

OIL, POLITICS OF THE BUSINESS ENVIRONMENT AND THE PERSIAN GULF

by

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ABSTRACT

This study investigated the effect the price of oil has on enabling political establishments to maintain their presence within the business environment. The study consists of three different case studies with each of the states (Saudi Arabia, Iran and the United Arab Emirates) being chosen based upon their level of state involvement within the business community. Each case study investigated whether the price of oil had any effect on influencing the amount of political involvement within the business community, property rights or trade freedom. The findings for all three case studies suggest that the price of oil has little to no effect on determining the amount of influence the state possesses within the business environment. Based on the results of this investigation, recommendations were made to improve the United States relationship with each country. Additional analysis and recommendations were made concerning the future economic impact of Iraq relying solely on oil as its revenue source.

I dedicate my work to my grandparents Bill and Peggy Parks. Without them I would not have been able to pursue and accomplish my goals. I am also dedicating this work to my parents, Phil and Donna Parks, for their constant guidance, support and for instilling in me a sense of work ethic and perseverance. My parents were also the ones whom originally believed in me, even when I did not believe in myself, and taught me that I could accomplish anything I set my mind to; for that I can never thank them enough

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TABLE OF CONTENTS

LIST OF TABLES	vii
LIST OF ACRONYMS/ABBREVIATIONS	viii
CHAPTER 1: INTRODUCTION	1
First Law of Petropolitics	1
Previous Works	9
The Bear and El Commandante	17
Saudi Arabia, Iran and the United Arab Emirates	19
CHAPTER 2: SAUDI ARABIA	21
Brief History	21
Price of Oil and the Politics of Business Freedoms	24
Price of Oil and the Politics of Property Rights	32
Price of Oil and the Politics of Trade Freedoms	36
Policy Implications	42
CHAPTER 3: IRAN	46
Brief history	46
Price of Oil and the Politics of Business Freedoms	48
Price of Oil and the Politics of Property Rights	56
Price of Oil and the Politics of Trade Freedoms	60
Policy Implications	65
CHAPTER 4: UNITED ARAB EMIRATES	70
Brief History	70
Price of Oil and the Politics of Business Freedoms	72
Price of Oil and the Politics of Property Rights	76
Price of Oil and the Politics of Trade Freedoms	81
Policy Implications	86
CHAPTER 5: CONCLUSION	90
The minimal influence of oil	90
Implications for Iraq	97
REFERENCES	102

LIST OF TABLES

Table 1 Business Freedom's in Saudi Arabia.....	30
Table 2 Time required to open a business (days) in Saudi Arabia	31
Table 3 Number of Procedures to Open a Business in Saudi Arabia	31
Table 4 Time required to close a business (years) in Saudi Arabia.....	32
Table 5 Property Rights in Saudi Arabia	36
Table 6 Trade Freedom in Saudi Arabia.....	42
Table 7 Business Freedom in Iran	54
Table 8 Number of procedures to open a business in Iran.....	55
Table 9 Time required to open a business (days) in Iran.....	55
Table 10 Property Rights Graph in Iran.....	60
Table 11 Trade Freedoms in Iran.....	65
Table 12 Business Freedoms in the UAE	76
Table 13 Property Rights in the UAE	81
Table 14 Trade Freedoms in the UAE	86
Table 15 Overall Case Study Results.....	97

LIST OF ACRONYMS/ABBREVIATIONS

ADNOC	Abu Dhabi National Oil Company
BMENA	Broader Middle East and North Africa
BPD	Barrels Per Day
FTA	Free Trade Agreement
FTZ	Free Trade Zone
GATT	General Agreement on Tariffs and Trade
GAFTA	Greater Arab Free Trade Area
GCC	Gulf Cooperation Council
ILSA	Iran-Libya Sanctions Act
IPR	Intellectual Property Rights
MEFTA	Middle East Free Trade Initiative MEFTA
MEPI	Middle East Partnership Initiative
MPO	Management and Planning Organization
NIOC	National Iranian Oil Company
OPEC	Oil Producing Exporting Countries
SEC	Supreme Economic Council
TIFA	Trade and Investment Framework Action
UAE	United Arab Emirates
UN	United Nations
USSD	US-Saudi Strategic Dialogue
USTR	United States Trade Representative
WTO	World Trade Organization

CHAPTER 1: INTRODUCTION

First Law of Petropolitics

Oil, outside of water and oxygen, has replaced all other resources as the most essential resource for the survival of the modern state. Without the use of oil, the world would be deprived of thousands of products that are involved in everyday use; these products include medicines, plastics, clothes and vehicles¹. The political importance of oil increases exponentially as developing and developed nations continue to expand their economies using oil as the primary energy source. The discovery of oil has proven to be a blessing to states without other resources to capitalize on economically. In places such as the Middle East where many natural resources are scarce commodities, oil has provided a way for governments to earn national revenue. The world has become increasingly reliant upon oil to continue its economic development. Middle East countries economic policies have also become increasingly reliant upon the exportation of oil for economic development. This increased reliance upon such an influential, important and non-renewable resource has caused government policies to become complacent in their need to grant citizens the freedom to conduct various economic activities².

¹Jenkins, Linda. "Don't underestimate the importance of oil and gas." 26 Dec. 1997. 24 Sept. 2008
<<http://www.bizjournals.com/houston/stories/1997/12/29/editorial3.html>>.

²Vásquez, Ian. "Economic Freedom in the Arab World." Washington Times 22 Dec. 2005. 29 Apr. 2008.

Thomas Friedman refers to this theory as the *First Law of Petropolitics*³, the widely assumed theory oil has a negative influence on economic liberalism.

This study examined oil's influence on the politics of the business environment in Persian Gulf states. Over ten a year span, 1998-2007, the price of oil changed dramatically. This change provided fertile ground to examine the negative effect oil has on specific principles of economic liberalism. The essential points of economic liberalism are free markets and limited political involvement in the economy⁴. These points have proven to be the backbone for the most efficient and prolific economies in the world. Liberalizing businesses from political input is a significant part of that equation. The freeing of businesses from the bonds of government policies liberalizes business and other actors in market place. The policy of liberalization allows actors to take risks and development various economic sectors with the greatest return. With the ever increasing revenue derived from oil, Persian Gulf governments are hesitant to liberalize economic activity and permit businesses to operate outside of government control.

The natural barometer in determining oil's influence is the revenue derived from its sale. The price of oil determines the extent to which government policies are reliant upon the oil industry for its economic survival. The price of oil is chosen above the overall revenue derived from oil. This strategic choice demonstrates the importance the price of oil plays in the minds of

³ Friedman, Thomas. "The First Law of Petropolitics." *Foreign Policy* (May/June 2006): 28-36. 16 May 2008. <http://www.foreignpolicy.com/story/cms.php?story_id=3426>

⁴Wynne, Mark A. Federal Reserve Bank of Dallas, *The Legacy of Milton and Rose Friedman's Free to Choose: Economic Liberalism at the Turn of the 21st Century*, Oct. 2003, Dallas, Texas. *Federal Reserve Bank of Dallas*. Oct. 2003. Federal Reserve Bank. 24 Sept. 2008 <<http://www.dallasfed.org/research/pubs/ftc/intro.pdf>>.

each government's political decision makers. For the government policies to maximize the yearly oil revenue, they must first maximize the price of each barrel. The price of oil has another role in governments' decision making processes. The price of oil is used as a floor price for determining how much oil a particular state is going to produce. The various nations of the world look at the price of oil as a means for making decisions concerning their own energy policy. Foreign governments do not make policy decisions based on the total oil revenue flowing into other government treasuries. Rather governments make domestic policy decisions based upon the price of oil and that prices impact on their citizens' lives. The price of oil is also one of the main measures for how the individual actors inside the market make strategic choices.

The political business environment has a tremendous impact on the states' population. A liberal business political environment allows individual citizens to control business activity and economic sectors. Conversely, a government that relies on a planned economic approach has the state as the central figure in the economy. All of the data used for measuring the politics of the business environment was derived from the *Heritage Foundations' Economic Freedom Index*. The data for business freedom is based on a scale of one through one hundred. A score of one hundred indicates a completely open and liberal business environment, while a score of zero indicates that the government is the sole of owner and operator of any businesses in that state. The political business environment dictates domestic and international enterprises' freedom to start, operate, and close a business, and measures the amount and efficiency of government

regulations⁵ (p.4). A thorough examination of the political business environment requires looking at business freedom, property rights and trade freedom. The business freedom, or liberalization of the business environment, is influential in directing resources to various sectors in the economy. This is a highly capricious aspect of the business environment that includes a variety of different factors including: the time and number of procedures required to start a business, cost (% of income per capita) required to start a business, the time and number of procedures required and cost (% of income per capita) to obtain a license, cost (% of estate), time required to close a business, and the recovery rate (cents on the dollar)⁶ (p.4). The second aspect of the political business environment is property rights. The measurement of property rights is very similar to measuring business freedoms. A scale of zero through one hundred is used moving in increments of ten. A score of zero shows property rights are outlawed, as property rights scores increase more and more property rights are granted. The highest possible score is one hundred, which indicates property rights are guaranteed. Property rights allow a person the incentive to create and provide a value added activity to any object. Property rights are determined by "the degree to which a country's laws protect private property rights and the degree to which its government enforces those laws"⁷ (p.13). In looking at this characteristic of the political business environment, property rights are very complex and comprise the likelihood

⁵Beach, William W., and Tim Kane. Methodology: Measuring the 10 Economic liberalisms. Heritage Foundation. 2008. 39-55. <http://www.heritage.org/research/features/index/chapters/pdf/Index2008_Chap4.pdf>.

⁶ Beach., 2008

⁷ Beach., 2008

that property analyzes the independence of the judiciary, the amount of corruption within the judiciary, and the ability of individuals and businesses to enforce contracts. The final trait of the political business environment is trade freedom. Measuring trade freedom differs slightly than measuring the previous two variables. Trade freedom uses a sliding scale with the lowest possible score of zero, which indicates tariff and non-tariff barriers at the maximum possible value. A score of one hundred indicates that the country does not possess any tariff or non-tariff barriers. Since the advent of the microchip the world has become a shrinking globalized market place. States and companies alike must be able to compete in a globalized economic community in order to survive. To accomplish this goal, measuring the trade barriers is essential. The trade freedom encompasses the trade-weighted average tariff rate and non-tariff barriers⁸ (p.5).

For many years, states in the Persian Gulf region have relied almost exclusively on a mercantilistic economic system, with states using oil revenues to finance domestic activities. The mercantilistic economic system has allowed each government to maintain control over many different sectors of the economy. States employing a mercantilistic economic philosophy are forced to endure either financial “feast or famine.” In maintaining this economic philosophy, the future economic viability for states in this region is determined by the dynamic the price of oil has on political decisions governing the economy. Therefore, first hypothesis is: As the price of oil increases citizens of each state experience a decrease in business freedoms. However, due to

⁸ Beach., 2008

the historical reliance on mercantilism generating national income, vis-a-vis the price of oil, the state is reluctant to liberalize the business community creating a moderately negative relationship. The revenue derived from the sale of each separate barrel of oil allows the government to continually prevent the liberalization of the business environment. The lack of liberal business policies prevents individual autonomy and keeps the government monopoly over certain sectors of the economy. Also failure to liberalize the business community keeps the government's position as a significant factor in citizens' household incomes. Until the price of oil decreases, the government will not relinquish any of the political controls over business freedoms.

Any analysis that involves the political business environment must include the topic of property rights. The positive or negative movement of the price of oil on property rights is a crucial factor in examining the totality of oil's proposed influence on the liberalization of the business environment. The predisposition of governments in the Persian Gulf region is towards maintaining their power. An increase in the price of oil emboldens the states' central authority to keep their dominance in property rights. Therefore, the second hypothesis is: As the price of oil increases the number of property rights citizens experience decreases. Property rights provide the impetus not only for individual citizens to use their own talents and create for their own benefit. Property rights grant independence outside the authority of the state as well. An increase in the price of oil enables governments to continually meet their citizens' economic needs. In the process of meeting these needs, governments have not surrendered the authority over any type of resource to ease the citizens' sense of economic dissatisfaction.

With the rise in globalization the ability to trade with other states has allowed government policies to strategically focus precious resources on activities in which they have a competitive advantage. The notion of becoming more dependent on the international community via trade freedom for essential products is a rather disconcerting concept for many leaders in the Persian Gulf states. The maximization of each barrel of oil across the globe allows these governments to become less involved in the world trading community. Therefore, the third hypothesis is: As the price of oil increases trade freedoms will decrease. Even though oil is a commodity that needs to be sold on the open market in order to produce revenue, the government is the one that is engaging in selling the commodity. This allows governments to abdicate the need to allow greater trade freedom to its citizens.

From a theoretical point of view my paper is attempting to expand upon the ‘natural resource curse’ literature. The natural resource curse theory states that countries with significant amounts of natural resources may experience slower economic progress, particularly in liberalizing the economy, than countries with fewer natural resources⁹. Much of the natural resource curse literature has been associated with negative economic growth¹⁰, the impact on democracy^{11 12} and the promotion of conflict¹³, among other consequences. The previous

⁹Auty, Richard M. *Sustaining Development in Mineral Economies : The Resource Curse Thesis*. New York: Routledge, 1993.

¹⁰Sachs and Warner, 1999 J.D. Sachs and A.M. Warner, The big push, natural resource booms and growth, *Journal of Development Economics* 59 (1999), pp. 43–76.

¹¹Jensen, Nathan, and Leonard Wantchekon. "Resource Wealth and Political Regimes in Africa." Comparative Political Studies 37 (2004): 816-841. Academic Search Premier.

research has studied the results of economic activity or other such variables that move to promote a more open society, but these studies have not addressed an essential part of an open society. This study continues to develop the natural resource curse literature by expanding into the effects natural resources have on the principles of economic liberalism, specifically business freedom. Even with the movement to promote alternative energy and become energy independent, oil remains the primary energy source in the foreseeable future¹⁴. Therefore, the policy implication of this paper is geared towards the impact of the price of oil on economic liberalism. This study takes an international focus on oil's ability, in an extremely volatile region of the world, to enable governments the continued denial of certain principles of economic liberalism. The second policy impact of this paper is how oil's effect on economic freedom affects America's future relationship and foreign policy towards specific states within that region. The ultimate goal of foreign policy is to promote ones' own philosophies to other countries in hopes that the other country adopts that policy, or parts of that policy, as their own. This move is carried out under the pretense of increasing the safety of that particular state in the international system. A significant part of American foreign policy is moving "countries in the Muslim world to advance economic reform [liberalism]¹⁵". Another implication of this paper

¹²Ross, Michael "The Political Economy of the Resource Curse," *World Politics* 51 (January 1999)

¹³Collier, Paul, and Anke Hoeffler. "Resource Rents, Governance and Conflict." *Journal of Conflict Resolution* 49 (2005). Academic Search Premier.

¹⁴Maugeri, Leonardo Maugeri. "Oil: Never Cry Wolf—Why the Petroleum Age Is Far from over." *Energy Bulletin*. 20 May 2004. 5 June 2008 <<http://www.energybulletin.net/node/347>>.

¹⁵Mission Statement. The United States of America. Department of State. Department of State and USAID.

extends into the contentious arena of Iraq. Currently, Iraq derives a preponderance of its revenue from the sale of oil. For the principles of economic liberalism the implications of relying on oil as the predominant means of self-sustainability has the potential to erode any progress made in changing the state's economic structure. This is especially important considering that the oil sharing bill recently made strides to move beyond nationalization and include investment from private companies¹⁶. The ultimate goal of this paper, from a policy perspective, is to demonstrate that oil enables government to continually deny specific economic freedoms to their citizens.

Previous Works

In 1958 A.J. Meyer raised the question of "attitudinal problems of entrepreneurship"¹⁷ in the Middle East. Meyer highlighted "management, risk-taking and innovation" as essential for the Middle East to develop in their economic mindset. This question and assessment strike at the heart of the economic mindset in the Middle East. In the 50 years since the writings of Meyer, little has changed for many of these countries. While this article does not place specific blame

Department of State. 24 Sept. 2008 <<http://www.state.gov/s/d/rm/rls/dosstrat/2004/23503.htm>>.

¹⁶Wong, Edward. "Iraqis Reach an Accord on Oil Revenues." *New York Times*. 27 Feb. 2007. <http://www.nytimes.com/2007/02/27/world/middleeast/27iraq.html?pagewanted=2&r=1&hp>.

¹⁷Meyer, A. J. "Entrepreneurship and Economic Development in the Middle East." *The Public Opinion Quarterly* 22 (1958): 391-396.

on oil for inhibiting economic freedom, the foundation has been laid for examining the relationship between oil and its effect on economic freedom. In the 1970's "The Rentier Concept" was brought to light by Hossein Mahdavi, who argued that natural resources push states towards being risk averse and supporting the status quo¹⁸. This concept has far reaching implications on states that depend on natural resources. By maintaining the status quo states are not likely to engage in the economic reforms needed to promote economic freedom. In 1987, Beblawi and Luciani defined the sale of natural resources as states' primary source of income, rather than relying on taxation¹⁹ or other non-natural resource industries. Beblawi and Luciani reiterate and expand on the views held by Hossein Mahdavi, coming up with four characteristics that comprise a Rentier state:

1. If rent situations predominate,
2. If the economy relies on substantial external rents,
3. If only a small proportion of the working population is actually involved in the generation of the rent
4. That the state's government is the principle recipient of the external rent²⁰.

While still somewhat vague, these four characteristics further provide a concrete set of standards for defining a "Rentier State." Government entities which possess the aforementioned Rentier State qualifications are pragmatic, even stagnant, when moving to a system based on economic liberalism. The lack of movement is in part due to convincing citizens they will have "to pay the

¹⁸Mahdavi, Hossein. 1970. The Pattern and Problems of Economic Development in Rentier States: the case of Iran. In *Studies in the Economic History of the Middle East*, ed. Michael Cook. London.

¹⁹Beblawi, Hazem and Luciani, Giacomo eds., *The Rentier State* (London: Croom Helm, 1987).

²⁰Beblawi, H., 1990, *The Rentier State in the Arab World*, in Luciani, G., *The Arab State*, London, Routledge

state, not rely on it". The slow movement away from a reliance on the Rentier Effect compliments the political establishment's strategic choice of being dependent upon natural resources. This continued reliance on being a Rentier State has also served the political purpose of effectively removing any economic issues from state opposition parties as a means of mobilization²¹. States are attempting to engage in economic reform activities and move away from being Rentier States, but it is not simply engaging in economic reform that matters. The stage in the reform process in which government becomes involved also has an effect on the progress towards implementing a market system²². Terry Lynn Karl takes a much broader look at what influences the economy than merely the Rentier Effect. Karl's central contention is that the "interaction between decision makers' framework and the leading export sector, not the properties of the export²³" are what contributes to the mismanagement of resources. This is particularly important for Persian Gulf states, because many of the states' leaders possess authoritarian backgrounds and view the economy not as a free entity but rather as something that needs to be controlled by the state.

