with prospect of discovery of new natural resources. Discovery of the oil in Arabia has enabled Saud to follow his on distributive policies which was already in place. It enabled Saud to sustain the system that he has already developed.

The existing distributive pattern, the relationship between the ruler and the population has only heightened with the discovery of oil in the Arabia. Yet the production of the oil, oil production rights, and the company that operated the production was again heavily dependent on foreign powers, especially the US. The production of the oil has increased the income of the Kingdom to the enormous levels which has also increased the level of distribution. Ibn Saud was able to finance the existing ruling pattern in the region with the help of the income generated by the production of oil. He was equipped with the necessary funds which would enable him to continue his rule in the region. He did not needed to pursue the developments which his Kingdom was accused by the resource curse theory was not able to achieve. It is therefore inappropriate to accuse the Kingdom of Saudi Arabia is suffering from the resource curse but rather it's more appropriate to accept that, the oil gave an enormous ability to the rulers of Saudi Arabia to continue to existing ruling patterns.

In accordance with the suggestions of the distributive and allocation state Saudi Arabia firstly, didn't had economic growth as its primary aim. To consolidate his power in the region Saud family has only needed a good policy of expenditure to utilize the public. Secondly Saudi Arabia didn't engage with the extraction of revenue from the public whereas classical European states are interlocked within the iron triangle of revenue extraction, institutional development, and representative politics. Thus Saudi Arabia unlike European states have faced with the disarticulation of the integrative process that developed in Europe during the state formation period. In the end as it is seen in the case of Saudi Arabia states role within the economic activity was mostly bound to wealth-for-power trade.



## **CHAPTER IV: ANALYZING SAUDI ARABIA'S DEVELOPMENT TRAJECTORY**

### **4.1. Introduction**

The aim of this chapter is to analyse the economic development process of Saudi Arabia together with its institutional development. Firstly, this chapter will focus on the development plans of Saudi Arabian government and it will look at whether the plans turned into Saudi Arabian economic reality. There are ten economic development plans of Saudi Arabia which covers five year time frames. Currently the country experiences the 10<sup>th</sup> economic development plan which will last until 2019. Moreover Saudi Arabia has initiated National Transformation Plan (NTP) and Vision of 2030 which are also considered as Saudi Arabian economic planning.

The first economic plan of Saudi Arabia was introduced in the beginning of 1970. Up until 1996, economic diversification was not a main consideration in the development plans of Saudi Arabia. Only with the introduction of Seventh plan in 2000, the main aim of development has shifted to diversification of the economy. Although there were references to the economic diversification before that due to the more pressing concerns such as infrastructure problems, it has become the main subject only with the Seventh Plan. With the vision 2030 the main aim is still economic diversification.

Saudi Arabia was established in 1932, and almost until 2000 there were no immediate concerns to diversify the economy. Yet the arguments of the resource

curse theory, in general focus on the boom and bust periods of the oil price. They investigate how especially during the boom periods, the resources were wasted and how they were not converted to follow up Western development trajectory. This is seen as a failure on the side of resource rich countries. Yet in order to achieve Western development trajectory, profound steps have to be taken. In the case of Saudi Arabia, these steps were not taken until 2000, despite they were accused of suffering from the resource curse. So, here it appears as a logical question; if they did not intend to achieve Western development trajectory until 2000, how they can be accused from suffering the resource curse?

Furthermore as Knaurhause (1970) indicates;

‘Each developing country has a diverse endowment of human and natural resources and most of them began the long, difficult climb toward industrialization at different times. The best way to evaluate the degree of progress in a particular country, given the lack of reliable statistics, is to compare today's general conditions with those at some date in the nation's past. ‘

(Knaurhause, 1974, 126)

Thus while analyzing the economic plans of Saudi Arabia it is important to keep in mind the unique historical development trajectory of Saudi Arabia in relation to the information given in the chapter three. As it was demonstrated the state building in Saudi Arabia has differed from the Western experience and therefore the outcomes of the drafted plans and what they have aimed also differed from the Western example.

Moreover, the idea of economic development and the creation of economic institutions was mostly the result of Western consultancy. Those ideas were introduced into Saudi Arabian economic reality by foreign experts on development, foreign institutions and countries. For example, Saudi Arabian planning agency,

which was established in 1958, was the result of the suggestion of International Monetary Fund (IMF) (Metz, 1992). Before that, there were no steps taken in the Kingdom of Saudi Arabia for economic development and it is not a coincidence that this Western dominated institution (IMF), initiated the idea of economic planning to reach economic development in the Kingdom. Furthermore with the invitation of the Saudi Arabian government in 1960 International Bank for Reconstruction and Development (IBRD) has also sent a mission to Saudi Arabia to help them with initiating development policy. Also the United Nations (UN) and Ford Foundation, due to the dissatisfaction of the economic reforms and development policies in Saudi Arabia, has suggested that the economic planing has to be made in ministerial level (Edens, D , G & Snavley, P, 24-25). Also not all the waste which was made by the government spending was only the misjudgment of the Saudi Arabia. According to Niblock (2008) between the years of 1970-2002 %35 of government spending was on defence expenditure which was highly encouraged by the Western powers which benefited from the arms sales.

