Foreword

*Collaborative Colonialism: The Political Economy of Oil in the Persian Gulf*

Would the Gulf region been better off if oil had never been discovered? While it is difficult to come up with a credible counterfactual charting how development might have taken place in the absence of oil, Professor Askari's fascinating assessment leaves no doubt that oil's corrosive effects, both directly and indirectly, have been a blight on the region.

Like the lottery, the oil curse and its variants have intrigued observers for some time. Outcomes for individuals winning the lottery routinely range anywhere from a disaster – lavish living that often leaves the winner in the end divorced, financially ruined, and occasionally homeless to the other extreme of the secure, comfortable life of a coupon clipper.

Unfortunately such a spectrum of outcomes stemming from the fortuitous possession of oil reserves has not developed in the Gulf. The result, outside of relatively small group of elites especially in the larger economies of Iran, Iraq and Saudi Arabia, has in nearly all cases been a disaster – dismal economic growth rates except for short bursts of oil financed growth, and even less satisfactory progress in most of the key measures of human development. The region is home to many lost lives and few coupon clippers. The social contract many governments forged with their populations during the oil boom years are now fraying under the weight of rising expectations and rapidly expanding populations.

Throughout the book one senses Professor Askari's distain for the region's callus and often corrupt leaders as he leads us through the grim terrain: With oil financed governments less accountable, the region's populations have experienced more repression and less in the way of freedoms relative to other parts of the world. The region has no doubt experienced more wars and conflicts than would have occurred in the absence of oil. Outside interference from the major world powers has eroded the confidence of large segments of populations in their leaders, while radicalizing others.

With governments deriving large chunks of their revenues from oil, relatively little attention has been devoted to developing a dynamic private sector. In fact, many governments have gone out of their way to discourage entrepreneurship and the creation of private sector wealth on the fear that competing power-base might challenge their authority. With stagnant private sectors and governments unable to fulfill their traditional role of employer of last resort, unemployment rates are soaring in countries even as well-endowed as Saudi Arabia. Even individuals that may have benefitted from subsidized food and fuel are facing the stark reality that their dysfunctional governments are unable to sustain these handouts and as such are facing the prospect rapidly falling standards of living.

The associated Dutch Disease (strengthening of the real exchange rate) has impeded economic diversification and decimated agriculture in countries like Iran and Iraq, leaving many of the rural populations little alternative but an uncertain future in a unfamiliar urban setting. Iraq's per capita income today, despite having potential oil reserves possibly as large as those in Saudi

Arabia is probably what it was around 1950. Despite the mullahs' vow of radically changing the structure of the Iranian economy, little change in this regard has taken place since the Shah's day.

Ironically the Arab spring forces sweeping through the region have brought little in the way of fundamental change in the oil countries. Government's large military and security budgets have helped preserve the regimes, while stepped up subsidies and handouts have bought a few more years of domestic peace. In short oil has enabled governments to be unaccountable to their populations, pursue irresponsible and inept policies and deny future generations their rightful legacy.

Is there any way out of this calamity? Orthodox economists from international agencies such as the IMF often point out that the solution is simple – economic reforms combined with improved governance in areas such as: control of corruption, rule of law, government effectiveness, voice and accountability and regulatory quality.

Less orthodox observers suggest the countries should adopt some sort of institutional evolutionary approach such as the Chinese model - build on what works and gradually move their economies into the global economy where competition, capital flows, and imported technologies will enable these countries to eliminate poverty and quickly catch up with their peers in other parts of the world.

Professor Askari knows the region all too well to subscribe to these naïve approaches. Realistically, few significant reforms are likely to proceed without an alternation of the relationship between the region's governments and the major Western powers. As Professor Askari documents, the interaction between the governments of the Gulf Monarchies, western powers and their oil companies has evolved into a form of colonialism – "collaborative colonialism," whereby first Britain and now the United States provide protection for the regimes, in return for secure oil supplies. An equilibrium has developed whereby collaborative colonialism enriches the Monarchies and their foreign supporters. The message is clear: it is U.S. support that has impeded change.

With time, this equilibrium is likely to weaken as the United States becomes less dependent on Gulf oil. The shale-oil revolution along with expanded production in Iraq is likely to fundamentally alter oil markets, with prices and revenues set to decline. No longer being able to count on Western protection the Monarchies may turn towards China, but it will be some time before China will be able to provide adequate support and protection. With falling revenues and Western support in decline, the region's restive populations will be more and more difficult to control.

Clearly the countries in the region, especially the Monarchies are on an unsustainable path. The stable equilibrium forged with the West is weakening, with Arab spring winds blowing in from all sides. Reading Professor Askari's book is like watching a train wreck from afar. You know a disaster is going to happen, and it's just a matter of time. Many authors, especially those in the West might shrug at the hopelessness of the situation and end their assessment at this point.

Instead, Professor Askari provides a solution that embodies a basic sense of compassion and fairness that runs throughout the book. Without going into detail, his proposal for the creation of intergenerational oil funds provides for a fair, equitable, and hopefully peaceful transition to sustainable growth. As one might gather, while the book is titled political economy, it is much more. It integrates the region's economic history, politics, religion with the author's deep sense of fairness and compassion for the population

Professor Askari adds a fascinating personal touch to the volume by sharing some of his reflections as a privileged boy growing up in Iran. What if Mossadeq had not been overthrown? How might things have been different? Would the mullahs have come to power? Of course there is always the question of what would the country been like without oil. An industrial rival of Turkey with an Iranian Ataturk leading reforms? It's interesting how these what ifs have haunted him over the years – providing perhaps the necessary reflection and stimulation to undertake the current volume.

There are only a handful of people in the world who could undertake such a broad-sweeping account of this important region. Professor Askari's economic skills, understanding of Islam, knowledge of history, compassion and basic sense of justice combine for a significant contribution to our understanding of the forces that have shaped the region and will continue to effect developments there. Hopefully his advice for the region's rulers will be taken seriously before it's not too late. Are there some things left out or incomplete? Perhaps, but if so all the better. I for one am eagerly awaiting professor Askari's next book.

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