According to Michael Ross, from a political perspective, the natural resource curse has extended beyond the economic realm and moved into the general institutions of the state by

²¹Shambayati, Hootan "The Rentier State, Interest Groups, and the Paradox of Autonomy: State and Business in Turkey and Iran," *Comparative Politics* 26 (April 1994).

²²Chaudhry, Kiren. "Economic Liberalization and the Lineages of the Rentier State." *Comparative Politics* 27 (1994): 1-25. [JSTOR](#).

²³ Karl, Terry Karl L. The Paradox of Plenty: Oil Booms and Petro-States. Berkley, CA: University of California P, 1997.

inhibiting the movement towards democratic institutions and forms of government²⁴. This is especially true concerning economies that are oil based²⁵. This prohibition of democracy, as a result of the natural resource curse, will certainly impact the movement towards economic freedom. Both economic freedom and democracy are based on the same foundation principles: rule of law, individual rights, private property and independent courts. According to Fareed Zakaria these principles should be the primary foreign policy goal of the United States²⁶.

In 1999 William Ascher wrote in his book, *Why Governments Waste Resources*, that the natural resource curse was not the result of deregulation or greedy politicians. Rather the author cites poor choice and implementation of strategic policy decisions²⁷. With poor policy decisions governments have created a situation that allows for the natural resource curse to be active in the market place. Not allowing the consumer to dictate certain economic factors allows the government to abuse and misallocate natural resources and natural resource revenues²⁸. The poor policy choices by government are the antithesis of Jean-Philippe Stijns point that natural resources do not prevent any significant structural challenges in terms of economic development. Rather Stijns argues what matters most is what countries do with their natural resources [that

²⁴Ross., 1999

²⁵ Ross, Michael. "Does Oil Hinder Democracy?" *World Politics* 53 (2001).

²⁶ Zakaria, Fareed. "How to Save the Arab World." *Newsweek* 24 Dec. 2001.

http://www.fareedzakaria.com/articles/newsweek/122401_how.html.

²⁷Ascher, William. *Why Governments Waste Resources: The Political Economy of Natural Resource Policy Failures in Developing Countries*. Baltimore, MD: Johns Hopkins UP, 1999.

²⁸Humphreys, Macartan, Joseph E. Stiglitz, and Jeffrey D. Sachs. *Escaping the Resource Curse*. New York: Columbia UP, 2007.

matters]²⁹. Regardless of the efficiency of economic sectors many states, especially in developing countries, believe the energy sector of the economy is “different”. Certain economic sectors are not as strategically vital to the continuation and security of the state as the energy sector. However, the energy sector is strategically important and must be directed from a centrally planned apparatus³⁰.

Papyrakis and Gerlagh, empirically look at the effect natural resources have on economic growth. When examined in isolation natural resources have a negative impact on growth. However, when combined using "transmission channels," which is the effect natural resources have on other variables, the impact of natural resources is positive on economic growth³¹. One of the most important factors of this paper is the variables included in the transmission channels. These variables include corruption, investment, and terms of trade all of which are included to some extent in the calculations of economic freedom. To a lesser extent the aforementioned variables are included in business freedom. Papyrakis and Gerlagh cite the positive influence of government policies in the application of natural resources. Ragnar Torvik uses a very simple statistical formula to examine the natural resource curse theory. Torvik arrives at the conclusion that depending on the amount of return from engaging in rent seeking behavior, will determine

29Stijns, Jean-Philippe C. "Natural Resource Abundance and Economic Growth Revisited." Department of Economics. Apr. 2005. Northeastern University. 23 Sept. 2008 <www.economics.neu.edu/papers/documents/05-002.pdf>.

³⁰Robinson, Colin. "Energy Economist and Economic Liberalism." *The Energy Journal* 21 (2000).

³¹Papyrakis, Elissaios and Reyer Gerlagh (2004), The resource curse hypothesis and its transmission channels, *Journal of Comparative Economics* 32,181-193.

the number of citizens seeking in rent seeking behavior (p.32). This is to be expected considering individuals will always engage in activity that provides the greatest return. Roland Hodler expands upon the theory provided by Torvik. This theory states countries which are ethnically fractionalized have a greater a chance of not utilizing those natural resources. Conversely, states that are ethnically homogeneous will not suffer from the natural resource curse. These states can capitalize on those resources (p.33). This theory has direct applications to states in the Persian Gulf.

In one of the few applicable case studies, to my thesis, Andrew Rosser conducted a test of the resource curse theory in the worlds' most populated Muslim country; Indonesia. In his case study Mr. Rosser argues that the rapid economic growth that took place wasn't due to the hindrances of natural resources. Rather Mr. Rosser makes the argument it was through the political victory over communist forces and their strategic geographic proximity to Japan that allowed the country to move past resources. One of the key conclusions that can be drawn from the Case of Indonesia is the "political victory of social forces that promote and develop capitalist economic relations is an important prerequisite for overcoming the resource curse."³⁴

One of the most intriguing articles concerning economic freedom and oil was published,

³²Torvik, Ragnar. "Natural Resources, rent seeking and welfare." Journal of Development Economics 67 (2002): 455-70.

³³Hodler, Roland. "The curse of natural resources in fractionalized countries." European Economic Review 50 (2006): 1367-386.

³⁴Rosser, Andrew. "Escaping the Resource Curse: The Case of Indonesia." Journal of Contemporary Asia 37 (2007): 38-58.

in 2006, from the Federal Reserve Bank of Dallas by Stephen Brown and Richard Alm. The Brown-Alm analysis reverses my independent and dependent concepts, but still provides an excellent cause and effect linkage between the two concepts. The authors look beyond the mere one-dimensional and self-evident answer for the rise in gasoline as the result of increased consumption by developing states; primarily China and India. Instead, the authors analyze the effect market systems have had on oil production³⁵. Brown and Alm come to the conclusion that market systems play a significant role in oil production stating "When it comes to increasing oil production, economic systems matter quite a bit... prices would be lower if major oil resources were in countries where producers responded freely to market incentives". A superior majority of the world's oil reserves are found in countries that, according to the Heritage Foundation, are lacking economic freedom, and most of these states are located in the Middle East. Brown and Alm make the point that if these states allow privatization, rather than nationalization, to become the preeminent player in the oil production industry then stability and simple market principles of supply and demand would come into play. This paper is important because it demonstrates the linkages between market principles and oil. This paper also elucidates' the real world ramifications of not allowing market principles to have an effect. In addition to switching the concepts, another point of differentiation between my area of work and the authors is the different areas of economic liberalism that are affected by oil. Brown and Alm did not focus on

³⁵Alm, Richard, and Stephen Brown. "Running on Empty? How Economic Freedom Affects Oil Supplies." Economic Letter—Insights From the Federal Reserve Bank of Dallas 1 (2006). <<http://www.dallasfed.org/research/ecllett/2006/el0604.html>>.

how oil-based economies affect economic freedom of citizens in other areas of life. The authors strictly adhered to economic freedoms effect on the world oil market. While Brown and Alm actively call for less participation from government entities and greater participation of the free market some authors believe that move would be detrimental to a state. Kamil Mahdi believes oil producing countries can't merely have a policy of no or limited government influence; rather government must present and provide a policy of economic intervention in the management of resources³⁶. The research on natural resources and economic freedom is rather narrow instead many authors prefer to stay with natural resources effect on broad categories. Nicholas Shaxson performed a study validating the negative association between natural resources and economic growth³⁷. Shaxson examined the negative effect of natural resources and corruption as not the cause of foreign companies, but rather the mismanagement of government and a lack of trust in government officials to not use their offices for personal gain.

My work expands the breadth of topics the natural resource curse covers in two ways. The first means of expansion occurs by looking at a topic that has previously been given no attention; business freedom. Works thoroughly vetting the effects of the natural resource curse and economic development has been produced³⁸. Research has included the natural resource curse-business freedom relationship. The literature provides a basis for further examining the

³⁶Mahdi, Kamil. "Neoliberalism, Conflict and an Oil Economy: The Case Of Iraq." *Arab Studies Quarterly* 29 (2007): 1-20.

³⁷Shaxson, Nicholas. "Oil, Corruption and the Resource Curse." *International Affairs* 83: (2007): 1123-1140. Academic Search Premier.

³⁸Auty, Richard. *Resource Abundance and Economic Development* (Oxford: Oxford University Press, 2001).

effects the natural resource curse has on principals of economic freedom. The second way my paper contributes to the literature is narrowing the scope of countries covered to specific individual states in the highly important energy resource area of the Persian Gulf. Most of the studies that have been conducted concerning natural resources examine sub-Saharan Africa, Latin America or use a cross-section of natural resource dependent states across the globe. While studies on natural resource use in other parts of the world are important. But the Middle East, and specifically the Persian Gulf, remains a vital part in the United States foreign policy³⁹. Studying these topics provides more in-depth knowledge concerning the powerful influence of oil on an equally important aspect of foreign policy in a geopolitically crucial area.

The Bear and El Commandante

Two states that meet the requirements of being dependent on natural resources and have huge amounts of political involvement in the business environment are Russia and Venezuela. According to the *Energy Information Agency*, crude natural resources in each of these two states comprise a significant amount of the global crude reserves; Russia has approximately the fifth

³⁹Phillips, James. "President Bush and the State of the Middle East." Heritage Foundation. Douglas and Sarah Allison Center for Foreign Policy Studies. 29 Sept. 2008
<http://www.heritage.org/research/middleeast/upload/wm_1790.pdf>.

largest oil reserves in the world,⁴⁰ and Venezuela is the single largest oil exporter in the western hemisphere⁴¹. Both of these states also have heavy-handed authoritarian political systems, making them excellent candidates to be included as case studies. Yet, both of these states possess certain qualities, besides governmental and geographically, that exempts them from being included as case studies. The first reason concerns the use of natural resources as their countries economic foundation. Each of the case study candidates are attempting, or have already implemented policies, to reduce the amount of oil that their state depends on. Russia and Venezuela have continued to embark on a mercantilist economic path. Instead of opting for economic dependence from oil, both of these states have chosen different path. Russia and Venezuela have unified and increased coordination of oil energy policies for greater efficiency⁴². The alignment of oil policies allows each government to continually capitalize on their natural resources, without having to develop other economic sectors. Furthermore, it is not only the mere reliance upon natural resources that prevent these two states from being included as case studies. The overall antipathy for removing the political dynamic from the business environment was the key reason for these states not being included. Since President Hugo Chavez has taken over power, Venezuela has reached its goal of becoming entirely socialistic in nature. The Hugo

⁴⁰"Country Analysis Briefs: Russia." Energy Information Agency. May 2008. Department of Energy. 3 Oct. 2008 <<http://www.eia.doe.gov/emeu/cabs/russia/background.html>>.

⁴¹"Country Analysis Briefs: Venezuela." Energy Information Agency. Oct. 2007. Department of Energy. 3 Oct. 2008 <<http://www.eia.doe.gov/emeu/cabs/venezuela/background.html>>.

⁴²Barnard, Anne. "Russia and Venezuela Will Coordinate on Energy." New York Times. 23 July 2008. 3 Oct. 2008 <<http://www.nytimes.com/2008/07/23/world/europe/23russia.html?fta=y>>.

Chavez administration as either nationalized economic sectors or become heavily involved in all aspects of business. When the Cold War ended, Russia began on the painfully process of alleviating political involvement from the market place. This progress was rewarded in 2002, with the United States officially recognized Russia as a market economy⁴³. However, the government is still heavily interconnected in the countries' economy, which dramatically increases the "political risk" of investing in that country⁴⁴. The two aforementioned reasons allow the exclusion of Russia and Venezuela from being considered in the case studies.

Saudi Arabia, Iran and the United Arab Emirates

The research design that I employ is a three pronged method. The first three chapters involve case studies of Saudi Arabia, Iran and the United Arab Emirates (UAE). The final chapter is a conclusion. These three particular states were chosen based on their geographic proximity to one another, similar religious backgrounds, same governmental styles, all of these states are members of the Oil Producing Exporting Countries (OPEC) organization and all of the chosen states are comparable in oil production output; for both their region and the world⁴⁵. The

⁴³Tavernise, Sabrina. "U.S. Decides to Recognize Russia as Market Economy." New York Times. 7 Jan. 2002. 3 Oct. 2008 <<http://query.nytimes.com/gst/fullpage.html?res=9d03e7d9173df934a35755c0a9649c8b63>>.

⁴⁴"Oil, politics and corruption; Bad capitalism carries its own risks." 18 Sept. 2008. 3 Oct. 2008 <http://www.economist.com/research/articlesbysubject/displaystory.cfm?subjectid=349002&story_id=12080765>.

⁴⁵"Country Energy Profiles." Energy Information Administration. Department of Energy. 20 Sept. 2008

key difference in all of these countries is their variation on political involvement within business community. All of the case study states have strikingly different perceptions, aspirations and realities concerning the appropriate amount of political involvement in the business environment. The first three sections of each three case studies are separated based on business freedom, property rights and trade freedom. The first section of each case study is entitled Price of Oil and Business Freedoms. In this section, I have examined the movement of business freedoms in relation to the movement of the price of oil. Also in this section, I looked at the effect of any outside political influences that enhance or hinder the movement of business freedoms. The second section is entitled Price of Oil and Property Rights. This section is comprised of examining whether the increase or decrease in property rights is due the influence of the price of oil. This section also looks at the influence of any outside variables that affect the movement of property rights. The third section of each case study is entitled Price of Oil and Trade Freedoms. The third section looks at the influence the price of oil holds over the amount of trade freedom. This section examines how the factors that comprise trade freedom are influenced by the price of oil. Also the third section entails additional outside influences that affect the trade freedoms. The final chapter consists of a conclusion that lays out the results from each case study. This chapter also presents the future implications for American foreign policy towards Iraq.

CHAPTER 2: SAUDI ARABIA

Brief History

Prior to the discovery of oil, the Saudi Arabian Kingdom was a tattered array of destitute communities. The original ruler of these communities was King Abdel Aziz bin Abdel Rahman al-Faisal al-Saud (also known as Ibn Saud) kept together through British financing and taxes on the *hajj* (a traditional Muslim pilgrimage to Mecca)⁴⁶. In 1933, during the midst of declining revenue from the *hajj*, the Saudi king arrived at an agreement with Standard Oil of California to explore the Saudi desert for petroleum. This agreement provided the Saudi King with the much needed revenue to keep his kingdom together. The oil exploration agreement also served as the beginning of the kings' reliance on oil. During the Second World War, Saudi Arabia reduced their oil production and played a rather minor role. However, after World War II the Kingdom became a significant participant in world oil production, and was a major supplier of the effort to rebuild Europe. During the 1950's and the first part of the 1960's oil production in Saudi Arabia thrived, helping to solidify an alliance with the United States and other Western governments. This relationship was able to prosper not only because of oil, but because of the Saudi's stringent

⁴⁶Bronson, Rachel. *Thicker Than Oil: America's Uneasy Relationship with Saudi Arabia*. New York: Oxford UP, 2006. 14.

anti-communist stance and their support of anti-communist movements in the region. In 1960, Saudi Arabia was a founding member in the creation of the Oil Producing Exporting Countries organization, which allowed “the co-ordination and unification of the petroleum policies of Member Countries”⁴⁷. By setting the level of each states oil production this policy coordination created a significant increase in oil revenue for the Kingdom. In the 1970’s OPEC members, particularly Saudi Arabia continued to experience significant revenue as the result of the exportation of oil. The 1980’s proved to be less prosperous for oil-based economies, with the price of oil falling to below \$15. The following decade, because of the Persian Gulf War and Iraqi sanctions, oil prices remained relatively low; prices bottomed out in 1998. With the price of oil at historically low levels, governments began to fully understand the importance of economic diversification.

Discussion of moving away from a mercantilist economic system to one based off of liberal economic policies had been taking place in the Kingdom. In the 1970s, during extreme oil profits the Saudi government came out with the “first plan.” Among one of the seven major points of emphasis was directed towards moving the states’ economic base away from the dependence on crude oil⁴⁸. The priority of continuing private sector development occurred throughout the 1980’s and 1990’s when oil prices dropped significantly. Each of the next four

⁴⁷OPEC Statute. Organization of Petroleum Exporting Countries, Apr. 2006, OPEC.
<<http://www.opec.org/library/opec%20statute/pdf/os.pdf>>.

⁴⁸Cordesman, Anthony H. *Saudi Arabia Enters the Twenty-First Century*. 2003. 14 May 2008
http://books.google.com/books?id=tjpExwQWtOsC&pg=PA344&lpg=PA344&dq=the+first+plan+%221970+1974%22&source=web&ots=f4_g6CPnAo&sig=5hnGTpIV3k0QfY3NTFEhbtsl3dE&hl=en.

years produced a plan with at least one of the goals to let the private sector grow. However, the implementation of each plan for private sector development never really fully comes to fruition. In addition to the economic plans, Saudi Arabia had also taken other economically liberal measures to ensure government limitation in business; privatization and economic diversification are instituted. During the latter half of 1990's King Abdullah established the *Supreme Economic Council (SEC)*. The SEC targeted improving the national economy by subjecting it to market forces⁴⁹. In 2005, Saudi Arabia continued on their path to liberalization by officially joining the World Trade Organization (WTO). After more than 12 years of negotiations, Saudi Arabia and the WTO were finally able to arrive at an accession agreement. In the accession agreement, the bench marks for privation were "remarkably ambitious" with aviation, postal services, telecommunications, education, and many other publicly owned companies/industries all slated to become privatized⁵⁰. By joining the WTO, Saudi Arabia is moving beyond mere self imposed liberal reforms. The World Trade Organization has rules and penalties that are enforceable, by fellow members, as compared to an internal agreement that is self-enforced. Saudi Arabia has made prior commitments in moving towards an open and liberal economic system, but the state has been excruciatingly slow to implement such initiatives. With so many attempts at embracing

⁴⁹"Privatization Strategy; Privatization Objectives and Policies." Supreme Economic Council. 5 Feb. 2001. Government of Saudi Arabia. 15 May 2008
<http://www.sec.gov.sa/english/list.asp?s_contentid=22&s_title=&ContentType=0&CatTypeId=0&Category=3&Step=1>.