For most of the part, the course which is taken in the Kingdom to achieve economic development trajectory was mostly based on Western experience. This suggests that even if Saudi Arabia was not able to achieve the expected development trajectory, this in some part is the result of Western consultancy. The Eurocentric vision contained within the process of development, might have superseded the unique development trajectory that could be expected from the Saudi Arabia. Rather than leaving Saudi Arabia to promote its own way of development, Western consultancy tried and still tries to make Saudi Arabia to follow up Western development trajectory. To accuse Western consultancy for having a part in what is known as the curse will probably be challenged as argued by Kayaoglu (2010), by

claiming that the history, culture, and the religion of the country. If these attributes are building blocks on the road to development of Western kind, why they are still insisting for resource rich countries to follow up the same development trajectory with Westerners? Reason for that can be found in Eurocentric vision.

Moreover, these consultancies almost in every case are limited to economic reforms. There are no real pressures from Western institutions or countries to cure the political curses that country faces. There is no real pressure for democratization, free press and other related issues. Condemnations of the Saudi Arabia regarding those aspects of politics are most staged by the non-governmental organizations. Other international organizations and Western countries are for the most of the part is only considered with the economic development of Saudi Arabia which will follow up the Western development trajectory. In order to see that the detailed analysis of the all ten economic plans will be made in this chapter

#### **4.2. Saudi Arabian Development Plans**

As it was mentioned, the first plan on economic development in Saudi Arabia was introduced in 1970s. Before going into the details of the plans, it is important to investigate the process which led to the creation of the plans. According to Ramady (2005), the first planning efforts were actually conducted in 1950s and early 1960s (Ramady, 2005: 18). He states that these early planning efforts were heavily depended on the consultancy of external bodies such as Ford Foundation, United Nations Team for Social and Economic Planning and the World Bank. As the result of these efforts, in 1961, Planning Board of Saudi Arabia was established and in 1965, it was incorporated to Central Planning Organization (CPO). CPO was responsible to draft the First Five Year Plan of the Kingdom in 1969. Later on, this

body has become the Ministry of Planning (MOP) and in 2003 it has become the Ministry of Planning and National Economy.

Economic plans of Saudi Arabia are based on overall national priorities and each plan are drafted in line with those priorities. Priorities include; safeguarding Islamic values in conformity with Sharia, improve standard and quality of life, develop human resources, increase productivity and replace non-Saudis with qualified Saudis, realize balanced growth in all regions, diversify economic base and reduce dependence on production and export of oil, provide favourable environment for activities of private sector to encourage it to play a leading role in development (Ramady, 2005: 20).

The key indicators for the First Plan was the focus on provision of modern infrastructure, basic government services, and the expansion of human resources and beginning of infrastructure growth (Ramady, 2005: 20). This indicates that, in early 1970s, the Kingdom of Saudi Arabia lacked the required infrastructure for the Western type of development trajectory. Furthermore, good level of infrastructure is vital for countries economic development and prosperity. Thus, in the 1970s, the lack of sufficient infrastructure and the need to improve it was seen as the first major step for economic development. For the First Development Plan, Saudi Arabia has spent 34.1 SR billion. Infrastructure spending constituted the 41.4% of it.

According to Niblock and Malik (2007), the First Plan has established the framework for the planning period of 1970-1985. This period contains the three development plans in Saudi Arabian history. In the First Plan, only a small amount of fund was channelled to the economic development. Half of the total sum was directed to physical infrastructure and significant amount was directed to human

resource development. The industrial investment which was mentioned in the plan was only for the energy sector. Although the economic resource development was planned to only get 11.8% of the total planning budget, in reality the economic resource development has received 27.7% of the total development spending. It has attracted three times more of a budget which was envisaged in the plan. Yet that attraction to the economic resource development was limited with the energy and oil development. On the other hand, social development has faced with underspending and human resource development budget was only met. During the period of the First Plan, real GDP growth has averaged 21.7% per annum. This meant the real GDP growth has exceeded the targets of the plan which expected real GDP growth 9.5%. Yet that GDP growth is again attributed to the development of the oil industry.

The key indicators of the Second Plan included large infrastructure expenditure and economic resources, large subsidy outlays, expansion in transport, electricity, water and housing, starting hydrocarbon industries, establishment of modern administrative infrastructure. For the Second Plan, planned economic resources expenditure has been increased dramatically. The plan targeted 28.9% of the total budget to be allocated to the economic resource development while the amount spends on the physical infrastructure and human resource development was going to be reduced. Yet in reality, spending on human resource development increased more than 10-fold, and physical infrastructure 11-fold. In the Second Plan, targeted goal of SR33 Billion spending on social development fell short and it only has received SR28 Billion. Human resource development was expected to receive SR80 Billion yet in reality it only received SR51 Billion. Economic resource development has attracted SR5 Billion more than the planned SR97 Billion. As it was the case for the first three plans, in reality the real significant increase was on

the spending to physical infrastructure. While the targeted spending was SR113 Billion, it has attracted SR171 Billion. During the time span of the Second Plan, targeted GDP growths was not achieved. The plan expected to have 10% GDP growth for the time span of the plan, yet in reality the GDP growth was 6.8 % per annum. This is again attributed to oil, because during the time span of the plan, it was estimated that the oil production will rise 12%. In reality the oil production has only increased 4% during the period of the Second Plan.

For the Third Plan which covered the time frame 1980-1984, the key indicators were the expanding infrastructure, economic resources, human resources and educational base expansion, hydrocarbon base expansion, and undertaking regional economic initiatives. The physical infrastructure spending of the Third Plan which accounted the 35.5% of the total spending of the plan was spent on the infrastructure which would later on have productive value. It included the spending on infrastructure in the cities of Jubail and Yanbu to create industrial cities. In total sum, the development expenditure which was targeted during the plan period was not exceeded. Only the expenditure on physical infrastructure has exceeded the targeted amount and the rest of the sections targets were only just met or faced with underspending. During the plan period, GDP only rose until 1981 and it has declined afterwards due to the change in the oil prices. The actual decline in the real GDP was an average of 3.1% per annum. Yet Niblock and Malik (2007) argue that the figures of 1981 were actual anomaly rather than the decline which the Kingdom faced after 1981. The peak point of real GDP in 1981 was not recovered until the 1992. GDP at current prices could not reach the level of 1981 until 2000. During the plan private sector has grew by 5.1% which fell short of targeted 6.2%.

There were some commonalities which were found in these Three Plans. First of all, 'Each of the three development plans covering the period, however ambitious when announced, was outpaced by actual development. Expenditure was able to, and did, greatly exceed the allocations specified in the plans' (Niblock and Malik, 2007: 52). Secondly, all three plans were initiated as state being the locomotive of the development. For Niblock and Malik (2007), the model used by the Kingdom was a state socialist model of development, without the socialism (Niblock and Malik, 2007: 54). For them, this was made possible with the oil income generated in the Kingdom. Without that oil income it would be impossible for the central authority to pursue large scale economic transformation where in normal cases that kind of transformation would normally be associated with the expropriation of private capital. Thirdly, the plans in general laid the emphasis on the development of physical infrastructure. Furthermore, all of the plans focus on the role of the state as the main director of the economic development. In first three plans, there is almost no emphasis on the role of the private sector. All above mentioned plans have project approach rather than sectoral approach.

There are also differences in the phraseology used by the plans (Niblock and Malik, 2007). In the First Plan, the phraseology that was used was more cautious. This is attributed to the fact by them that the Saudi economy was running in deficit during the time that the plan was written. It emphasised the need to increase the foreign assets of the Kingdom and most of the projects were focused on the social and physical infrastructure of the kingdom. In the Second Plan, 'talks ambitiously of laying 'the foundations of economic self-sufficiency in the future as a precautionary measure against the gradual depletion of oil, when revenues and foreign exchange from oil may decline' (Niblock and Malik, 2007: 64). On the Third Plan, there is a

criticism of the First and Second Plans. This criticism of the Third Plan stems from the approach adopted by the first two plans which advocate high growth rate in all sectors. This in turn led to the importation of the foreign labour. Instead of advocating that strategy, the Third Plan ‘emphasises high growth more selectively, and aims to consolidate rather than expand the foreign labour force’ (Niblock and Malik, 2007: 64)

During the first three plans, 442.2 SR Billion was spent on infrastructure projects. For each plans, budget allocated to infrastructure has exceeded 40%. When the infrastructure of Saudi Arabia is analysed in 1970s, it is definite that Saudi Arabia has needed these investments. According to Knauerhase (1977), who has written the one of the most comprehensive study regarding the economy of Saudi Arabia at that time, ‘the creation of physical infrastructure is one of the major goals—if not the major one—of the early phases of economic development’ (Knauerhase, 1977: 92). For him, without an adequate infrastructure system set up within the country, efforts to establish a modern industrialized economy is doomed to failure.

In the 1970s, according to the study of Knauerhase (1977), only 15 electric companies were operating in Saudi Arabia. 8 of them was serving in large urban areas and 7 of them was in smaller towns. He claimed that the industry during that time was inefficient. When he looks at the roads in Saudi Arabia, he shows that in the year of 1961-1962 Saudi Arabia’s main roads was only 3.245 km. In 1972, this number has reached to 10.007km. While there was no data existed for the agricultural roads in 1961-1962, in 1971-1972 agricultural roads has reached to 4.601 km. Throughout the 1960s, there was an effort to increase the infrastructural

setup of the Saudi Arabia. In 1970s, still it was insufficient and due to that reason efforts were made to overcome the problem.

When we look at the Saudi Arabia's infrastructure in the 21<sup>st</sup> century, a significant improvement have been made. According to The Global Competitiveness Report 2011-2012, Saudi Arabia is ranked 27<sup>th</sup> country in the world regarding the quality of its infrastructure. Within the report, 1 point refers to the extremely underdeveloped infrastructure, while 7 points refer to extensive and efficient infrastructure in international standards. Saudi Arabia has scored 5.6 points which is equal with United Kingdom and 0.1 point less from the United States. Considering the gap between regarding the infrastructure of UK and USA compared to the Saudi Arabia in 1970s, Saudi Arabian expansion of its infrastructure seems to fulfil the goals that were stated in their economic development plans.

Based on the same report, Saudi Arabia is ranked 13 among 142 countries regarding the quality of its roads. This suggests that country which only had 3.245 km of main roads in 1961-1962, through the efforts it has made now has the one of the best quality roads. Furthermore, in the 1970s, Saudi Arabia only had two railroads. One of them, The Aman-Medina line, was not in operation since the First World War. The second railroad was built by ARMACO for the government in 1951. Until 1966, that railroad was operated by ARMACO and only after 1966 it has become under the control of the government. Yet in 2011-2012 Global Competitiveness Report, Saudi Arabia has moved to rank 31 and scored 4 points. From having almost no sufficient railroad infrastructure, in 40 years, Saudi Arabia has been able to rise in the rankings.

On the other related issues, in air transportation Saudi Arabia is ranked 33 with 5.6 points, on quality of electricity supply it is ranked 24 with 6.3 points. In the 1970s, Saudi Arabia had inefficient electricity supply infrastructure and now it has very good infrastructure in international standards. All these data are the proof that Saudi Arabia was successfully able to transform its infrastructure from primitive levels to international standards. Thus, when the main focus points of the plans analysed and when the reality check is made, it seems like Saudi Arabia was able to follow up its development goals which was stated in first three development plans.