⁵⁰Sutherland, Peter. "Transforming Nations." Foreign Affairs 82 (2008): 125-136. Academic Search Premier. EBSCO. 15 May 2008.

free market principles, the next section will examine the fundamental point of this paper; is oil the reason behind the lack of liberal economic reform?

Price of Oil and the Politics of Business Freedoms

Over the period of time being examined, 1998-2007, the Saudi government was not able to increase the liberal economic policy objectives of enabling businesses to operate without government interference. The government has not always been so stringent in business regulations. In 1998, Saudi Arabia was at its zenith in promoting a business atmosphere that was able to operate in a liberal free market. These actions resulted in Saudi Arabia accumulating a business freedom score of just below 90. This score placed the kingdom on the same level as the developed countries of the world such as Japan, France, Canada, the United States and the United Kingdom. However, even with entry into the WTO, creation of the SEC and continually producing economic development plans, in the course of ten years Saudi Arabia has erased any progress towards liberal goals by reverting back to a state centered business system. The erosion of business' ability to function outside of the state has placed Saudi Arabia on the same level as the developing states of Gabon, Guatemala, Laos and Chad. During this same time period the price of oil has increased exponentially; moving from a price of just above \$10 to just below \$70 per barrel (See business environment graph). With oil's remarkable price increase the Saudi government was experiencing windfall profits. The combination of an increasingly hostile

attitude towards liberal policies and increasing oil revenues enabled the Saudi government from little more than lip service towards reducing their presence in the business community. The Saudi government possesses some liberal economic tendencies by releasing nationalized industries to function with the state being involved. This includes not only releasing businesses from government control but also removing restrictions on industries and letting a greater amount of businesses into those industries. Part of the move to reduce the regulations governments institute on businesses is increasing the level the free market is allowed to play in the selection of whom succeeds and whom does not. To accomplish this goal, the Saudi government has spoken of reducing their role in economic interactions and allowing the private sector to become the primary instrument which drives the economy. Another part of the Saudi governments plan in reducing their economies mercantilistic nature involves instituting economic plans.

In addressing this mercantilistic predisposition the Kingdom has produced economic development plans every five years. These development plans will not only help overall the efficiency of the economy, but promote the culture of reducing barriers, which will allow businesses to operate with a greater sense of freedom from government. The seventh development, 2000-2004, plan talked extensively about the need to privatize the Saudi Arabian economy as a means of diversifying away from non-renewable resources. However, steps and deadlines for actually implementing privatization methods were left unfulfilled, leaving the Saudi economy no further towards privatization than the previous development plan. The eighth economic development plan, 2005-2009, has very similar predispositions towards becoming

more liberal, and similarly does not mention steps or deadlines to accomplish these goals. Creating actual plans for economic liberalization is progress but not laying out when the economic liberalization will take place negates any progress made. With the continual inadequate influence of these economic development plans, the Saudi government created the Supreme Economic Council as another similar measure to ensure the increasing ability of business to function in a liberal economic environment. The Supreme Economic Council has published a list of industries to be privatized, but the Council leaves the timeline and method for introduction to the private sector to be determined at a later date⁵¹. While the lack of a timeline in either development plans or in the SEC plans does not force ill-advised and rushed moves to economic liberalism. The lack of timeline for liberalization creates a sense of the government being disingenuous. The lack of a liberalization timeline also prohibits any clear sense of growth in the private sector away from the extreme influence exerted by government.

In addition to the internal attempts at liberalization, Saudi Arabia has made external attempts to become a more economically open society. A prerequisite for joining these organizations is liberalization of business practices. This involves diminishing the states influence over the entire market place, and business ability to function in that market place. According to the *Doing Business Report*⁵², the Saudi Arabia government has made strides

⁵¹"List of Utilities." Supreme Economic Council. Kingdom of Saudi Arabia. 2 Oct. 2008
<http://www.sec.gov.sa/getdoc/47215a65-b78d-4598-8d7a-2e597e5c1815/list_of_utilities.aspx>.

⁵² Doing Business is a report published by the World Trade Organization that assesses the ability to operate a business within a given country.

towards reducing specific aspects of involvement in the business environment by continually lowering the number of days required to open a business (see Open-SA graph). Conversely, the Saudi Arabian government has made little progress in reducing the number of procedures to open a business (See Procedures Graph-Saudi Arabia) and the time required to close a business (see Closing-SA Graph) among an additional lack of reforms in other variables. Even though the Doing Business Report has only been published over the last several years, the findings from the report are emblematic of the slow and inconsistent. Part of entering into a free market system is allowing resources to shift from industry to industry without the interference of government. Over the last several years the Saudi government has been more than willing to reduce the time to open a business, but the time required to close a business has remained stagnant. Merely looking at the unit of analysis reveals that the government is more than willing to grant businesses the right to open, which is measured in days. But the government is declined to allow businesses to close, measuring the variable in years. The prevention of business closures is due to the high unemployment rates that the country is facing; not the price of oil. This ever growing social constraint has inhibited the proper liberal economic reforms, because the government restrictions in the aforementioned time required for businesses closures. For the government the social cost of unemployment is greater than the economic cost of market inefficiencies. The dichotomy of this relationship represents the constraints the Saudi government faces; striking a balance between modernization and the integrity of traditional values of the cultural and society.

The majority of reasons behind the political involvement in the business world stem from concerns that lie outside of the influence of a price of oil. The price of oil is not completely

abdicated from negatively influencing the liberalization of the business environment. One way this variable plays a role in injecting politics into the business sphere is through the use of subsidies. Subsidies still play a large role in the Saudi economy, helping the government to artificially sustain failing economic sectors and support citizens. Over the last 10 years the production of oil has remained relatively steady, at about 3.4 billion barrels per year⁵³, but the price of oil has increased every year. The dramatic increase in the price of oil provides excess capital resources to continue funding subsidies. The government has interjected itself into the business environment by providing artificial income to citizens; therefore the need to decrease government intrusion in the business sector takes place at a slower rate. Subsidies contribute to the antithesis of removing the politics from business liberalization, which is self-reliance. With citizens becoming reliant upon government for their income, the motivation to engage in risk (opening business, expanding production lines/ facilities) for providing self derived income, or increased income, is diminished. This in-turn expands governments' involvement within the business sector. The population, with all of their needs being met by the government does not need to have an atmosphere conducive for citizens to engage in risk/reward business behavior. This allows government to remain firmly entrenched in the business environment.

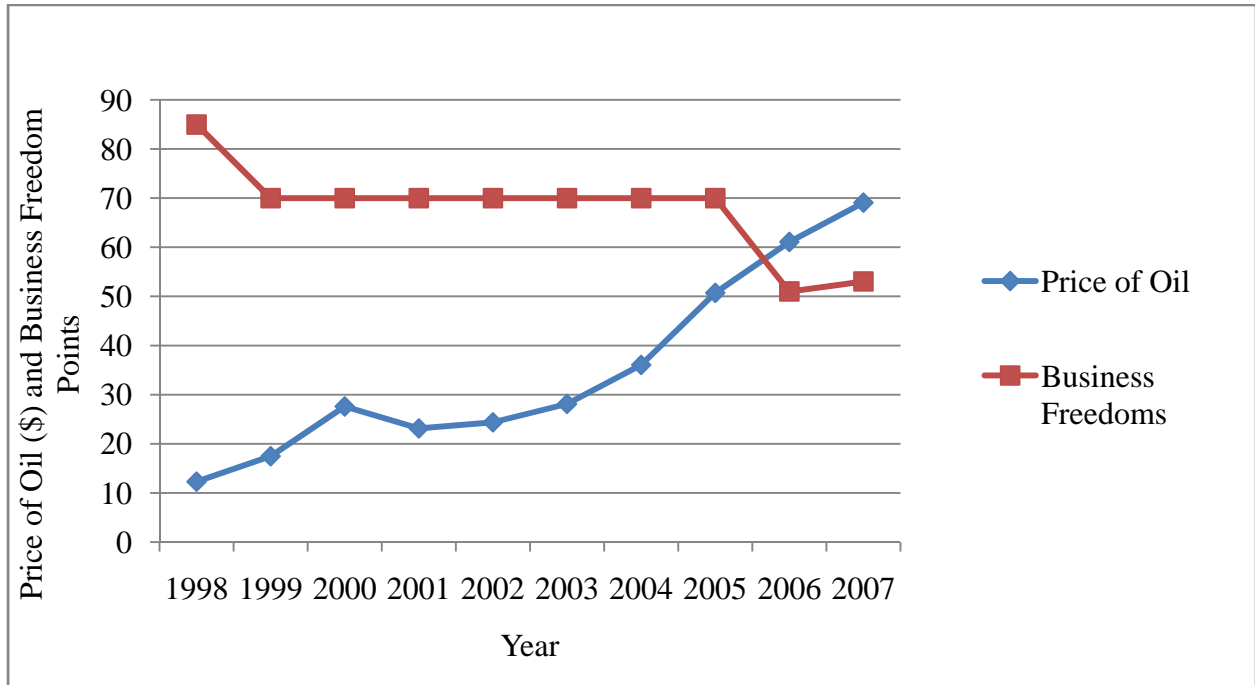
Overall, the price of oil only has a partial influence on actually prohibiting business

⁵³ This figure was derived by taking the average daily oil production output, according the Energy Information Agency, for that year and multiplying that figure by 365; except for the years 2000 and 2004 which were multiplied by 366 because those were leap years.

Saudi Arabia Energy Profile. Saudi Arabia. Department of Energy. Energy information Agency. 5 July 2008 <http://tonto.eia.doe.gov/country/country_time_series.cfm?fips=sa>.

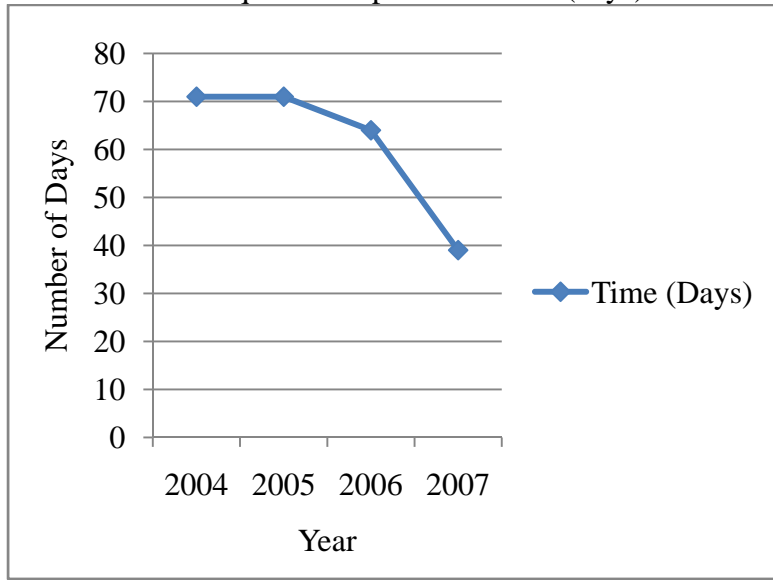
freedoms. During the time period being examined the price of oil has significantly increased but so has the attempts to remove government from influencing the domestic market. Yet, the government's attempts at instituting market liberalization have not resulted in a decrease of their influence. Oil is ingrained into the economic foundation of Saudi Arabia, and finance subsidies that allow the government to remain overly active in the business community, this is not the sole culprit for government intervention. The reasons for government involvement in economic activities move past the ebb-and-flow of the price of oil and extend into the social and religious structures. The government actually instituting market reforms will only move as fast as the political leaders wish.

⁵⁴Table 1 Business Freedom's in Saudi Arabia

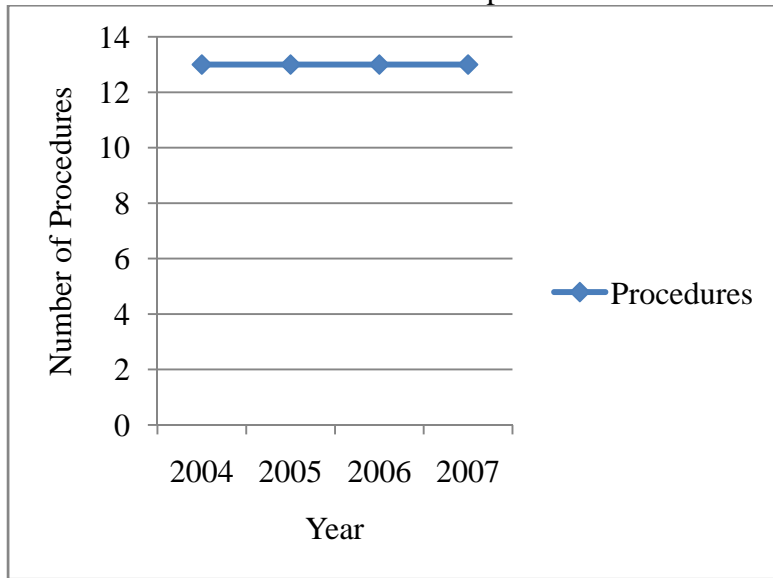


⁵⁴The 1998- 2000 data for price of oil was taken from:
 Saudi Arabia. Ministry of Petroleum and Mineral Resources. 2000.
<http://www.mopm.gov.sa/mopmr/web-resources/documents/pdf/crudeoil.pdf>
 The 2001-2006 data for the price of oil was taken from:
 Saudi Arabia. Ministry of Petroleum and Mineral Resources. 2006.
http://www.mopm.gov.sa/mopmr/web-resources/documents/pdf/stats_2001_to_2005/CrudeOil_2001-2006.pdf
 The 2007 data was taken from:
 OPEC Basket Price. 2008. OPEC. 5 July 2008 <<http://www.opec.org/home/basket.aspx>>.
 The data for 1998-2007 Saudi Arabia business freedoms was taken from:
 "Index of Economic Freedom." Index of Economic Freedom. 2008. Heritage Foundation.
 <<http://www.heritage.org/research/features/index/search.cfm>>.

⁵⁵Table 2 Time required to open a business (days) in Saudi Arabia



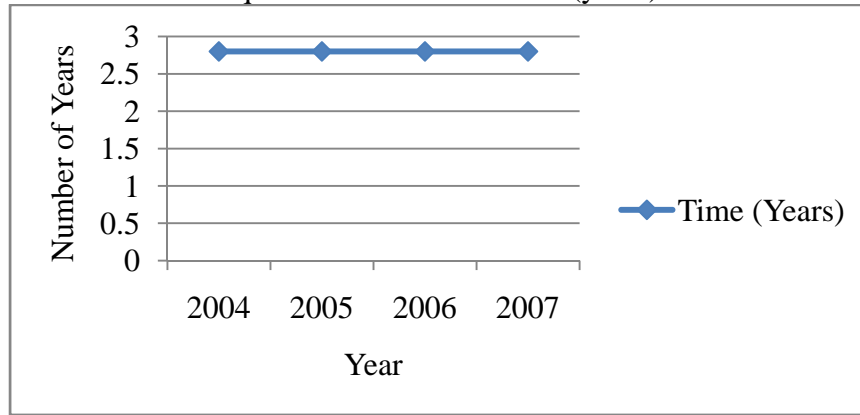
⁵⁶Table 3 Number of Procedures to Open a Business in Saudi Arabia



⁵⁵ The 2004-2007 data of opening a business in Saudi is taken from: Doing Business. 2008. World Trade Organization. <<http://www.doingbusiness.org/customquery/>>.

⁵⁶ Doing Business., 2008

⁵⁷Table 4 Time required to close a business (years) in Saudi Arabia



Price of Oil and the Politics of Property Rights

Out of all the principles of economic liberalism the most important is the creation of property rights. Property rights comprise the foundation of an open liberal economic and political system. Upon accession into the WTO and the creation of bilateral trade agreements, Saudi Arabia's status as a state that lacks sufficient property rights had not changed. However, in recent years the Saudi legal system has made strides to enact many laws protecting intellectual property rights and property rights in general. Copy write enforcement laws have been updated to correspond with entry into the WTO. Nonetheless, even with the strides at reform, the

⁵⁷ The 2004-2007 data of closing a business in Saudi is taken from: Doing Business. 2008. World Trade Organization. <<http://www.doingbusiness.org/customquery/>>.

Kingdom continually remains on the United States “Watch 301 list”⁵⁸ and “enforcement still lags behind and the procedures [on property rights laws] are inconsistent”⁵⁹. All of these reforms have been made under the premonition of expanding and diversifying the economy away from oil, while the price of oil has steadily increased.

In 1998, much like business freedoms, Saudi Arabia possessed one of the highest property rights rankings in the globe. However, in a span of 2 years, Saudi Arabia saw that ranking fall to anemic levels, where it has remained. During that same period of time the price of oil continually increased (see Property Rights Graph-Saudi Arabia). The revenue generated by an increase in the price per barrel has provided the Saudi government ample opportunity to engage in reforming property rights to reach part of their consistently self-lauded goal of economic diversification. However, the Saudi government has opted to remain entrenched in their position of restricting property rights. As has previously been chronicled, the Saudi government has made external trade reform changes by joining trade organizations and entering into free trade agreements. Nonetheless, the internal reforms of enforcing property laws have yet to take place. The restrictions governing private property have been reduced and are of increasingly less concern to the government. The Saudi government has come to have paternal

⁵⁸The Watch 301 list is a list created by the United States Trade office to identify states that are not fulfilling their duty to live up to international trade agreements. USTR Issues 2008 Special 301 Report. The United States of America. United States Trade Representative. 25 Apr. 2008. 5 May 2008
http://www.ustr.gov/Document_Library/Press_Releases/2008/April/USTR_Issues_2008_Special_301_Report.html

⁵⁹2006 Investment Climate Statement -- Saudi Arabia. The United States of America. State Department.
<<http://www.state.gov/e/eeb/ifd/2006/62029.htm>>.

instinct governing assets, the economy and its interactions. The government relishes that control and is very hesitant to relinquish any part of that control. Oil has contributed to this controlling instinct, through funding any business initiatives that otherwise might have required providing sufficient free market incentives (property rights) to accomplish.

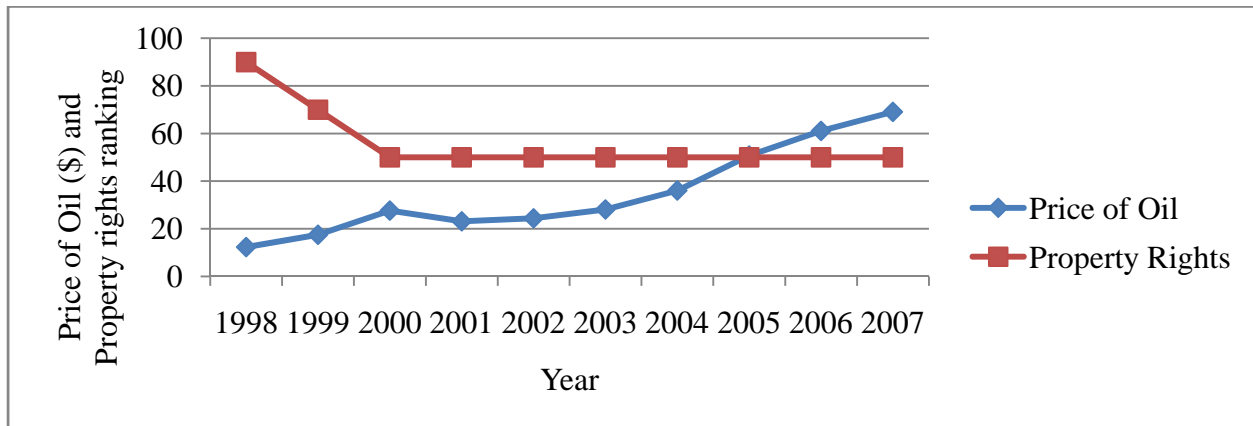
Like all other issues the lack of property rights does not begin and end with government intervention, the religious dynamic of the Saudi population also has a significant impact. The Sunni Islamic teachings, which Saudi Arabia subscribes, believes in ownership, but not absolute ownership as conceptualized in Western civilizations. This also includes public land ownership that is in its natural God-given state, as well as the resources that are under the ground. This naturally predisposes the government to restrict property rights, but that does not mean that the government always adheres to this principle. The Saudi government has not expropriated property from foreigners, particularly Americans⁶⁰ and continually removed items from the negative list; almost all of the items on the banned list are placed on this list because of religious or geopolitical concerns. The reason for the continually poor ranking in property rights concerns a lack of enforcement. The question concerning Saudi Arabia is not whether the government will attempt to make cosmetic changes to policy through speeches or new laws, but rather through actual enforcement of laws. The Doing Business Report mirrors the results of the Heritage Foundation concerning property rights in Saudi Arabia over the last several years. The

⁶⁰Askari, Hossein. Middle East Oil Exporters What Happened to Economic Development? Grand Rapids: Edward Elgar, Incorporated, 2007.

Doing Business Report finds that the time and number of procedures to register property has remained torpid.

The property right dynamic within Saudi Arabia is one that in all probability will continue to remain for a considerable time. The effect the price of oil has on property rights is only partially responsible. As the graph indicates, property rights only decreased during several of the years being examined. The rest of the time period being examined had property rights remaining stagnant, while the price of oil continually increased. The price of oil does enable the state to restrict property rights, but the price of oil plays a secondary role to the political and religious institutions previously entrenched in the state. These institutions hold a considerable amount of influence over government policy decision, pushing the price of oil to a secondary role.

⁶¹Table 5 Property Rights in Saudi Arabia



Price of Oil and the Politics of Trade Freedoms

In 1998, the average price of oil was at its lowest point since the 1980's. During that year Saudi Arabia only was able to bring in \$12.28 for a barrel (see trade freedom graph). The lowest price of oil also coincided with the worst trade freedom ranking. This year represented the beginning of a three year period of extremely poor trade freedom rankings. However, with the conclusion of 2001, Saudi Arabia began to climb out of its anemic performance in limiting the governments' involvement in the trade sector. During that same period of time, the price of oil

⁶¹ The price of oil was taken from:
 Saudi Arabia., 2000
 Saudi Arabia.,2006
 OPEC Basket Price., 2008
 The property rights data was taken from:
 index of economic freedom., 2008

moved up \$9. By the end of 2007, Saudi Arabia had progressed into the top 100 in trading freedom, and reduced the difference between the regional leader in trade freedom and themselves. However, during that period of time the price of oil increased from 12.28 a barrel to 69.07 a barrel. Oil is a vastly important current source of revenue, but the future indicates that states will be forced to move into other economic areas of progress in order to maintain economic development. To accurately assess measures of the level of trade freedom, the variables that must be looked at go beyond simple export and import data. Export and import data, measure the extent towards economic interaction not the barriers states erect. The volatility of prices, particularly oil, and provides a false sense of economic openness in a state. This means purely examining the amount of exports and imports data assess the symptoms of a state, but does not look at the underlying causes of an economic illness. The total value of exports throughout this time period has dramatically increased, but the actual weight of exports has only had a minimal increase⁶². Much of the increase in value is due to the value of oil increasing, not the state engaging in more trade. The state is experiencing revenues similar to that of the 1970's. With all of this disposable capital, citizens are using that capital to import finished goods, rather than purchasing either semi-finished or raw goods to perform additional value added activities to goods. The reasoning behind this phenomenon has to do with price of a barrel of oil. The twenty-first century has seen the price of a barrel of oil significantly rise

⁶²"Kingdom's Exports for the Years 1997 - 2006." Chart. Central Department of Statistics and Information, Ministry of Economy and Planning. 20 May 2008 <<http://www.cdsi.gov.sa/showproductstandard.aspx?lid=26&pid=2093>>.

Saudi Arabia has recognized the need to become integrated with the world economic community, and to do these states must be involved removing barriers and liberalizing their trading system”⁶³. In the span of 10 years, Saudi Arabia has reduced regional trade barriers with fellow members of the Persian Gulf by creating the Gulf Cooperation Council; a regional customs union. Saudi Arabia has also entered into a variety of Free Trade Agreements (FTA) with Egypt (1999), the European Union (2003), WTO (2005) and Japan (2006); also in 2005 Saudi Arabia entered into the Trade and Investment Framework Action (TIFA) with the United States. Trade Agreements have been the focal point of trade reform in the Kingdom, with a majority of the effort devoted towards becoming a member in the WTO. For most of the time period being examined, entering into bilateral trade agreements and the reduction in trade barriers were built upon the expectation of entering the WTO. The primary motivation, other than economic expansion, for becoming involved with international trade organizations and creating regional trading blocs is to become more economically diversified away from domestic markets and to capitalize internationally on competitive advantages; in Saudi Arabia’s case the competitive advantage revolves around the non-renewable resource of petroleum. Membership to these organizations hinges upon reducing trade barriers and enforcing specific agreements, which is the only way to improve the trade freedom in a country. Post WTO entry, Saudi Arabia has focused on economic diversification and expansion while restricting government input and

⁶³Saudi Arabia. Ministry of Economy and Planning. 7th Development Plan; Strategic Directions of the Seventh Plan. 22 May 2008 <<http://www.mep.gov.sa/>>.

moving limiting government involvement within property rights to a secondary role. This philosophy has mirrored their trade freedom ranking. Prior to the enactment of the trade agreements, the trade freedom ranking had experienced sporadic movement within a small range [61-64]. However, in the years since instituting these agreements trade freedom has consistently possessed a moderately free ranking in the low 70's. This rating was the result of the reduction of trade barriers as a prerequisite to entering the WTO. After entry into the WTO the efforts to continue reducing trade barriers ceased, as evidence by the trade freedom ranking for 2006 and 2007, and the price of a barrel of oil continue to rise. The price of a barrel did not inhibit further trade reforms from being made due to the trade negotiations that were taking in the first part of the 21st century while the price of a barrel of oil continued to drastically climb. Talks to join the WTO have been ongoing since shortly after GATT (General Agreement on Tariffs and Trade) changed to the World Trade Organization.

An extremely important issue such as Intellectual Property Right (IPR) enforcement still remains at the center of concerns over Saudi Arabia's ability and willingness to become further integrated in world trade. The enforcement of such important issues moves to the heart of many governments in the world community concerns regarding Saudi Arabia, which is enforcement of laws. The enforcement of laws causes greater variation in the trade freedom ranking than oil.

⁶⁴The enforcement of laws governing property rights are a part of WTO and allow countries to

⁶⁴ The negative list is a list of domestic sectors that foreign owned companies are not allowed to invest in.

file complaints and potentially retaliate against such practices. Besides the pursuit of entering into the World Trade Organization, Saudi Arabia has created the Supreme Economic Council. The SEC, since its inception, has taken strides toward the deregulation of industries and the privatization of previously nationalized industries. The SEC has taken steps towards foreign investment reform, development plans, and other trade reforms. These agreements and institutions have strengthened the kingdom's position towards greater involvement with the global community.

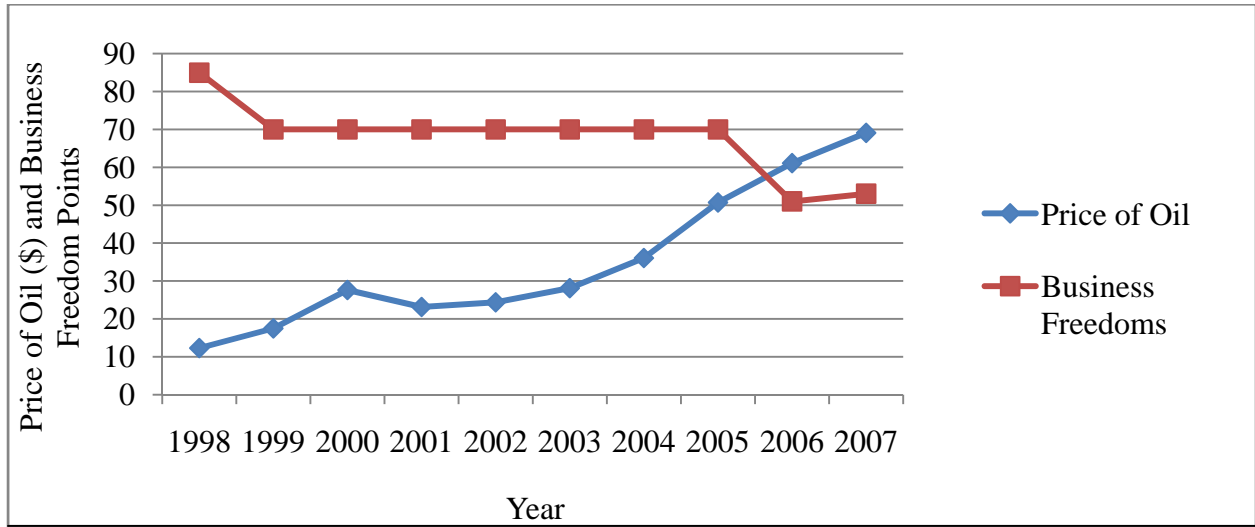
In conclusion, Saudi Arabia has increasingly tried to become a part of the world globalized trading community. The Kingdom has entered into free trade agreements and become part of a customs union. Nonetheless, these improvements in the eliminations of tariffs and becoming a part of a customs union, TIFA and FTA's, with the most important trading states and institutions in the world have still produced only barely hospitable results. The Supreme Economic Council still generates a "negative list" and bans all Israeli and non-Islamic products. The SEC has also taken other measures that inhibit states and companies from engaging in commerce, such as "imposing fees on profession changes in foreign labor"⁶⁵. The institution of a common external tariff as part of the GCC has provided some semblance to the reduction of trade barriers. But many of the trade barriers still remain obstacles for products and companies entering this market. The United States Trade Representative (USTR) still identified a copious

⁶⁵Saudi Arabia. Supreme Economic Council. Supreme Economic Council Decisions for Year 2000. 22 May 2008 <http://www.sec.gov.sa/english/list.asp?s_contentid=35&s_title=&ContentType=0&CatTypeId=0&Category=2&Step=1>.

amount of products that are subject to higher tariff rates up to 100 percent⁶⁶. The reduction of trade barriers and non-trade barriers is not predicated on the price of a barrel of oil. Therefore, there is no relationship between the price of oil per barrel and trade freedom. Trade freedom reforms are not being made for the sake of economic diversification away from oil-related products. The reforms are being made by government officials to stay competitive in the global market place. Over the last 10 years the price of oil has continually increased without any interruptions. However, the trade freedom ranking has experienced erratic movement unrelated to that of oil. The inception of Saudi Arabia into the WTO was the reason behind an increase in trade freedom. Prior to the inception to the WTO, the only effective way as a means of increasing trade liberalism is through outside influence. Even with the inception into trade organizations the actual implementation of reducing trade barriers is still a problem that has affected the kingdom.

⁶⁶United States. United States Trade Representative. Trade Summary: Saudi Arabia. 20 May 2008 <[http://www.ustr.gov/assets/Document_Library/Reports_Publications/2008/2008_NTE_Report/asset_upload_file846_14667.pdf?ht=>](http://www.ustr.gov/assets/Document_Library/Reports_Publications/2008/2008_NTE_Report/asset_upload_file846_14667.pdf?ht=).

⁶⁷ Table 6 Trade Freedom in Saudi Arabia



Policy Implications

The results of this case study indicate that little change will occur in the liberalization of businesses and trade, and no change will occur in property rights regardless of how much or how little oil is purchased from Saudi Arabia. In terms of the movement towards US energy

⁶⁷ The price of oil was taken from:

Saudi Arabia., 2000

Saudi Arabia.,2006

OPEC Basket Price., 2008

The trade freedom data was taken from:

index of economic freedom., 2008

independence, Saudi Arabia will not become friendlier to the policies of business liberalization, much less economic liberalization, by removing the US as a final destination for a majority of Saudi oil. The globalization of the market place and the need for oil will allow oil exporting countries, especially Saudi Arabia, to always find a market for their product. In economic terms, Saudi Arabia has remained a strong trading partner of the United States with a majority of the trade involving oil. Even with this strong economic relationship, trade issues pale in comparison to other more important issues such as global terrorism, regional security and the Arab-Israeli conflict. While these are the more pressing issues and take center stage in the minds of the Secretary of State and her closest advisors, this study still has the potential to impact our policy towards Saudi Arabia in a meaningful manor. Much like the issues of global terrorism, regional security and the Arab-Israeli conflict, oil is an issue that is still governed by political considerations; rather than economic. The Saudi government is attempting to change the political culture of their country by creating autonomous bodies, the SEC, in charge of the privatization efforts. These privatization efforts are also political in nature and focus on inward discussions among experts. This presents the United States an opportunity to provide free-market based leadership that will help navigate and steer Saudi Arabia towards liberal economic principles. The liberal free market based leadership will also help Saudi Arabia deal with the eventual economic woes that come with moving towards this type of system. Rather than create another bureaucratic body, which runs counter to the premise of economic liberalization, the US should use an already existing system. One of the best venues for the United States to pursue political dialogue for an increase in economically liberal policies is in the *US-Saudi Strategic*

Dialogue.

The US-Saudi Strategic Dialogue (USSD) aims to "institutionalize relationships across government departments in both countries to ensure that issues are dealt with effectively...and educate each other about certain aspects of our respective societies and systems."⁶⁸ This type of forum provides the countries' political establishments an opportunity to meet and discuss issues that are of interest to both parties. The USSD provides the type of atmosphere that would allow the discussion at all levels of government on the liberalization of businesses, property rights and trade and how these rights would positively influence the Saudi concerns of high unemployment, a major concern for all Arab countries⁶⁹, enhancement of economic diversification and further intertwining the interests of Saudi Arabia and America. Because of the nature of this agreement and the importance of security issues in the region business freedom issues should be left to minimum and allow other international organizations to apply pressure for reform aspects of economic liberalism. The WTO is another arena that allows for conversations concerning the enhancement of business liberalization. For many years Saudi Arabia had to make concession concerning the reduction of trade barriers and enhancement of other free market principles in order to enter the WTO. Since becoming a WTO member Saudi Arabia's trade liberalization reforms have remained stagnant. Perhaps the most influential organization that could institute

⁶⁸McCormack, Sean. "U.S.-Saudi Strategic Dialogue." 18 May 2006. State Department. 17 Sept. 2008
<<http://www.state.gov/r/pa/prs/ps/2006/66463.htm>>.

⁶⁹Smith, Martin. "Frontline: House of Saud." Interview. Washington Post. 9 Feb. 2005. Frontline. 28 Sept. 2008
<<http://www.washingtonpost.com/wp-dyn/articles/a57224-2005feb2.html>>.

these reforms is the Supreme Economic Council. Even though this council has not fully lived up to their agent of reform billing the opportunity still exists for this council to embrace their mission move beyond the current mercantilistic style economic system. The council is comprised of the Governor the Saudi Arabian Monetary Agency, Ministers of labor, trade, petroleum, finance, state and deputy prime minister. But perhaps the most important member of this council is King Saud. All of these essential executive leaders of the country and economy have the potential to directly change the economic course of their country. For economic liberalization to take place the Supreme Economic Council is the organization that the WTO needs to be actively and persistently persuading to make the liberal reforms. The United States should use this organization as a political instrument for continually forcing the Kingdom to develop and support liberal free market principles. Even though this organization does primarily deal with economic issues Saudi Arabia actively spent years cultivating all types of relationships to join this organization and continuing to remain in this organization is part of their long term economic plans.

CHAPTER 3: IRAN

Brief history

The history of the Iranian oil industry is one of the longest and most prestigious in the world. This history extends back to the very beginning of the 20th century, with a grant given to a British citizen, William D'Arcy, granting him the right to explore and transport oil in almost all of the Iranian territory. Shortly after the discovery of oil in 1908, William D'Arcy sold his contract to the Anglo-Persian Oil Company (later renamed the Anglo-Iranian Oil Company), which sold a majority of the shares in its company to the British government. This sale triggered a tension riddled history of interaction and dispute between Iran and the British government over energy. This history even extends to a modern day conflict between the two countries over Iranian possession of nuclear technology for domestic "energy" purposes. In the years preceding the Second World War, the Iranian government had several claims that the oil under their soil was being exploited by foreigners. The exploitation of Iranian oil was occurring at the expense of the Iranian people, who were missing out on profits⁷⁰. Several years after the conclusion of the Second World War, a new, tumultuous period of time in Iranian history started. Iran nationalized their oil industry in 1949, effectively removing all foreign ownership of oil companies. The nationalization was also accompanied by the transformation of the Anglo-

⁷⁰Malek, Mohammad. "Oil in Iran between the Two World Wars." Iran Chamber Society. 6 Aug. 2008. 6 Aug. 2008 <http://www.iranchamber.com/history/articles/oil_iran_between_world_wars.php>.