Furthermore, during the first Three Plans, there was a significant increase in the GDP. As Niblock and Malik (2007) demonstrates,

The growth and composition of GDP Gross Domestic Product at current prices grew quickly in the first two plan-periods. The rise between 1970 and 1975 was more than seven-fold, from SR22 billion to SR163 billion. The rapid growth continued over the 1975–80 period, reaching SR544 billion in 1980. The Ministry's Third Development Plan records real GDP having risen by 13.4 percent annually in the First Plan period and by 8.4 per cent in the Second Plan period.

(Niblock and Malik, 2007: 72-73)

Yet this increase did not meet the target set by the second plan whereas it has exceeded the target of the First Plan. While the target of GDP growth for the First Plan was 9.5%, for the Second Plan the target was 10%. Within the timeframe of the three plans, the share of the contribution of oil sector to the GDP has declined. In 1973, at its peak point, the contribution of the oil sector to the GDP was 58.1% and in 1979 its share has dropped to 43.5%. 'The rate of growth of the private sector was more than three times that of overall GDP between 1970 and 1985. As a result of this, the private sector's share of GDP over this period steadily rose, starting at 12.9 percent of total GDP in 1970 and ending at 51.5 percent' (Niblock and Malik, 2007: 84).

Yet Western type of development trajectory, which includes privatization, economic diversification was not yet introduced to the planning mechanism of the country. Infrastructure is required to pursue Western development trajectory, but it is also vital to have economic development based on the oil. Furthermore, development of infrastructure is not only about the economic gains, but it also has political aims. As Knauehaser (1977) states, ‘The people of the Arabian Peninsula have much in common, but distance between the various population centers and the great difficulty in crossing the inhospitable desert terrain reinforces the tendency toward separatism’ (Knauehaser 1977: 98). Thus, the construction of a good infrastructure has reduced this trend and as it has enabled economic activity to be conducted smoother, it also paved the way for political gains.

Up until now, there are no suggestions on the plans which indicate that Saudi Arabia has pursued an economic development in Western standards. Improving the infrastructure as it is, serves state’s both political and economic ends. On the side of the economics, the improvement of infrastructure can serve the needs of both Western economic model, and single resource economic model which was found in Saudi Arabia based on oil. Therefore, at this point, it is a very hard task to assess whether Saudi Arabia was trying to pursue Western development trajectory, or just trying to enhance their economic capabilities which is based on the rents of a commodity.

That point is also highlighted within the Eight Plan of Saudi Arabia. According to the plan;

Despite recency of economic and social development, the Kingdom has made notable achievements, reflected in all sustainable development indicators. These achievements have been made possible

by setting of correct economic growth priorities throughout the successive seven development plans. Each such plan was based on current conditions, while ensuring continuity of the development effort and concentrating on human development sectors, such as education, healthcare, and family care, and on the infrastructure, in order to transform available resources into effective productive capacities that contribute efficiently to realizing longterm strategic objectives.

(Saudi Arabia Eight Development Plan, 55).

Thus, as the plan indicates, the Saudi Arabian development plans has significantly targeted the problems that the country faces at the particular time of the history. Their aims were not to reach the development trajectory of the Western societies, but to cure their own problems that they were facing. It is only after certain developments have been made that the Saudi Arabian planning body started to shift its focus to pursue the development of the Western societies. That has not become the norm until the late 1990s simply because there were more pressing concerns to solve and as the other plans is analysed that point will be more profound.

When the key indicators of the Fourth Five Year Plan is analysed, there are 4 main issues. Firstly, there was a concentration on operation and maintenance. Secondly, reconstructing the economy to allow more private sector participation. Thirdly, rise in the human resources and health expenditure. Lastly, there was a shift from central planning projects approach to programme planning approach. The most striking component of this plan can be seen when one looks at how the budget is allocated. As it was mentioned, in the first three five year plans, infrastructure spending was the highest. Yet with the Fourth Plan this trend has changed. In the second development plan, infrastructure spending constituted 49% of the budgeted and in the third it constituted 40.8 % of the budget. With the fourth plan, emphasis on

infrastructural development has shifted to human resources development and social and health development. While human resources at most has constituted the 20% of the budget which was in first five year plan, in fourth plan the percentage has risen to 33%. In the third economic plan, it only constituted the 18% of the budget, but with the fourth plan its share has started to rise steadily. Furthermore, the share of social and health development has also started to rise with Fourth Plan. In the Third Plan, social and health development constituted the 9.9% of the budget but with the 4th plan it has rose to 17.7%.

There are also four key indicators for the Fifth five year Plan. Firstly, it aimed encouraging more private sector participation. Secondly, it emphasised the need to expand the technology base. Thirdly, it emphasized human services and Saudization. Lastly, it aimed drop in gross fixed capital formation.

The Sixth five year Plan (1995-1999), has emphasised the following points. Firstly, emphasis on human resources as well as social and health development. Secondly, it aimed for balanced budget. Thirdly, it focused on reduction in foreign labour. It also emphasised on private sector expansion together with the beginning of partial privatization. Lastly, it has focused on the reduction of subsidies.

On the Seventh five year Plan (2000-2004), solving human resource problems, diversifying the economy, increasing gas production, consolidating efficiency in production, refining and distribution, reducing state budget deficit, increasing Saudization, preparing for globalization (WTO), privatization as strategic option were the key indicators.