Iranian Oil Company into the National Iranian Oil Company (NIOC). In 1953 the United States, in combination with the Shah and General Fazlollah Zahedi, staged a coup d'état of Prime Minister Mohammad Mosaddeq. This coup effectively installed the Shah as Iran's leader. After the installation of the Shah, a new oil agreement was reached with the NIOC and other foreign oil companies in an attempt to bolster ties with the United States and Britain. In 1960, Iran along with several other states formed the oil cartel known as OPEC. During the remaining years of the Shah's power, OPEC and Iran faced several problems. These problems included the two oil crises of the early and late seventies. Both of these crises strained their relationship with western governments; however these crises paled in comparison to the severing of political ties with the United States because of the 1979 Iranian Revolution and ensuing American hostage crisis. Since that time period, Iran renationalized their oil industry, and America barred many domestic companies from doing business with Iran; effectively severing direct American ties to Iranian oil fields. With the renationalization of the oil industry, foreign owned companies were prohibited from owning oil exploring or extraction companies. However, foreign owned companies were still actively participating in "projects involving the construction of oil field units, refinery equipment, tanks and pipelines, as well as engineering⁷¹". Like many of the other governments in the Caspian Sea Area, the Iranian government is dependent upon the sale of oil to finance many domestic projects, subsidize citizen's income and expand various sectors of influence. One of the justifications for the Iranian government in the implementation of a nuclear program

⁷¹Bahar, Atieh. "Oil & Gas." Atieh Bahar Consulting. June 2002. 6 Aug. 2008
<<http://www.atiehbahar.com/resources/oil&gas.htm>>.

is an attempt to move away from their dependence on oil and diversify their energy sector.

Currently, regardless of their intentions involving nuclear power, the Iranian economy is still tremendously reliant upon on the oil industry.

Even with the extreme importance that the oil industry plays in the Iranian economy, the leaders of Iran have come to realize that a reliance on a commodity, which is heavily exposed to wild fluctuations, is not a stable economic policy. With this knowledge the Iranian government is attempting to reduce their political influence within the business environment. The Iranian history of inhibiting freedoms in many areas of life has been well documented. Even with this documented history, a link has never been established connecting the price of oil as influencing the amount of political involvement within the business environment.

Price of Oil and the Politics of Business Freedoms

The early years of the Iranian revolution revealed no real economic plan existed to deal with the post-revolution economy. While the rest of the world was moving towards globalization, the only threads of an Iranian economic plan were moving in the opposite direction⁷². The newly founded Iranian government adopted an Islamic utopian idea for an economy. This utopian idea of an economy included significant and extensive government

⁷²Siamdoust, Nahid. "Why Iran Won't Budge on Nukes." 6 Aug. 2008. 7 Aug. 2008
<<http://www.time.com/time/world/article/0,8599,1829750,00.html?imw=y>>.

policies in the business culture and providing the rudimentary necessities for all citizens⁷³. The importance placed on state policies in economic activities were an attempt to move completely past the economic linkages and international economic dependency created by the shah. However, this economic utopian quickly turned into a financial wasteland that could not be continued. Combined with the monetarily costly Iran-Iraq war and the drop in oil prices, this economic philosophy did not prove to be fortuitous for the Iranian economy. During the late 1980's and 1990 Iran recognized a change in economic philosophy was needed. This change began with the election of consecutive conservative presidents; Akbar Rafsanjani and Mohammad Khatami. Each of these presidents attempted to embrace liberal free market principles and removing government policies from the business sector. Along with a change in leadership, a change in economic philosophy began, which involved producing an economic plan. The first two economic plans made broad encompassing statements about the movement towards reducing government policies in business. But both plans failed because each was unsuccessfully implemented. Even with the implementation of the economic plans, rent-seeking behavior, the failure to eliminate subsidies and promote private enterprises still occurred.

The third economic plan presented a new set of much more concrete objectives minimizing the states' policies in the business world. These objectives included "downsizing of the government's role in economic activities, privatization of government enterprises" and the

⁷³Constitution. The Islamic Republic of Iran. 29 Mar. 1979. 5 Mar. 2008 <<http://www.iranonline.com/iran/iran-info/government/constitution-4.html>>.

"dismantling of monopolies and promoting of competition"⁷⁴. The proposed reductions in the lowering of barriers to entry also reduced political involvement concerning, which business were allowed to succeed and which business were not. The removal of government policies from the business sector is the essential element for the third economic plans to succeed. These changes were made because of the perceived negative effect of government bureaucracy, but more specifically these changes were made to diversify the economy away from a reliance on oil.

For most of the time period being examined, 1998 to 2005, the relationship between the price of oil and business freedoms appeared to non-existent. From 1998-2005, the price of oil continually increased, but the autonomy of businesses to act without government interference remained stagnant; neither increasing nor decreasing. During the final two years of this analysis, 2006-2007, the amount for each barrel of oil continued to dramatically increase. However, in that same period of time amount of political regulations and rules governing businesses decreased (see business freedom graph-Iran). According to *Doing Business*, in 2005-2007, some reductions in the amount of political involvement in the business community took place. There was a slight reduction in the number of procedures (see number of procedures graph) and days to complete those procedures for starting a business (see time required graph). But the time required to close a business still remained extraordinarily high measuring 4.5 years. The increase in the governments' reduction of economic policies coincides with the result of the

⁷⁴ Valadkhani, Abbas. "An Analysis of Iran's Third Five-Year Development Plan in the Post-Revolution Era (2000-2005)." 2001. University of Wollongong. 9 Sept. 2008 <<http://ro.uow.edu.au/commpapers/399/>>.

election of a new president; Mahmud Ahmadinejad. The reduction in government policies did not occur as the result of the price movement in oil. The possibility of oil influencing business freedoms does exist, but that influence is minimized by other international political variables and individual economic discretions.

A reason for the lack of progressively liberal business freedom policies encompasses the balancing of political constituencies. During President Khomeini's administration, several different constituencies, responsible for his election, were at opposing ends of the economic spectrum⁷⁵. The balancing of interest group priorities prevented President Khomeini from instituting the necessary changes need to liberalize the economic system. In the administration of President Khomeini, the continued high price of oil Iran was experiencing provided the necessary economic cushion to endure the eventual pains that come along with transforming economic models. By the government experiencing high oil prices, there was no imperative to implement any of the economic plans at liberal reforms. The question of the economic impact of oil on the overall economy, by any measure, is unquestionable. But the influence derived from oil revenues, in preventing the reduction of government policies to promote business freedoms is minimal. The price of oil is an underlying factor that allows the government to remain obstinate, and not move towards reducing political barriers. Nonetheless, the price of oil remains secondary to the entrenched political institutions. These political institutions control significant portions of industries and contribute to continually getting officials elected. A much more

⁷⁵Behdad, Sohrab. "Khatami and His "Reformist" Economic (Non-)Agenda." Middle East Report Online. 21 May 2007. 1 June 2008 <<http://www.merip.org/mero/mero052101.html>>.

plausible reason to explain the lack of movement in business freedoms has to do with the political culture in Iranian politics. One aspect of the political culture has to deal with the redistribution of revenue generated by the price of oil.

The Majlis, during the extreme rise in oil profits have used the extra profit to help subsidize and promote the private sector. The Majlis and infant companies and industries, primarily non-oil related segments, argue the need for these subsidized funds to help establish themselves on the world stage, and mitigate the initial years of not making a profit. In actuality, the redistribution of extra profit has provided the private sector with a subsidy like income. The removal or reduction of this subsidy is a political liability. Recently the Iranian government removed gas subsidies and gasoline decreased gas rations which caused riots. The redistribution of oil revenues to expand non-oil sectors has harmed the oil sector. The oil sector is the one sector of the Iranian economy that makes a profit. By moving funds and artificially supporting non-oil sectors, Iran has effectively deprived the oil sector the funds to refit and upgrade its aging oil infrastructure⁷⁶ (Luft). Previous attempts at state run economic liberalism have failed, because the government reward companies that have were inefficient, inward looking and possessed certain sociopolitical characteristics. The subsidies provided into either business sectors or the general public, are common and used as a means of ensuring favor among the general population. However, these subsidies inhibit the necessary entrepreneurial spirit from developing. The economic reform plan that was supposed to be instituted, allowing free-market

⁷⁶Luft, Gal. "Iran's Oil Industry: A House of Cards?" Institute for the Analysis of Global Security. 5 July 2007. <<http://www.iags.org/n050707.htm>>.

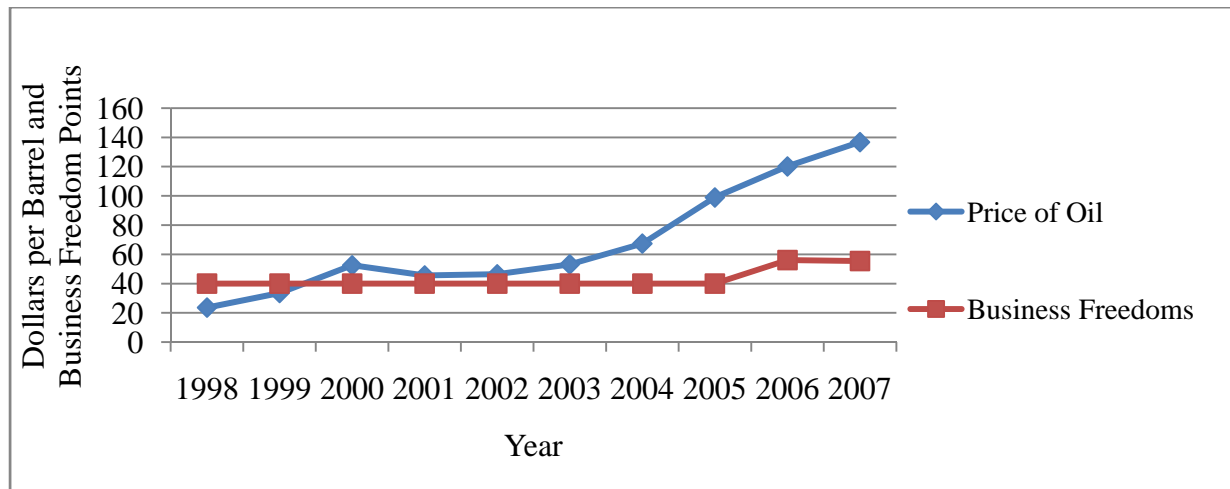
principles to become more prominent, "has proved extremely slow and contentious because of a lack of domestic political consensus and rigid bureaucratic obstacles to economic reforms"⁷⁷ (siddiqi, 2001). The lack of a political consensus and an inhospitable bureaucratic environment has enabled the government to maintain policies preventing business reforms, more than the price of oil. The problem concerning economic liberalization and subsidies highlights the antithesis of the actual problem of the Iranian economy; government involvement. With government keeping the current mercantilistic economy intact, the only way to continue to finance the non-oil sector is by maximizing the profit of each barrel of oil.

For a majority of the years being examined, the price of oil increased but the governments' efforts to reduce policies governing business did not decrease. In the final years being examined the policies governing business were finally reduced, while the price of oil continued upward. Even with the apparent relationship towards the end of the years being examined, other political factors minimize the potential for a relationship. In conclusion, oil revenues are responsible for enabling subsidies, which prohibit the citizens need for economic liberalism. But the use of subsidies is derived from political opportunism. The political structures and politicians are responsible for inhibiting the expansion of business liberalism. This makes the movement to economic liberalism a political issue rather than an issue based on oil. The balancing of various constituencies plays a more prominent in remaining a mercantilistic economy rather than the stated reason of wanting to diversify the economy away from oil. An example of prohibiting liberal business reforms involves the ministry that created the economic

⁷⁷Siddiqi, Moin A. "Economic Report Iran." Oct. 2001. Academic Source Premier. June 2008.

plans; the Ministry of Management and Planning (MPO). The three economic plans that were created were done so by the somewhat independent Management and Planning Organization; the President of Iran appointed its leader. The MPO was designed to provide some semblance of a checks and balances on the president's economic policy, but President Admadinejad abolished the office and instituted a new budget body that “gives him a freer hand to implement populist policies⁷⁸” (gulfnews, 2008). Changing the architect of the economic plans subverts the process of moving the state towards economic liberalism by interjecting political interest. So, instead of moving to policies of economic liberalism, government policies will remain locked in mercantilism.

⁷⁹ Table 7 Business Freedom in Iran



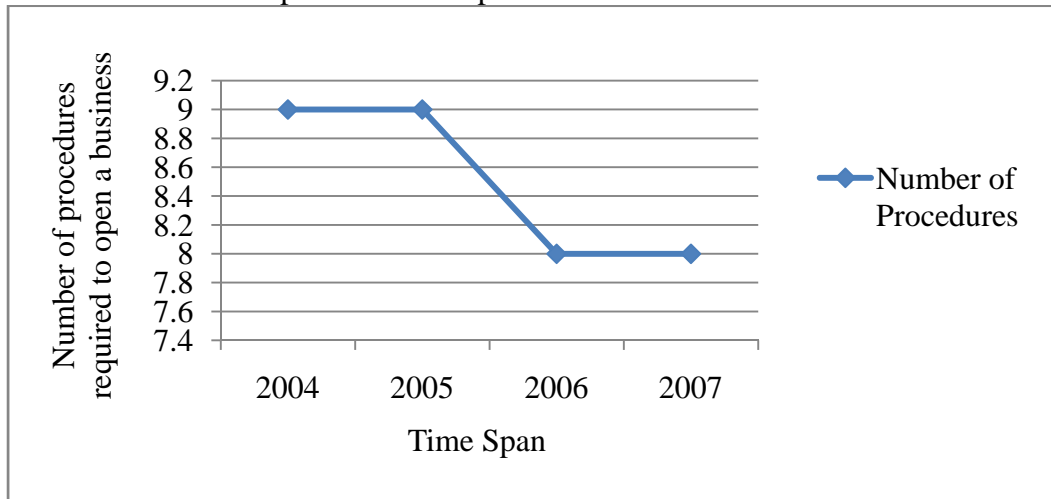
⁷⁸"Budget body in Iran will be under president." *Gulf News*, 17 July 2007. 9 Sept. 2008
<http://archive.gulfnews.com/articles/07/07/12/10138593.html>.

⁷⁹ The Price of Oil were derived by adding the weekly oil price for Iran Heavy and Light over the span of that year and dividing that number by the number of weeks in that year.

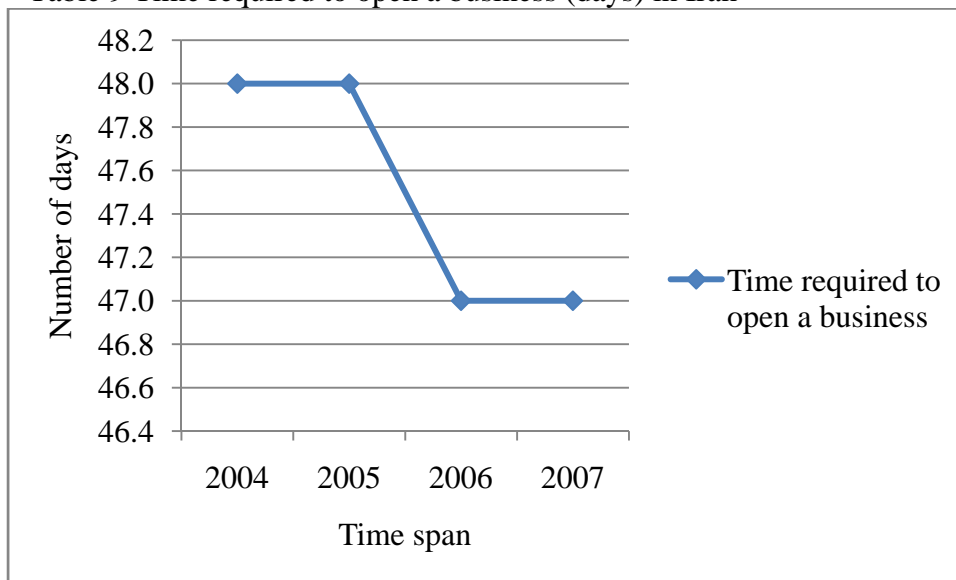
World Crude Oil Prices. United States of America. Department of Energy. Energy information Agency. 5 Nov. 2008. http://tonto.eia.doe.gov/dnav/pet/pet_pri_wco_k_w.htm.

The 1998-2007 Business freedom data was taken from:
 Index of economic freedom., 2008

⁸⁰Table 8 Number of procedures to open a business in Iran



⁸¹Table 9 Time required to open a business (days) in Iran



⁸⁰ The 2004-2007 Data for opening a business in Iran is taken from: Doing Business. 2008. World Trade Organization. <<http://www.doingbusiness.org/customquery/>>.

⁸¹ Doing Business., 2008

Price of Oil and the Politics of Property Rights

The relationship between the price of oil and private property rights does partially exist. Even though, as the price of oil increases private property rights remain completely stationary (see Property Rights Graph). Judging from the complete dearth of movement, property rights appear totally uninfluenced and totally unrelated to the price of oil. When looking at the near non-existence of property rights even the slightest increase, from 1999-2003, or a more drastic increase, 2004-2007, in the price of oil would be irrelevant to negatively influencing property rights. Also the complete lack of movement in property rights is due to the already low ranking the variable possesses. With an anemic ranking of ten, property rights were at a low enough level that the price of oil would not have had any effect. The other reason for the lack of movement in property rights originates from the political structures and the forces that govern those structures.

From a geographic and topography point of view, the reason for the lack of property rights for citizens does not stem from the overwhelming land required by the oil industry. Iran registers slightly more than 1.6 million square kilometers, with the oil fields predominantly found in the western region⁸². The rest of Iran is made up of plateaus, high desert and coast lines; all of which have the potential to be used for productive activities. The topography of each area, besides two large salt lakes in western Iran, lends itself to provide a climate that is

⁸² "The Oil Corridor and Iran." Map. Iran Map. 23 Sept. 2008 <http://www.iranmap.biz/iran_oil_fields.asp>.

hospitable for living⁸³. Furthermore, the population centers are located in the northern and western portions of the country⁸⁴. Even by comparing the oil field locations and population density centers, the oil fields do not comprise a significant portion of the land. The point of going over Iran's geographic and population density make-up was to show that oil does not preoccupy the only livable land in Iran, and that other areas, in which many citizens live, are capable of producing goods. This eliminates the argument that the land oil reserves occupy is so vast, and in such highly important areas that there are not any other lands that are capable of producing goods. The rather simple argument that Iran possesses enough land to allow citizens to engage in economically productive activities, beyond the mercantlistic nature of "agriculture and animal husbandry" and not affect oil revenues is important. This argument may seem ancillary to the other more important issues such as conceptualization and expansion of private property beyond government, but nonetheless this argument is important. This argument shows that oil is not the culprit behind the non-economic means of hindering property rights, but rather government policies are prohibiting private property rights for other reasons.