These development plans were largely as the result of the oil revenues that has entered to the country. For example, during the First development Plan, only

34.1 SR Billion was allocated to the plan. People ‘who were involved in the First Plan admitted that, in essence, the First Plan of 1970 – 1974 was essentially ‘an exploration, theoretical and empirical’’, and that the biggest achievement was ‘the experience gained by Saudis in the field of development planning’ (Ramady: 17). Yet with the dramatic rise on the oil prices during the 1970s, the budget allocated to the plans has greatly exceeded the budget of the First Plan. For the Third Plan of 1980-1984, budget was 635.2 SR Billion. Yet with the drop on oil prices from 119.80\$ in April 1980 to 30\$ to 65\$ between 1980 and 2000, it has led to the reduction in the budget allocated to the plans. At most 488.2 SR Billion was allocated to Seventh Plan and the budget has decreased to 340.9 SR billion during Fifth Plan.

The Eight Plan of Saudi Arabia marks a significant change in the body of planning. According to the plan itself, ‘The Eighth Plan marks a new phase in a development process that has spanned more than three decades. It is also the first landmark on a strategic course to be traversed by the national economy over the next twenty years in four consecutive five-year plans.’ (Eight Development Plan of Saudi Arabia:24). Thus, with the introduction of the Eight Plan, Saudi Arabia has shifted to a position to adopt a Long Term Strategy (LTS). It has methodologically departed from the previous plans. With the introduction of the Eight Plan, planning body started to ‘defines more precise targets; quantitatively, wherever possible, and clearly spells out implementation schedules and ensuing responsibilities of implementation agencies, with the aim of effecting tighter coupling among issues, policies and objectives.’ (Ibid).

The most significant points that were targeted in the Eight Plan includes increase number of new entrants to labour market, develop human resources and upgrade efficiency, enhance national economic competitiveness and integrate into international economies, enhance private sector participation, Develop science and technology system as base for economy, reduce regional development disparities, upgrade human capabilities and remove constraints that impede participation (Ramady, 2010: 26).

On the Ninth Plan, targets were like following: to raise standard of living of citizens, diversify economic base, move towards knowledge based economy, strengthen role of private and public sector cooperation, continue institutional reforms, develop SME sector, bolstering human rights, achieve balance regional development, promote economic integration with GCC and other powers (Ramady, 2010: 26). The most important indicator of the Eight and Ninth Plan was the importance that was given to the development on human resources. With Eight and Ninth Plan, the budget allocated to the plans were much more than the previous plans. In the Third Plan the budget was 635.2 SR Billion, but with the Eight Plan the budget has increased to 863.7 SR billions. With the Ninth Plan, the budget has increased to 1444.6 SR billions. Especially with the Ninth Plan budget was increased almost by double compared to Eight Plan. Again like it was the case with the Third Plan, the same pattern of oil price booms was reflected in the budget of Ninth Plan. In 2005 the oil price was 61\$ whereas in 2008 the oil price has reached to 143.91\$. Thus, the budget of the Ninth Plan was again affected by the price of oil. Oil revenue dependent planning was once again the case for the Ninth Plan. Furthermore, both for the Eighth and Ninth Plan, more than half of the budget was allocated to the development of human resources. With the Eight Plan, 479.9 SR billions was

allocated to human resources development which constituted the %55 of the total budget. With the Ninth Plan, 731.5 SR billion was allocated to HRD which constituted the %50.7 of the total budget (Ramady, 2010: 24).

The spending on the human resources development can be very well understood by the Saudization efforts of the central authority that was analysed by Hertogg (2010). According to him, Saudization effort of the central authority was one of the most important and pressing issue. Central authority wanted more Saudis in the labour force. In the research that Hertogg conducted, in the mid-1990s, 94 % of the public workforce was Saudi compared to the 7% of the private sector employees. In 2003, for example the Ministry of Labor (MoL), conducted a research which showed that only 500.000 nationals were employed by the private sector in the Kingdom. Compared to the work force of the Ministry of Interior (MoI) which was half a million based on the unofficial estimates, the share of Saudi nationals in the private work force considerably small.

There were several reasons behind that outcome. First of all, for Saudi national being employed in the public sector instead of private has meant better income. As Hertogg indicates, ‘wages for Saudis remained higher in the civil service for all levels of education compared to private employment’ (Hertogg, 2010: 188). Secondly, religiously dominated education in the Kingdom is also unable to produce the desired workforce for the private businesses. Thus, as the result when Saudi nationals were selected to the ranks of the private businesses due to the quotas that the companies had to meet, for most of the part the people who were selected was not based on their educational levels rather it was based on the private connections that they may have with the employees. This was mostly based on the family

connections. This made education to be seen less attractive to the students in the Kingdom and for most of the part instead of being hired by the private companies they have remained jobless until they were appointed to the civil ranks. As Niblock (2007) indicates, 'most young Saudis were going into the public sector, where they enjoyed privileged employment conditions, rather than the more competitive employment market of the private sector (Niblock, 2007: 82).

Considering that the private sector plays an important role in the economic development and it should be one of the major force to create job opportunities for the nationals, there was a great need in the Kingdom to pursue Saudization policies. Yet as it will be analysed in the next section, the application of the rules of Saudization has proved to be very hard task for the Kingdom. How the institutions were shaped and their aims have made the implementation of the Saudization almost impossible. Although small improvements were achieved on the subject, coherent policy with enforceable rules was not enforced.