In terms of the economic perspective both oil and government structures contribute to the anemic property rights of Iran. Oil contributes significantly to the overall direction of the country economically. Oil also establishes the amount of subsidies the government can give to the general public. By affording the Iranian government the opportunity to pass out huge

⁸³ "Map Iran biotopes simplified." Map. [Wikimedia Commons](#).

<http://commons.wikimedia.org/wiki/image:map_iran_biotopes_simplified-fr.png>.

⁸⁴ "Iran Population Density." Map. [Wikimedia](#).

<http://upload.wikimedia.org/wikipedia/commons/thumb/5/54/IranProvPopDen.PNG/652px-IranProvPopDen.PNG>

subsidies, to its citizens oil has effectively inhibited citizens need to support themselves. Instead government policies are allowed to bear the responsibility of supporting citizens. This is especially true concerning private property rights. Property rights allow citizens to capitalize on their own abilities and support themselves. However, when government policies are already providing this support, the necessity of providing this right is not seen as something that is advantageous to grant citizens. Authoritarian governments rarely grant unencumbered private property rights. The sense of accomplishment that property rights provide citizens increases their ability to survive and thrive outside of the state. From this perspective, oil does inhibit private property rights, by providing government the means to dictate to citizens what they can and can't own.

In addition to the influence of oil the Iranian constitution is set up to limit the influence of private citizens on the economy. Article forty-four of the Iranian constitution provides a rather uncompromising and strict assessment of the roles of the state and private sector.

*"The state sector is to include all large-scale and mother industries, foreign trade, major minerals, banking, insurance, power generation, dams and large-scale irrigation networks, radio and television, post, telegraph and telephone services, aviation, shipping, roads, railroads and the like; all these will be publicly owned and administered by the State. The cooperative sector is to include cooperative companies and enterprises concerned with production and distribution, in urban and rural areas... The private sector consists of... agriculture, animal husbandry, industry, trade, and services that supplement the economic activities of the state and cooperative sectors."*⁸⁵

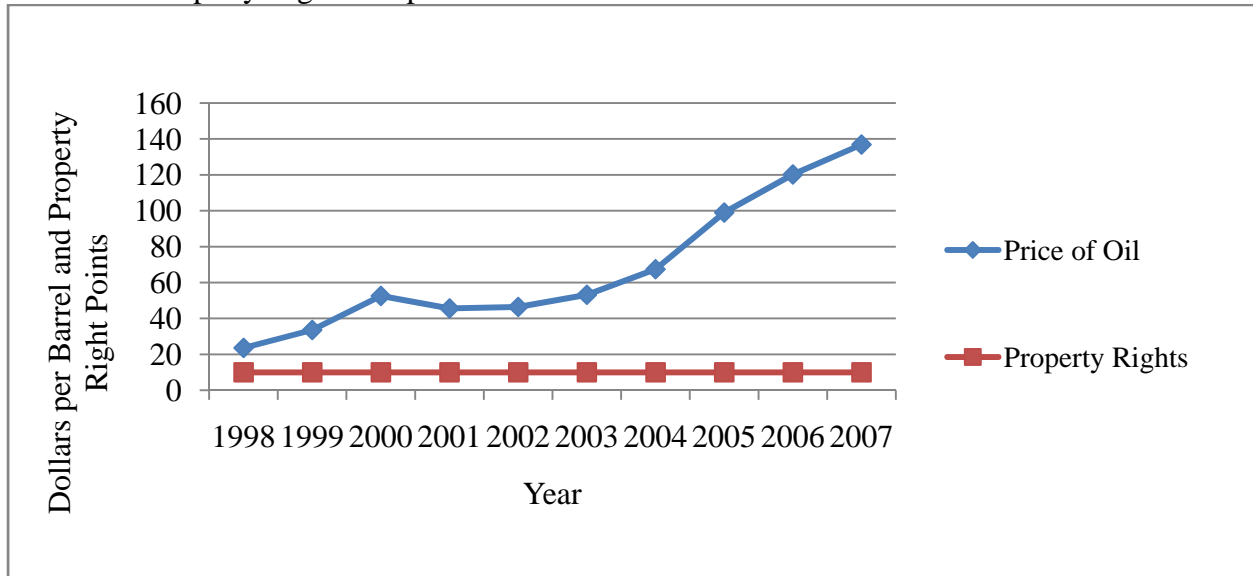
This constitutional article already predisposes the government to inhibit property rights, regardless of the movement of oil. Erasing the previous relationships created by the Shah was

⁸⁵Iranian Constitution. Islamic Republic of Iran. <http://www.iranonline.com/iran/iran-info/government/constitution-4.html>.

the reason for limiting property rights. Oil, through state issued subsidies, entrenches the philosophy behind creating article forty-four. In recent years, government officials have made attempts through economic planning, to reduce the economic supremacy of the state, and promote the private citizen's role. Nonetheless, these economic reforms were geared towards non private property aspects of economic liberalism. The attempts by politicians to not increase property rights, but instead focus on other areas of economic liberalism are emblematic of the problem facing the Iranian economy. The political structures and political leaders have attempted to create economic diversification, but their efforts are guided in the wrong direction. Economic diversification and expansion were created, when the government stops giving out subsidies and incentives citizens to work and create, by allowing them to have ownership over the value added activities that they add to raw materials.

In conclusion, the dynamic between the price of oil and property rights is partially existent. However, the property rights data is insufficient to prove anything more than a partial connection between the price of oil and property rights. The Iranian constitution, through such works as article forty-four, has predisposed the current government to restrict property rights. This predisposition is not the sole reason for restricting property rights. Subsidies provided by oil revenues contribute to the lack of property rights. Subsidies allow government policies to provide for citizens basic needs. Needs that would otherwise have to be taken care of by providing for one's self. Property rights are the most essential element of alleviating that need. Citizens know that the state policies will protect their product, idea or resource from an encroachment by an outside entity.

⁸⁶Table 10 Property Rights Graph in Iran



Price of Oil and the Politics of Trade Freedoms

The United States has severed many economic ties to the Islamic Republic of Iran. This effectively eliminates the largest oil import market from one of the worlds' largest oil exporters. Globalization still allows many other markets too still remain as destinations for Iranian petroleum. Even with access to other markets, particularly the Chinese market, the volatility of the price of oil has not changed. This keeps a reliance on natural resources as the predominant means of economic activity risky for future economic stability. One means of reducing this

⁸⁶ The price of oil was taken from:

World Crude Oil Prices., 2008

The property rights data was taken from:

Index of economic freedom., 2008

economic dependency is relieving citizens and domestic corporations of the barriers that prohibit trade with other states.

Like all other energy dependent economies, the Iranian economy over the last 10 years has experienced the highs and lows the energy industry provides. Iran went from near bankruptcy, with earning \$20 a barrel in 1998, to experiencing windfall profits of near \$140 a barrel in 2007 (see Trade Freedoms graph). In the same period of time, the Iranians trade freedoms experienced both positive and negative movements. Even with the erratic movement trade freedoms have ultimately remained unchanged. The graph below shows a potential relationship forming in 2001, but trade freedom experiences movement unrelated to that of the price of oil. The original perception of oil revenues was allowing the country to diversify economic sectors, through trade, preventing wild state revenue fluctuations. This view of extracting the oil and reinvesting the profits into industrial developments is somewhat similar to that of the Shah⁸⁷. Since the overthrow of the Shah the government has viewed oil profits in a different light. In the current political climate some possibility does exist for the price of oil to influence the amount of trade freedoms granted. However, that influence will only work in combination with the political institutions.

At the beginning of the price of oil revenue ascent, Iran had recently elected a new president. President Khamati was very favorable to not only granting greater civil freedoms and freedom of expression, but also in allowing the liberal free market to play a greater role in the

⁸⁷Hunter, Shireen T. Iran After Khomeini. New York, NY: The Center for Strategic and International Studies, 1992. 57.

economy. Trade freedoms during this period of time reached their highest point at just below 80 points. Throughout his presidency, 1997-2005, President Khatami made several movements towards attempting to reconcile relations with Europe. The President visited Germany, France and several other European states, and even speaking in conciliatory terms of the United States. Besides verbally engaging European states, President Khatami produced his one and only economic plan as president. The economic plan addresses several different liberal policies including tax reforms and downsizing the government's role in the economy⁸⁸. However, the economic plan did not have any specific remedies to increase the movement towards increasing trade freedoms. Even without legislation and action directed towards trade issues, trade freedoms experienced a free rider effect. Trade freedom benefited from reforms made in other areas without any direct legislative action related to trade. The lack of direct reforms made to trade freedom is one of the reasons, along with a lack of structural reform in the Iranian constitution, behind the dearth in trade freedom⁸⁹. Reforming trade policies have remained a second or third tier issue within the Iranian government.

When President Mahmoud Ahmadinejad came to power in 2006 the country once again shifted its philosophy on trade and oil. Since his inauguration, Mr. Ahmadinejad has been known for his stance on domestic nuclear technology development. The president is also known for continual making derogatory statements towards the state of Israel; not many other aspects of the Iranian leader are published particularly concerning trade. Even with that, some progress

⁸⁸Valadkhani, Abbas. "An Analysis of Iran's Third Five-Year Development Plan in the Post-Revolution Era (2000-2005)." 2001. University of Wollongong. 9 Sept. 2008 <<http://ro.uow.edu.au/commpapers/399/>>.

⁸⁹ Valadkhani., 2008

concerning trade has been made in the Islamic Republic. An application to join the WTO was submitted in 1996; although progress to join the organization has not moved forward until 2006⁹⁰. Iran did not have any trade agreements with other countries until shortly after the current president came to power. President Ahmadinejad entered into a free trade agreement with Venezuela⁹¹. This FTA was largely symbolic and politically motivated rather than substantive; both countries main exports are petroleum based. The FTA was agreed upon to show a unified front against the United States. Other movements to enhance trade freedom with other countries have been made as the result of political motivations and strategic political calculations; rather than the impact of a price of oil. President Ahmadinejad has been reluctant to make the economy “export-oriented [or] growth-oriented”⁹². Any widespread changes or actions towards trade would potentially disenfranchise the constituents, the poor, who ultimately elected him president. In addition to the lower classes; other centers of political power have been extremely reluctant to increase trade freedoms. Institutions such as the merchant class, bonyads⁹³ and the Revolutionary Guard are concerned with further entrenching their own political and economic interests⁹⁴. Each of these establishments contains a significant amount of influence

⁹⁰"Accessions; Iran." Status of accession working party. 26 May 2005. World Trade Organization. 1 Aug. 2008 <http://www.wto.org/english/thewto_e/acc_e/a1_iran_e.htm>.

⁹¹Gunson, Phil. "Venezuela tightens Iran links with trade pacts." Financial Times. 18 Sept. 2006. 12 Aug. 2008. <http://www.ft.com/cms/s/2/e48e5dee-473a-11db-83df-0000779e2340.html>

⁹²*Energy and the Iranian Economy*, 109th Cong., 52 (2006) (testimony of Kenneth Katzman).

⁹³ Bonyard are heavily subsidized religious charities that provide social programs.

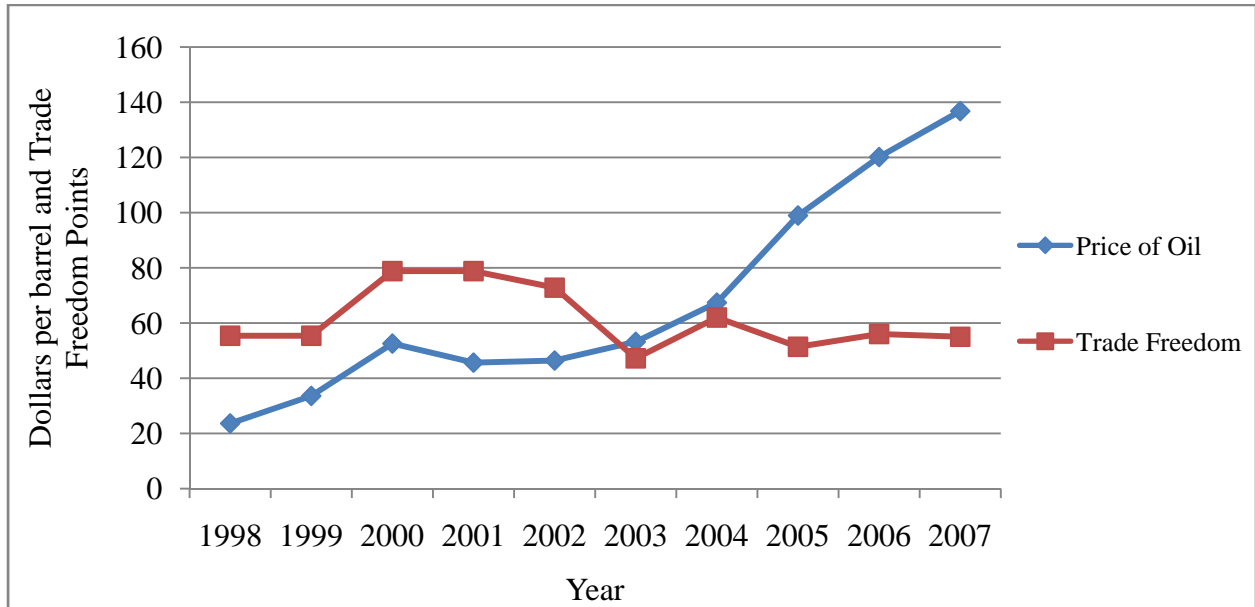
⁹⁴Gwertzman, Bernard. "Revolutionary Guards Have Financial Interest in Keeping Iran Isolated." Council on Foreign Relations. 29 May 2007. 1 June 2008 <<http://www.cfr.org/publication/13466/>>.

⁹⁴Yetiv, Steve A., and Lowell Feld. "America's Oil Market Power: The Unused Weapon Against Iran." Fall 2007. MIT Press Journal. 25 Sept. 2008 <http://www.mitpressjournals.org/doi/abs/10.1162/wopj.2007.24.3.53?cookieSet=1&journalCode=wopj>

over political institutions as well as other sectors of the economy. Each institution has a vested interest in seeing Iran remain an isolated community from the world's trading forums.

The extent of the Iranian oil industries effect on the Iranian economy is widely known. A significant portion of the economy is reliant to some capacity on the production and exportation of oil. In conclusion, the trade freedoms granted is dependent upon the political philosophy of the current Iranian president and other political constituencies rather than the price of oil. During the late 1990's the price of oil and trade freedoms began to climb with a president that was hospitable to the liberal free market. However, the relationship between the two variables became stagnant in 2001 and began to become an inverse relationship within the same president. The regional event of the Iraq war, its impact on the supply of oil and fears of a potential US invasion concerns were the initial underlying reasons for the shift in trade freedom and rise in the price of oil. However, the Iraq war cannot be cited as a reason for the continued decline in trade freedoms. Trade freedoms begin to increase while the American military was engaged in constant battles with terrorist forces in Iraq, and fears of a US invasion of Iran were dissipating.

⁹⁵ Table 11 Trade Freedoms in Iran



Policy Implications

The results from this case study indicate that the negative movement in the price of Iranian oil does not cause the state to liberalize business or trade sectors. This study also showed oil only has a slight influence on property rights. Therefore, attempting to affect the supply and demand of oil will not have the desired results of pushing the Iranian government towards the three tested principles of economic liberalism. The implications for this study affect not only other areas of international foreign policy but also domestic policy. One of the theories behind energy independence is to remove the world's largest oil importer's demand for oil from the

⁹⁵ The price of oil was taken from:
World Crude Oil Prices., 2008
 The trade freedom data was taken from:
Index of economic freedom., 2008

world market, causing the price of a barrel of oil to drop and therefore applying further economic pressure on oil-dependent states⁹⁶. The results from this study imply that such a move does not force other countries to change their economic structures. Furthermore, the economic importance of oil and growth of globalization allows Iran to find an oil market virtually anywhere. Countries such as China and India now have access to vast amounts of oil to continue to fuel their economic growth and at a cheaper price. The next potential ramification of becoming energy independent is that America may be willing and able to make such a move, but regional and other allies may not have the resources to make such a move. This move not only allows Iran more regional markets for their product, which goes against the United States stated position of isolating Iran, but these oil markets strengthen economic ties to American allies creating a potential conflict of interests.

The movement towards business freedom is not something that is going to easily be attainable in the Islamic Republic. In the course of the last 18 years Iran has produced three economic plans with each aiming at reducing the role of government and promoting the private sector. But, each economic plan has fallen short of its aspirations. Other economic reform measures have aimed to curtail the power of judges, whom arbitrarily block foreign investment, and the Council of Guardians⁹⁷. This bill is unlikely to pass considering the Council of Guardians must approve the bill. The reason behind the failures of such attempts at economic reform is because Iran is not run by economists or businessmen; rather the country is governed

⁹⁶ Yetiv, Steve A., and Lowell Feld. "America's Oil Market Power: The Unused Weapon Against Iran." Fall 2007. MIT Press Journal. 25 Sept. 2008

⁹⁷Ford, Neil. "Iran: A difficult birth the liberalization of the Iranian economy." Middle East (2002): 48-52.

by clerics and military personal. These leaders are going to be much more responsive to issues of hard power rather than soft power. That is why the price of a barrel of oil (soft power) fluctuations has failed to cause any structural economic change. Economic change was only initiated after Iran realized the current economic system would not contribute in winning the Iran-Iraq war. This doesn't mean that the leaders are unresponsive to economic situations and concerns. To combat these economic concerns the Iranian government has examined a variety of ways to increase the efficiency of their economy, the Iranian government is particularly enthralled with the Chinese government and their economic efficiency while maintaining their authoritarian rule⁹⁸. However, the idea of the Iranians adopting a Chinese economic model is not likely to happen. A change in economic systems won't happen because the types of products that the Chinese produce, elections and most importantly religion.

Considerations for business freedom in the American foreign policy agenda have paled in comparison to the other much more pressing issues of nuclear proliferation and the support of terrorism. For the last several years, America has conducted economic combat in the form of sanctions instituted against Iran; congress passed the *Iran-Libya Sanctions Act (ILSA)*, later named the *Iranian Sanctions Act (ISA)*, and has been able to isolate the Iranian government from foreign investment into its energy sector⁹⁹. These sanctions "have not crippled Iran's economy but have had an impact"¹⁰⁰. Another part of the United States economic isolation of Iran is

⁹⁸Higgins., Andrew. "Iran Studies China Model to Craft Economic Map; Nation Aims to Keep Political Control And Lift Economy." The Wall Street Journal 18 May 2007: A-4.

⁹⁹Katzman, Kenneth. The Iran-Libya Sanctions Act (ILSA). The United States of America. State Department. 26 Apr. 2006. Congressional Research Service. 11 Sept. 2008 <fpc.state.gov/documents/organization/66441.pdf>.

¹⁰⁰Beehner, Lionel. "What Sanctions Mean for Iran's Economy." Council on Foreign Relations. 5 May 2006. 12

continually blocking attempts by the Iranian government to join the WTO, which the Iranian government desperately wants to join. To deal with Iran, the State Department has approached the Iranian government in the “P5+1” (US, Britain, France, Germany, Russia and China) talks with an incentives package¹⁰¹. These talks are central concentrated around nuclear proliferation and other hard power issues. The broader strategy for dealing with the Iranian government has been instituted a five-pronged policy. This consists of:

"working at the United Nations and bilaterally to increase pressure on Iran...applying U.S. financial sanctions on Iran's leading banks... convincing leading European banks to stop all lending to Iran... discourage the Iranian regimes support for terrorism and extremism... [and finally] stationed two carrier battle groups in the Gulf to reassure our friends in the region"¹⁰²

This five-pronged method has been effective in incorporating allies from across the globe as a means isolating Iran. However, this move alone with not facilitate adequate economic change. Under the current Iranian President and leadership of other institutions, direct interaction with the government is not likely to aid in advancing Iran towards economic liberalism or the rethinking of any current policies. There is only so much the United States can do when the opposing governments ardently does not wish to change its policy. Therefore, a more direct approach towards the general population needs to be employed. In addition to the political and economic isolation, the state department has designated millions in economic funding for “democracy, educational, and cultural programs” geared towards the Iranian people. A separate

Sept. 2008 <<http://www.cfr.org/publication/10590/>>.

¹⁰¹"P5+1 Updated Incentives Package." United States Department of State. 17 June 2008. Office of the Spokesman. 26 Sept. 2008 <<http://www.state.gov/r/pa/prs/ps/2008/jun/105992.htm>>.

¹⁰²Burns, Nicholas. "United States Policy Toward Iran." Bureau of Near Eastern Affairs. 29 Mar. 2007. Department of State. 5 Aug. 2008 <<http://www.state.gov/p/us/rm/2007/82374.htm>>.

section of these programs needs to be directly applied to promoting and explaining how the benefits of business freedom, and economic liberalism, and how these actions alleviate the countries high unemployment and inflation. Instituting this program, much like the other programs, will surely be difficult. However, a proactive action on all fronts needs to be instituted other than mere isolation.

CHAPTER 4: UNITED ARAB EMIRATES

Brief History

Unlike the previous two case studies, which possess long illustrative oil histories, the oil history and general history, of the United Arab Emirates is relatively new to the world scene. In the last quarter of a century, the seven sheikhdoms emirates (Abu Dhabi, Ajman, Dubai, Fujairah, Ra's al-Khaimah, Sharjah, and Umm al-Qawain) have come together to form one of the most influential oil producing states in the gulf. Two of the Emirates, Abu Dhabi and Dubai, when compared against the other five emirates, have a longer history of oil production that dates back to the 1950's¹⁰³. Even with the discovery of oil, these two Emirates did not export oil until the mid 1960's. In the 1960's, the UAE joined the powerful OPEC organization¹⁰⁴ even before the country had agreed on a provisional constitution on December 2, 1971. Shortly after their inception to OPEC, the United Arab Emirates established the Abu Dhabi National Oil Company (ADNOC) to control the production of oil¹⁰⁵. In the time shortly after forming a country, the UAE benefited from the extreme increase in the price of oil. The revenues derived from oil were considered an essential factor in the continuity of keeping the states together¹⁰⁶. The UAE's first

¹⁰³ADMA-OPCO. "Oil Industry in UAE." <http://www.youtube.com/watch?v=AlNOdGyhaE>

¹⁰⁴"Brief History." The Organization of the Petroleum Exporting Countries (OPEC). 1 Oct. 2008
<<http://www.opec.org/aboutus/history/history.htm>>.

¹⁰⁵"Discovery of Oil." United Arab Emirates Yearbook 2007. 29 Sept. 2008
<http://uaeinteract.com/uaeint_misc/pdf_2007/english_2007/eyb3.pdf>.

¹⁰⁶Heard-Bey, Frauke. "The United Arab Emirates: A Quarter Century of Federation." Middle East Dilemma: The

president, His Highness Sheikh Zayed bin Sultan al-Nahyan, recognized the need for not only using oil profits to improve the lives of his citizens. His Highness also engaged economic diversification. The UAE is engaging in economic diversification by creating a medical city, "Dubialand", Disneyland in the Desert¹⁰⁷, an internet city and various other large scale projects. These large scale projects have contributed to the minimization the economic impact in the fluctuations of the price of oil. However, even with the attempted economic minimization of oil, oil still accounts for a high proportion of the government revenue; accounting for roughly one-third of the United Arab Emirates' gross national"¹⁰⁸. According to the *Energy Information Agency*, the UAE continues to remain dependent on oil for growing their economy¹⁰⁹; particularly considering the UAE will expand their oil production capacity by 650,000 barrels per day (BPD) in the next two years¹¹⁰.

Even with economic success provided by oil revenues, the country still faces internal domestic struggles. These domestic problems concern a variety of issues that include the states' economic structures. These economic structures are based off of state ownership and cause an increasing number of the male population to rely on the state¹¹¹. The state has prevented instead

Politics and Economics of Arab Integration. Ed. Michael C. Hudson. Columbia UP, 1999.

¹⁰⁷Lyne, Jack. "Disney Does the Desert? \$5B 'Dubailand' Rising in Middle East." Site Selection. 1 Oct. 2008 <<http://www.siteselection.com/ssinsider/snapshot/sf031117.htm>>.

¹⁰⁸"Oil and Gas." Government of the United Arab Emirates. 1 Oct. 2008 <http://www.uae.gov.ae/government/oil_gas.htm>.

¹⁰⁹United Arab Emirates: Background. The United States of America. Department of Energy. Energy Information Agency. 1 Oct. 2008 <<http://www.eia.doe.gov/cabs/uae/background.html>>.

¹¹⁰UAE to add 650,000bpd in two years. Government of the United Arab Emirates. United Arab Emirates National Media Council. 9 Sept. 2008. 1 Oct. 2008 <http://uaeinteract.com/docs/uae_to_add_650,000bpd_in_two_years_/32187.htm>.

¹¹¹Walters, Timothy N., Alma Kadragic, and Lynne M. Walters. "Miracle or Mirage: Is Development Sustainable in

of developed the entrepreneurial spirit. This spirit is needed to drive the innovation and creativity that is required to guide the UAE towards its goals of becoming a regional, and then eventual international knowledge center. As a result of these goals, will a historical reliance on mercantilism prevent the changes towards tenant's economic liberalism?

Price of Oil and the Politics of Business Freedoms

When compared against the previous two case studies, the United Arab Emirates has been continually willing to minimize policies that interfere with businesses ability to function. The Heritage Foundation consistently ranks the UAE among the regional leaders in reducing the political influence government possess in the business environment. Even with this traditional role of limiting government, recent years have seen a reversal in this states' economic thinking. During the time period being analyzed, government policies have been increasingly active in the business community. Simultaneously, the value of the price of oil has increased exponentially. Traditionally, the seven Emirates have relied on the price of oil to stabilize their economy. The government has managed to move beyond oil, and create an atmosphere that is very conducive to private enterprise.

Various proclamations have been put forth, by the Minister of the Economy, Sheikha Lubna Al Qasimi, and other political leaders to demonstrate the UAE's commitment towards

principles of maintaining a liberal economic policy¹¹². However, the data below (see business freedom graph-UAE) illustrates the degree to which businesses are able to function without state interference has slowly been dissipating. The Ministry of the Economy's own website exemplifies the contradiction between expanding government policies and increasing economic liberalism. The website states the need for new legislation, but also to increase the attractiveness of investment and creating a competitive economic climate¹¹³. The call for new legislation itself does not hurt the business environment; if the legislation calls for granting greater autonomy of the business community from the state. The call for new legislation combined with the data showing an apparent connection between the price of oil¹¹⁴ and decreasing business freedoms present a rather disconcerting situation. Prior to the turn of the millennium, the UAE was concerned with growing foreign capital investment and adding foreign private sector involvement into infrastructure development¹¹⁵. However, the discrepancy between policies of government intervention and private sector development arose. Capital investments allow the purchase of businesses, but foreigners are only granted minority ownership. This contributes heavily in an individuals' ability to open a business. In further examining the data, the number of procedures and time required to open a business, in addition to the time required to close a business have remained unchanged. The stagnant nature of these variables directly contradicts

¹¹²Ghose, Gaurav. "A liberal economic strategy." Gulf News. 30 Nov. 2006. 5 Oct. 2008
<http://archive.gulfnews.com/indepth/uaenationalday/more_stories/10086232.html>.

¹¹³"Companies Department." Ministry of the Economy. United Arab Emirates. 6 Oct. 2008
<<http://www.economy.ae/english/aboutus/ministrydepartments/pages/companiesdepartment.aspx>>

¹¹⁴ The Price of oil was calculated by adding that years weekly average price per barrel together, and then dividing that price by the number of weeks in that year. <http://tonto.eia.doe.gov/dnav/pet/hist/wepcmurbw.htm>

¹¹⁵The Economy. The United Arab Emirates. The United Arab Emirates. 7 Oct. 2008
<<http://www.government.ae/gov/en/biz/business/economy.jsp>>.

the governments stated policy of moving towards market friendly policies. Furthermore, out of the three case studies, the UAE has the longest time period required in closing a business at 5.1 years. All of this has occurred with the price of oil perpetually increasing. Like the previous two case studies this indicates the country is suffering from severe employment problems. This factor is an important factor for determining business freedom and increases the political activity in the business environment. This factor alone does demonstrate the political involvement in the business environment is due to reasons beyond the price of oil.

One manor where the government has taken concern in encroaching upon businesses is the prices that consumers must pay. The government has recently imposed fines on a company from Kuwait for raising their prices¹¹⁶. The UAE government has also begun a preemptive investigation into companies raising prices during Ramadan¹¹⁷. The government intervention occurred not during a national crisis, or an unexpected state of emergency (hurricane, flood, drought, fire) to which all citizens were forced to suffer through. The investigation took place during a religious festival to insulate certain citizens from experiencing an increase in prices. The inability of government policies to let market forces determine business prices is part of the continual decrease in business freedoms.

In some ways, the UAE's two most important economic centers represent a microcosm of the natural resource curse. Abu Dhabi is very wealthy with oil and has been reluctant to make

¹¹⁶"Ministry fines Americana Dhs10,000 for unauthorized price increase." AME INFO. 30 Dec. 2007. 5 Oct. 2008 <<http://www.ameinfo.com/142700.html>>.

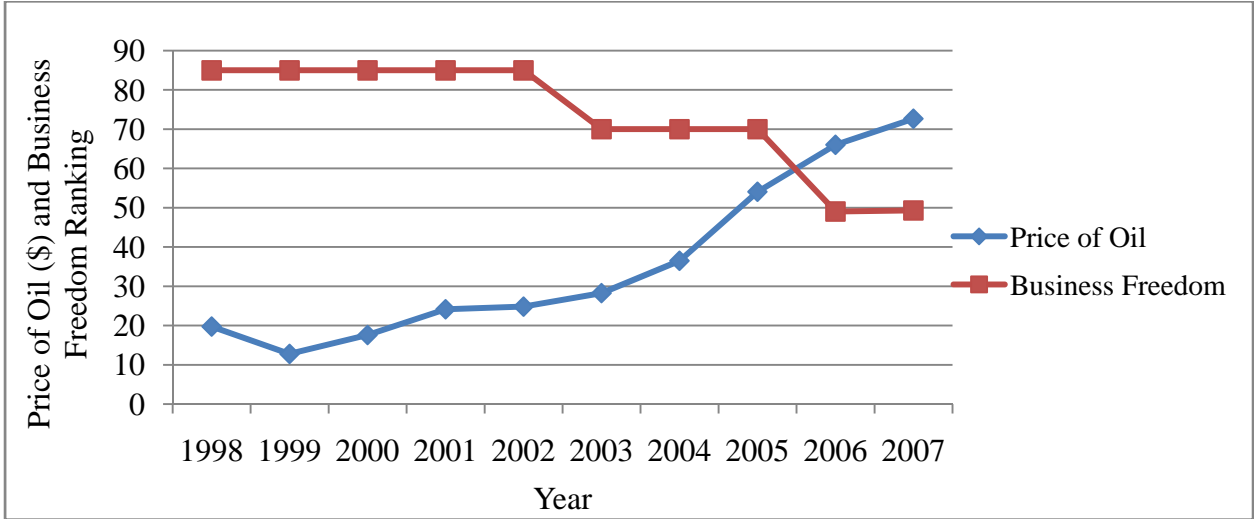
¹¹⁷"Ministry of Economy to keep tight vigil against price rises during Ramadan." Ministry of the Economy. 19 Sept. 2008. United Arab Emirates. 6 Oct. 2008 <<http://www.economy.ae/english/aboutus/newsandevents/pages/ramadanprice.aspx>>.

the necessary liberal economic changes. Dubai only possesses a very modest amount of oil and has taken the necessary steps to liberalize its economic structures making them much more free-market friendly. In general, this dichotomy is emblematic of the United Arab Emirates, and their attempts to engage in limiting the amount of political input into the business environment. In conclusion, the linkage between the price of oil and controlling government policies concerning business freedoms is not proven. While factors indicate a linkage may exist between the two, cavalcades of other reasons indicate the government has chosen simply to reform other areas of the economy and not the business sector. The federal UAE government was supposed to reform the "Sole Agency Act"¹¹⁸ but that action drew massive protests from the general public¹¹⁹. The government has focused liberalization efforts into other areas than business. The government has been particularly active in freeing the financial and financial services sectors; in hopes of becoming a global epicenter for investment. The price of oil allows the government to chose, which sectors are liberalized and which ones are not.

¹¹⁸ The Sole Agency Act, requires that foreign citizens own less than 50% of any business in the UAE. Abolishing this regulation would have increased competition against local businesses.

¹¹⁹"UAE: Country outlook." The Economist Intelligence Unit (2007). 01 Feb. 2007. Colombia International Affairs Online. 6 Oct. 2008.

¹²⁰ Table 12 Business Freedoms in the UAE



Price of Oil and the Politics of Property Rights

Many states in this region of the world find the idea of land ownership, owning other resources or intellectual property rights by private citizens/entities contemptuous and prohibit such actions. In times of economic malaise, states must rethink this theory and begin to allow private ownership. Private ownership provides the necessary catalyst to spark the economic growth that must take place. States may make the necessary policy reforms to prevent

¹²⁰ The yearly average for a barrel of United Arab Emirates oil is a combination of the weekly price for both light and heavy crude divided by the number of weeks the price was recorded for that year. The data was taken from: Weekly Abu Dhabi Murban Spot Price FOB. United States of America. Department of Energy. Energy information Agency. 5 Nov. 2008. <<http://tonto.eia.doe.gov/dnav/pet/hist/wepcmurbw.htm>>. The 1998-2007 Business freedom data was taken from: Index of economic freedom., 2008

government interference, and promote a free market based system when times are hard. The true test of states commitment liberalization arrives in times of prosperity. The United Arab Emirates makes the claim that they are moving towards inhibiting policies from perpetually interacting and interfering with the free market. While that is the case in some respects, when looking at property rights little evidence can be found to support that claim (see Property Rights graph-UAE). In a span of ten years property rights have dropped more than half (fifty points). The continually erosion of property rights is an incessant problem in capturing their goal of becoming a global financial centers. The drastic drop in property rights has transpired at nearly the same rate of the rise in the price of oil. Outside of the influence of oil, there are several other explanations for the drop in property rights.

The first potential reason for exculpating the price of oil as the reason for the lack of property rights is the strategic choice of government. The United Arab Emirates has explicitly stated and shown that the limitation of political involvement in certain sectors of the economy is a cognitive choice. The strategic choice of identifying which aspects of the economy to limit government involvement and which to continue government involvement is a decision that involves political motivations rather than the influence of a resource. Enacting economic reforms in property rights is not a zero-sum game. The price of oil is not preventing the states from liberalizing other aspects of the economy. This makes the limitations of government policies in certain economic aspects a strategic choice. Furthermore, oil does not possess the ability to choose which economic aspects that allow government is to diminish its role. Therefore, from this perspective, political choices, not oil is the reason lack of property rights.

The second aspect of property rights extends beyond the mere ownership of land.

Intellectual Property Rights (IPR) differs from other property rights. This distinction between the two sets of property rights is important because of the nature of each property. A state only has a limited amount of livable land combined with an ever expanding population, while intellectual property is not confined to a definitive amount. In the technological driven 21st century the rights of intellectual property mean as much to rights concerning land ownership. The protection of these rights means more to foreign investors whom are allowed to own only a diminutive amount of land, but whose products may span the entire country. Due to this importance, as a measure of reassurance to foreign investors, all of the Emirates decided that action needed to be taken at the federal level¹²¹. In 2002, near the beginning of the property rights decent the UAE, to protect authors and artists, enacted the *Federal Author and Copyrights and Parallel Rights Law No. 7*¹²². The support for enhancing IRP laws has continually strengthened. Strides have been made by ministers to protect software producers and others whom wish to develop products. The intentions for enabling property rights reforms stems from the group that would benefit the most from these reforms; foreign investors. Part of the UAE's plans for economic diversification, away from oil, heavily involves attracting foreign investors.

Even with the previous two reasons, to gain a true sense of the actual influence of oil in granting property rights, one must analyze actual property. The UAE has designated certain areas within the country as Free Trade Zones (FTZ). Within these FTZ's citizens of any foreign

¹²¹"Dubai strengthens protection of intellectual property rights." *UAE Interact*. 23 Apr. 2007. The National Media Council. 8 Oct. 2008

<http://www.uaeinteract.com/docs/dubai_strengthens_protection_of_intellectual_property_rights/24953.htm>.