In overall, there is a clear pattern which can be found in the development plans of the Saudi Arabia. First of all, the main driving force of the development plan is the revenues gathered by the oil. The amount of the revenue that is available to the government dictates the course of the development. If revenues are sufficient, Saudi Arabian authorities do not hesitate to enter into ambitious planning. This was mostly the case for the period of the first three plans. Yet as it was mentioned knowledge about the development is created within the process. When oil revenues were no longer abundant as it was in the previous decade, the following three plans were written more cautiously and by attributing role to the private sector in the process of development which previously did not have any role to play in it.

Moreover, for the first three plans the most pressing concern was to build up the infrastructure of the Kingdom. Later on, the attention has shifted to private sector and their involvement within the process of development. This was due to the realization that the government alone could not pursue the entire development by itself with the revenues that it gathers from the oil. Later on, the attention has shifted also to bring Saudization to the work force. As private sector started to get more involved with the economy, the work force that they choose were mostly foreign due to the fact that it was cheaper and the Saudi work force was not qualified. On the other hand, Saudi population also have preferred the public sector over private. Yet it has become a burden on the side of the government and the pressing concerns for the Saudization of the work force started to be emphasized in the later plans.

The way that the plans are organized demonstrates that in essence those plans were initiated to find solutions to the problems of the Kingdom. They were not initiated by a grand vision to achieve a development in the sense of Western development trajectory. What the plans have aimed remained strictly to fixing the problems that the Kingdom faces. It is in a sense was a reaction to the existing problems of the Kingdom. Therefore, the thesis does not label the development plans of the Saudi Arabia as reactionary planning. With the knowledge that Saudi Arabia has created within the process of development, they have identified their problems and try to bring up solutions to those problems as a reaction. That kind of attitude is completely far away from achieving the Western development trajectory. That could only happen in the future if they see that the Western development trajectory have to be pursued due to the conditions that they face at a particular time and space. Yet as a Kingdom which only aimed to solve its own problems within the development, Saudi Arabia should not be accused of suffering from the resource curse. If they

have identified that they are facing with the resource curse and if they tried to solve that problems but failed, then they can be accused as suffering from the resource curse. Saudi Arabia was established in 1932, and when the planning started in the Kingdom after the 1960s they had much more pressing concerns than achieving the Western development trajectory.

In 1932, although Saud has gained the control of Arabia and established his own Kingdom, for the continuity of his rule he needed support. The economic and political institutions of the Saudi Arabia, gave him the great opportunity to gain political support. Thus most of the institutions which were created in Saudi Arabia was actually for the strengthening of the central authority. The main intention of their creation was for political gains both internally and externally. Internally it allowed Saud to distribute the wealth to the key players in the kingdom in return of their support. Externally there was a pressure from foreign powers to establish institutions to satisfy their own operations within the Kingdom. Thus, the establishment of the institutions had the utmost importance to win political gains. In the end, institutions that were created were not created with the intention to achieve Western development trajectory. Rather it was the extension of a process which was found in the creation of Saudi Arabia. The need to distribute internally within the creation of Saudi Arabia was sustained through the appointment of ministers to the important institutions and through their budgets. Furthermore, the need to satisfy the demands of the foreign powers which enabled Saud to conquer Saudi Arabia, also had to be satisfied after the creation of Saudi Arabia in order for Saud to strengthen his rule in the Kingdom through foreign backing.

### **4.3. Current Economic Plans of Saudi Arabia**

Currently Saudi Arabia has two interrelated economic plans in action. One of them is known as National Transformation Programme (NTP) and the other is called as Vision 2030. NTP was initiated in 2016 and it has aimed ambitious goals until 2020. Vision 2030 is also ambitious and again one of the main objectives of it is to diversify the economy away from the oil sector.

NTP is seen as a roadmap to achieve the Saudi Arabian vision of 2030. Its main objectives are as following; identifying the strategic objectives and targets, translating these objectives into initiatives, promoting joint action to achieve national goals, creating more jobs, increasing the partnership with the private sector, maximizing the local content and to give a contribution to the digital transformation.

These aims are directly connected with the Saudi Vision 2030. For example when the NTP refers to the contribution to the local content, it aims to do that through enhancing the facilities and infrastructure which will be conducive to the development of the local content. The key indicator to assess its performance on the issue is the number of the establishments needed to develop local content. This aim and the indicator co-relates with the Saudi Vision 2030 which aims to create attractive environment for local and foreign investors and increase their confidence to Saudi Arabian economy. Vision 2030 also aims to enhance the competitiveness of the energy sector of Saudi Arabia.

Another example is the aim to increase the localization and development of technology in the important capital oriented sectors. The key indicators to assess its

performance are based on number of localized and developed technologies in those sectors. This relates with the Saudi Vision 2030 as well because the vision aims to develop IT sector, mining sector, oil and gas sector.

Yet as reported on Bloomberg “Saudi Arabia has quietly revised its plan to overhaul its government and economy by 2020, lowering some targets as Crown Prince Mohammed bin Salman’s ambitions bump up against the reality of implementation.” (Nereim, 2018) This revised aspects of the plan include declining the aim of %28 women in the workforce to %24, and also less ambitious efforts to increase the quality of health care, training government employees and raising the quality of life.

On the other “The goal of 2030 is simple yet profound — namely, to replace Saudi Arabia’s basic economic model in which oil exports define everything” (Foley, 2017, 118). According to Foley, the main aim of the plan is to ;

The model, which has been in place since World War II, had institutionalized deep cultural and political ties with the United States and a cyclical pattern of government expenditure, in which spending increased when oil prices were high and rapidly decreased when oil prices were low. It has created an urban landscape that physically resembles postwar US cities and a society that depends on generous government subsidies. In remarks introducing Vision 2030, Prince Muhammad bin Salman addressed the cyclical nature of state spending under the current system and the danger it poses to the country: ‘We have developed a case of oil addiction in Saudi Arabia.’ In the future, the Prince continued, ‘we will not allow our country ever to be at the mercy of commodity price volatility or external markets’ To reach this goal, Vision 2030 calls for curtailing subsidies and a series of new economic reforms, many of which are so ambitious that some Western observers have questioned if they are all achievable.

(Foley, 2017, 118-119)

As the plan is still underway, and no real indicators with regards to the plan is available, contemplate and have a definitive expectations about a the plan is impossible. Yet as the previous plans of Saudi Arabia have demonstrated, the main aim of the plans is to cure the problems that the country faces rather than following a certain development path. What could be expected with the plan is definitely improvements which not might satisfy the ambitious aims but every step that is taken will be a improvment.

#### **4.4 How Saudi Arabia's Economy is Viewed?**

Edens and Snavely (1970) starts their paper with the statment;

One finds throughout the Middle East a sense of dissatisfaction with existing economic conditions and a growing belief that these do not have to be accepted fatalistically. Instead, it is recognized that important and continuing improvements can be made through the adoption and implementation of appropriate policies

(Edens&Snavley, 1970, 17)

This view has still not changed. The recent argument appeared on Bloomberg written by Carey and Baltaji (2018), argues that Saudi Arabia has still not shifted from its oil-dependent economy to a diversified economy. They claim that Saudi Arabia has remained resistant to political liberalization of western type and in order to overcome its pressing concerns they need to reform theirselves. This reforms are again about folowing the footsteps of western political liberalization.

Dudley (2018) in his article appeared on forbes, is again analysing the NTP and Saudi Vision 2030 and criticising that the aims of the plan are probably not achievable due to Saudi Arabia's dependence on the oil market and the price of oil. Since the oil when the article was written under \$60 a barrel, he claims that the

expected achievements will not happen. Again the main concern is being dependent on oil.

#### **4.5 Conclusion**

As it is demonstrated within this chapter, Saudi Arabia has through its economic development plans tried to cure the problems that they were facing at that specific time. On certain aspects such as infrastructure developments, they have managed to achieve considerable improvements. Yet none of the plans were drafted with an aim of converting the economic development of Saudi Arabia to the exact same of Western countries. There was not a grand scheme which directly aimed to become Western type of economy. All the steps that were taken was for to cure the specific problems while trying to balance the social contract that exists within the Saudi society .

Detailed analysis of Saudi Arabia's 10 development plans provides concrete evidence about clear divergences between this country's path to modernization that focuses on infrastructure and Eurocentric approaches that prioritize sociocultural and socioeconomic progress. These plans in fact were proved to be successful since Saudi Arabia is in the first league of countries in most of the aspects of infrastructure and global competitiveness in the last years. Moreover, these development models clearly put forward a different economic model, what Niblock calls as "state socialist model of development, without the socialism". These economic leap forwards also targeted to strengthen the position of the central authority through a distributive pattern.

## CHAPTER V: CONCLUSION

Resource curse theory is seen as a useful tool to analyse the development trajectories of the resource rich countries. In addition the concept of rentier state is also utilized to understand those development trajectories. From their own conceptualization both theories are providing strong explanations to the development processes of resource rich countries. Yet while they are providing useful tools, their explanations contradict with each other. While resource curse theory attributes the negative consequences of the curse to the institutions of these countries, rentier state demonstrates that those institutions are meant to operate conducive to the negative consequences of the curse, due to the different political games played in that country.

The problems of the both concepts are not only limited to the contradictory explanations that they bring to the experiences of resource rich countries. A bigger problem prevails on how they approach to these countries. Resource rich countries are almost in every case compared against the image of the 'other'. That other is the European countries. The failure of the resource rich countries to achieve the experiences of the European development trajectory, are seen as the resource curse. Furthermore due to that they are conceptualized as the rentier states. The idea that every country has to achieve the Western type of development trajectory and once they are not able to achieve them, the process of the 'naming' contained within these two literatures are trapped in the Eurocentric cage.

Eurocentrism in this thesis explained as the extreme version of ethnocentrism. Eurocentrism is part of ethnocentric judgements and since it's the most dominant one in the social sciences it requires a special attention. Furthermore within the literature of resource curse theory and the rentier state there is even greater version of Eurocentrism is contained. That is due to the elements of 'despite' and 'still' which is found in these literatures. It shows that despite having advantage over the European countries, these backward countries still cannot follow the development trajectory of the Europe. Thus that approach is heavily problematic and to tackle that the experience of the Saudi Arabia is analysed.

Saudi Arabia is a country which was established in 1932. Before it was officially established certain political games had to be played by Ibn Saud which led to the creation of Saudi Arabia. In the years between 1902 and 1932 Ibn Saud has utilized several tools to achieve his goal to unite Arabia. The most important tool that he was used was the 'distributive' or 'allocation' tool. According to that, Ibn Saud has used both the lands he owned – to settle the Bedouins- and the cash that he acquired from the other countries – especially United Kingdom- to strengthen his central authority. He also distributed the booties of the wars to the fighters under his command to further strengthen their loyalty to him. Considering that Ibn Saud wasn't the leader of a landscape which was productive in the beginning of the 20<sup>th</sup> century, he could only rely to external revenue sources. He was also not in the position to collect taxes to create an army and sustain his leadership in the region. Rather, instead of the processes which were followed in European countries Ibn Saud followed a reversed policy. Based on that it was the leader of the region was seen as a provider instead of the public which would provide the necessary sources as in the European states to maintain the state for their own protection. Thus from the

very beginning, the Kingdom of Saudi Arabia was found on different principles which necessitated a different type of political game to be played.

Trapped in those circumstances the developments that were seen in the Kingdom have followed the same line of policies. Rather than following the developments that were expected to be seen by the resource curse theory in resource rich countries Saudi Arabia has followed its unique development process. This was simply due to the events which has created the Kingdom of Saudi Arabia. As Hertogg argued about the 'path dependency' the following economic and political developments in Saudi Arabia after its formation has followed the same logic. Path which was created in the earl years for the formation of the Kingdom was so strong that it was hard to reverse the pattern.

Furthermore most of the actions that were initiated by the rulers of the Kingdom was responsive to arising circumstances rather than following a one grand scheme to achieve. Resource curse theory assumes that, every resource rich countries have to achieve modernization. Even if it does not claim it openly, the negative consequences associated with the resource curse theory are all required to be fixed to achieve what is called as modernization. Therefore this universalistic view contained within the resource curse theory, doesn't match with the actual practices of the Kingdom. If from the very first day that the Kingdom was formed, and if they have accepted the modernization as a grand scheme in the beginning, and if then they have failed to achieve those objectives, then it would be natural to accuse the Kingdom suffering from the resource curse.

Instead of that vision, the knowledge about the development process of Saudi Arabia was created within the process. Rather than following a modernization

scheme, rulers of the Saudi Arabia has taken one step at each time. As it was demonstrated with the economic development plans of Saudi Arabia, most of the plans which covered 5 year time frame has mainly focused on the certain problems that the Kingdom needed to fix. While the First Development Plan of Saudi Arabia was focused on development of the infrastructure of the Kingdom, for most of the part Second and Third Plans also had the same aim with much greater budgets. Considering that the planning process started in the Kingdom in the beginning of the 1970's and only after with the 1973 oil shocks that the Kingdom faced with immense amount of wealth, before 1970's Saudi Arabia didn't had the 'despite' element contained within the resource curse theory.

'Despite' of the resource curse theory has only turned into reality after 1970's. With the reality of 'despite' comparative development scholars turned their eyes to the countries who had gained immense amount of wealth through a sale of a single natural resource. It gave them chance to analyse how these countries will develop with the immense wealth that they have gained in such a short time. Yet the Eurocentrism which Wallerstein claims haunts the social sciences since it was institutionalized once again found a voice in the resource curse theory literature. Since development was a Western phenomenon, since when we are talking about development we are taking west as the reference point, those scholars naturally acted in the same manner.

Yet as it was seen in 1970's Saudi Arabia as a country did even lack the basic infrastructure that was already established in the West decades ago. Thus a hasty approach to assume that the same development trajectories will also happen in Saudi Arabia, together with assuming that development is a universalistic phenomenon was

actually unrealistic. Saudi Arabia had many other problems to deal with and while they were not trying to achieve a Western development trajectory as one grand scheme, critics were quick to accuse them as suffering from the resource curse simply because they cannot achieve the developments which were seen in the developed countries. Yet as it is demonstrated, unlike the Western countries which were founded on basic principles such as the tax and representation, Saudi Arabia neither didn't meet the basic standards of the Western countries nor has experienced the same background prior to its establishment. Therefore expecting the same kind of development trajectory, was not realistic due to these existing circumstances.

As it is seen, neither in its state formation, nor after the state formation, Saudi Arabia wasn't subject to the developments that were seen in European state formation. Rather they had their own peculiarities just like the European states have their own peculiarities. Saudi Arabia has evolved based on their own peculiarities and for most of the part they developed as a distributive state. As a consequence, the dynamics of the distributive state resulted in the creation of different kind of economic development model- the distributive pattern was already in place before the discovery of oil-, and within that model Saudi Arabia has followed what it had to do. Rather than trying to achieve a certain grand scheme, in every part of its development, it responded to the problems of the Kingdoms in accordance with their peculiarities.

Thus the resource curse theory although a part of a literature which is found on concrete evidences, is a Eurocentric literature. When the Eurocentrism of the resource curse theory is abandoned it is easier to grasp the development trajectory of Saudi Arabia. When it is abandoned also the puzzle within the resource curse theory

– how these countries cannot develop as developed countries despite having enormous wealth – becomes irrelevant. Every country is faced with unique circumstances, and therefore, they have different development trajectories. Saudi Arabia is just one example of that.



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## TEZ FOTOKOPİSİ İZİN FORMU

### PROGRAM

SEES

PSIR

ELT

### YAZARIN

Soyadı: Yakut

Adı: Sarp

Bölümü: Siyaset Bilimi ve Uluslararası İlişkiler (PSIR)

**TEZİN ADI (İngilizce):** Eurocentrism of the Resource Curse Theory: The Case of Saudi Arabia

**TEZİN TÜRÜ:**

Yüksek Lisans:

Doktora:

1. Tezimin tamamından kaynak gösterilmek şartıyla fotokopi alınabilir.

2. Tezimin içindekiler sayfası, özet, indeks sayfalarından ve/veya bir bölümünden kaynak gösterilmek şartıyla fotokopi alınabilir.

3. Tezinden bir bir (1) yıl süreyle fotokopi alınamaz.

**TEZİN KÜTÜPHANEYE TESLİM TARİHİ:**