¹²²"Culture and Information." *UAE News and Information*. Ministry of Information and Culture. 10 Oct. 2008 <http://uaeinteract.com/uaeint_misc/pdf_2006/english_2006/eyb9.pdf>.

country may own property; however the potential problem occurs outside of the FTZ's. The problem originates in the lack of a federal law about "freehold property"¹²³. The problem concerning freehold property ownership involves expatriates and foreign nationals; not UAE citizens. The UAE has a unique law that the federal government does not explicitly prohibit or grant expatriates the ability to own property. Rather property rights decisions are left up to individual states¹²⁴. Citizens of any UAE emirate are allowed the right of ownership in any of the emirates. But citizens of fellow GCC states are allowed the ability to own property however only in state designated area. Citizens of other foreign states are only granted the ability to lease the land¹²⁵. Problems such as this cause concern among foreign nationals or foreign companies looking at buying property within the Emirate. This aspect of the problem is not entirely political. The lack of unanimity among the collective group of emirates, concerning a property rights law, predisposes the problem to that of a political disagreement. Comparing and contrasting Abu Dhabi and Dubai provides an accurate gage to the nature of this problem.

Abu Dhabi and Dubai are responsible for a majority of the trading activity that occurs within the UAE, and each provides this function in dramatically different way. Abu Dhabi has vast amounts of oil wealth. Dubai must engage in other functions to perform well economically. The property rights laws in each emirate differ in minor ways, but these minor differences are substantial. The Emirate of Abu Dhabi, as recently as 2005 limited the individuals that are able

¹²³ Freehold property refers to the right of the person to own the land rather merely leasing or renting the land.

¹²⁴ Cooper, Peter J. "UAE property law, is there really any reason to worry?" AME INFO. 28 Feb. 2004. 8 Oct. 2008 <<http://www.ameinfo.com/35420.html>>.

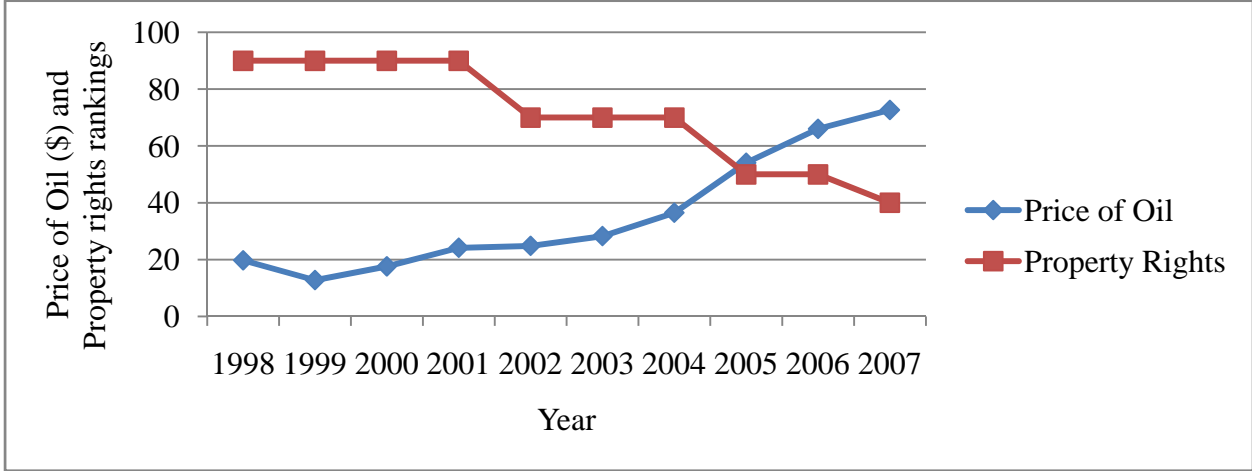
¹²⁵ "The A to Z of buying property in Abu Dhabi." AME INFO. 17 Sept. 2008. 8 Oct. 2008 <<http://www.ameinfo.com/168394.html>>.

to own property, and limited the places property can be owned¹²⁶. This legislation limited ownership anywhere to only UAE citizens. Citizens of Gulf Cooperation Council states are able to own property in investment zones. Citizens of all other states have the ability to enter into long term lease (ninety-nine years) agreements. According to the legislation, this law supersedes any and all other pieces of legislation concerning property ownership. Dubai has laws that are more hospitable to citizens from other states. Except in one way, citizens of other states are granted ownership within specific investment areas. Shortly after Dubai enacted this legislation the other five emirates, besides Abu Dhabi, and all of whom do not possess the oil resources that Abu Dhabi possess, enacted similar pieces of legislation¹²⁷. By six of the seven emirates ratifying pieces of legislation that grant ownership, even if on a limited basis, to non-UAE citizens while the one emirate that possess vast amounts of oil wealth still will not. This is the best indicator for establishing the price of oil has an effect on property rights within the UAE.

¹²⁶"Khalifa revises property ownership Law." UAE Interact. 12 Feb. 2007. The National Media Council. 8 Oct. 2008 <http://www.uaeinteract.com/docs/khalifa_revises_property_ownership_law/23923.htm>.

¹²⁷"Home: Property Articles: History of Freehold Property in the Emirates." Ten Real Estate. 8 Oct. 2008 <http://realestate.theemiratesnetwork.com/articles/freehold_property.php>.

¹²⁸Table 13 Property Rights in the UAE



Price of Oil and the Politics of Trade Freedoms

The United Arab Emirates has continually shown the ability to keep the states presence very limited when dealing with trade issues. From 1998-2007, the trade freedom ranking consistently remained in the mid to high eighties. Not only is this ranking one of the best in the region, but compares very favorably to the world leaders ranking. The UAE has participated in trade organizations and trade agreements during times when low oil revenue warranted looking at different sources for revenue. The UAE has consistently lowered the amount of state policies governing trade freedoms when oil revenues have increased. This provides ample opportunity

¹²⁸ The price of oil was taken from:
Weekly Abu Dhabi Murban Spot Price FOB., 2008
The property rights data was taken from:
Index of economic freedom., 2008

for the state to reinsert itself into this sector of business. Like the previous two case studies trade sector analysis, simply looking at the export/import data does not provided the proper assessment of whether or not oil revenues are, to any extent, involved in the process of determining government involvement in trading barriers. For this perspective to be surmised a proper analysis of trade freedom, tariff and non-tariff barriers, needs to be analyzed. Enacting trade freedoms have occurred in two basic forms. Through reducing barriers to become a part of trade organizations. Making the necessary reductions to trade barrier could occur outside of the influence on the trade organizations. Entering into free trade agreements or any type of trade agreement with other states requires the reduction of barriers to gain greater access to their markets. States that rely on oil, as in the previous two case studies, have within the last several years come to realize the importance of actual reducing state enacted barriers to become part of these groups. The UAE for many years has realized importance of reducing state policies via the trade agreements. In 1995 the UAE joined the WTO. Entry into the WTO was contingent on a ten-year probationary period. In that time, the country was required to reduce certain barriers; seven of the ten years on probation occurred during the time period under examination in this paper. The country completed reducing these barriers and was granted full WTO status. Inclusion to the WTO has opened up many avenues for the UAE to enter into various other free trade agreements; with an assortment of states including an FTA with the United States. Many of the free trade agreements have come during the extreme rise in oil profits. The UAE has not stopped creating trade partnerships since joining the WTO.

Free trade agreements are the primary means in today's globalized economic cultural for reducing trade barriers. FTA's have gained in usage because they provide a strategic advantage

of reducing government policies for one state while other states operating outside of FTA's are subject to higher costs entry costs. In the early 1980's, during the Iran-Iraq war and lackluster performance of oil revenues, the UAE joined the Gulf Cooperation Council. In 2001 the council was expanded to become a customs union. The original purpose of the GCC was created as a deterrence measure against the Iran-Iraq war and the continued Iranian aggression¹²⁹. In 2005, a strictly economic agreement between the GCC countries was reached creating the Greater Arab Free Trade Area (GAFTA). Much like the GCC, GAFTA is a customs union that seeks greater economic integration among Arab League members. In 1998, when the price of oil was at its lowest point in years, the UAE had been a part of the world trade organization for three years. Besides participating in trade agreements the UAE government has also streamlined their customs unions to increase their efficiency¹³⁰.

Free trade agreements are a common measure to determine if countries are serious about reducing the number of tariff and non tariff barriers. During the time period under examination, many of the reforms enacted by the United Arab Emirates governments have been geared towards enticing multinational companies to either invest or perform some type of commerce within the country. The UAE recognizes the blessing that oil has provided their state. The UAE is not willing to rest of its laurels of just possessing this resources and not making progress in other economic forums. One example of this judicious pursuit of continually advancing the

¹²⁹"Gulf Cooperation Council [GCC]." Global Security. 12 Oct. 2008
<<http://www.globalsecurity.org/military/world/gulf/gcc.htm>>.

¹³⁰Trade in UAE. United Arab Emirates. Ministry of the Economy. 12 Oct. 2008
<<http://www.uae.gov.ae/government/trade.htm>>.

governments' economic reform is by reducing government policies in the aviation industry. By freeing the aviation industry from the restrictions imposed by government the UAE has been able to achieve their goals of tourism¹³¹. The reduction of barriers has not merely peaked in the manifestation of the aviation industry. The Minister of the Economy, Sheikha Lubna Al Qassimi, has continued to push the lowering of government mandated requirements in the financial and housing sectors¹³². The state realized by removing themselves and barriers from the ability of individual actors of foreign states to engage commerce that the state will reach its goals. Another aspect that has allowed the state to thrive in attracting foreign companies is free trade zones. FTZ's are not anything new to this region with some states choosing to participate in them and other states opting to abstain from their use. The UAE chose the former, electing to participate in the use of FTZ's.

Reaching trade agreements with other states and organizations can effectively diversify countries away from a reliance on a sole commodity, industry or domestic market place for goods. The UAE is one of the few countries in this region that has long embraced this idea. This has occurred despite the perceived risk of limiting their own governmental influence on the domestic economy and allowing the free market, foreign competition and investment to enter. By enacting reforms and promoting them-selves as a center for regional trade. As the graph indicates the government has remained vigilant in limiting their interaction with concern to

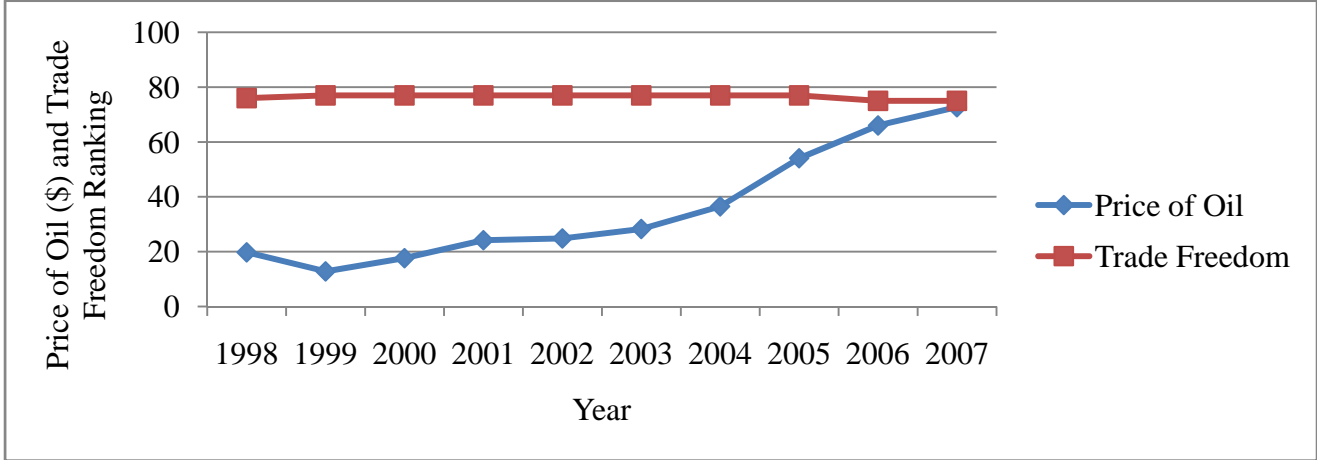
¹³¹ Al Qasim, Sheikha L. "Economic Impact of Liberalization." ICAO Global Symposium on Air Transport Liberalization, 18 Sept. 2006, Dubai, UAE. Ministry of the Economy. United Arab Emirates. 8 Oct. 2008 <<http://www.economy.ae/english/mediasection/speeches/pages/year2006.aspx>>.

¹³² Al Qassimi, Sheikha L. 3rd Middle East Capital Markets Conference, 20 Sept. 2005, United Arab Emirates. Ministry of Economy. 20 Sept. 2005. 06 Oct. 2008 <<http://www.economy.ae/english/mediasection/speeches/pages/year2005.aspx>>.

erecting, both tariff and non-tariff, barriers that would inhibit trade. The trade freedom ranking has consistently remained in the mid eighties, while the price per barrel oil rose more than fifty dollars per barrel. The Emirates governments recognize that by limiting their influence in trade, unlike the two previous case studies, that the overall country will benefit. The promotion of trade occurred concurrently with the price of oil growing rapidly. Oil still remains a significant and stabilizing force in the economy, due to the extreme potential revenues that can be gained, but oil was an inconsequential factor in determining whether or not to limit government involvement in trade.

The price of oil has no effect on whether or not the state will reduce trade barriers. For many years now the UAE has in one form or another been a part of a trade agreement; even becoming a member of the General Agreement on Tariffs and Trade (GATT), the predecessor to the WTO. Trade agreements have a part of the UAE for many years, during times when the state received dearth oil revenue and times when oil revenues were at record pace. Because a significant cornerstone of the United Arab Emirates plans to become a key part of the global economic society concerns reducing the barriers to trade and investment. As evidence by the number and extent of the reductions of government included in trade freedom accords. These reforms have not only be instituted as part of free trade agreements but also by the state as part of the economic development plan.

133 Table 14 Trade Freedoms in the UAE



Policy Implications

The United Arab Emirates is one of the most essential allies the United States possesses in the Middle East region. This relationship is not impervious to outside factors. In 2006, after a large public outcry the United States congress blocked the Dubai Ports World Group from purchasing several strategic seaports. While the potential did arise for this incident to injure the economic relationship, and potentially damage other strands of this relationship, between the countries that has not occurred. The UAE has strengthened its economic ties to the United States promoting a pro growth economic strategy based upon reducing the amount of government

133 The price of oil was taken from:
Weekly Abu Dhabi Murban Spot Price FOB., 2008
 The trade freedom data was taken from:
 Index of economic freedom., 2008

involvement within the business environment. In a global sense the UAE still has many changes that they can make to continue reducing governments input within the business community; particularly with business' freedoms and property rights. Expecting this country to become a regional version of the United States or Great Britain, in terms of the amount of governments limitations in the business environment, is ill-conceived and naïve. However, in regional terms the UAE is significantly ahead of many other states in incorporating economic reform principles and restricting governments input in individual business decisions. The other two states involved in this study have made overtures to limiting government involvement in business sectors and opening up those sectors to the principles of a free market system. Currently, these moves have been slightly more than lip service. While true, that some reforms have taken place, the speed and scope of these reforms does not rival the moves instituted by the United Arab Emirates. The results of this study indicate two different related outcomes. The first outcome is that oil, on a federal level, does not influence whether or not the government will undertake limiting political involvement within the domestic business scene. When dealing with issues that are not yet under the federal authority oil does have a minimal amount influence in certain areas (property rights) inside specific emirates (Abu Dhabi). Therefore, one of the closest allies of the US is not going to have change economic policies merely due to the fluctuations in the price of a barrel of oil. The second discover is that, on the federal level, any economic reform is the cognitive choice of the states rulers to move in that direction. This UAE is actively attempting to limit their government's involvement in specific economic aspects to help promote the free market system. The United States relationship with the United Arab Emirates is critical not only in the promotion of continuing economic reform, but also for regional stability.

During his administration, President Bush fortified the US economic relationship with the UAE through several strategic initiatives. The first initiative was the Middle East Free Trade Initiative (MEFTA)¹³⁴. In this initiative, the UAE along with several states entered into free trade agreements with the US. This agreement has moved each state into further economic alignment with one another and further facilitated an economic system that removes government imposed restrictions on products and investments. The second area concerns a variety of different initiatives. These initiatives are based upon promoting reform and openness within varying Middle East societies and these organizations are not mutually exclusive to the United States and the UAE; organizations such as the G-8 and other Middle East states are participants in these groups. Some of these programs are the Middle East Partnership Initiative (MEPI)¹³⁵ or the Broader Middle East and North Africa (BMENA). Each of these initiatives offers a range of programs that vary between reforming political, economic and social aspects of society. The US and others may be able to offer programs to assist in the transition of economic philosophies, but the US cannot force other states to make the necessary changes to any aspect of their society¹³⁶. For true change in the aforementioned areas, the region must have a leader and each state must not only make the choice to take part in these reforms, but actually implement some of the measures. States in the region that should be the leaders in reform, struggle themselves to make

¹³⁴"Middle East Free Trade Initiative:U.S. Regional Plan to Spur Economic Growth." United States Trade Representative. 2003. 13 Oct. 2008 <http://www.ustr.gov/trade_agreements/regional/mefta/section_index.html>.

¹³⁵"Middle East Partnership Initiative." United States Department of State. 13 Oct. 2008 <<http://mepi.state.gov/mepi/>>.

¹³⁶Carpenter, J. Scott. "Reform in the Middle East: A Role for the U.S." Middle East Partnership Initiative. 7 Mar. 2005. United States Department of State. 12 Oct. 2008 <http://www.abudhabi.mepi.state.gov/reform_in_the_middle_east.html>.

the necessary reforms. This provides the smaller states like UAE the opportunity to not merely lead by example, but the opportunity to convince other states that reforms need to be made. The UAE presents one of the few states in the region that possess both the trust of fellow Arab countries and that of the United States. For the United States to accomplish their goals of turning around the economic system in these countries allowing the UAE and other similar states to become proactive in not just merely being involved in the international financial system, but allowing the UAE to take the desperately needed economic leadership role the region needs. The establishment of one particular state, UAE, or a small group of states (UAE, Bahrain, Kuwait, and Jordan ECT) as a leader in the region is critical for success not only economically but in other more volatile areas.

CHAPTER 5: CONCLUSION

The minimal influence of oil

For many states in the world, oil has become the currency for making decisions. Global powers, such as China are concerned about their overall economic growth and the ability to increasingly provide jobs for their citizens. Oil is the essential resource that will drive this economic growth. China's pursuit of this resource has caused a global condemnation for the atrocities that have occurred in the Sudan. In exchange for access to the Sudanese oil fields, China has been and continually is willing to overlook the genocide within Sudan¹³⁷. In August of 2008, a dispute between Russia and, the former soviet republic, Georgia broke out. Originally, the dispute involved break away areas of South Ossetia and Abkhazia. Regardless of the stated reason, oil played a factor in the Russian decision making process to invade Georgia. Georgia had become an alternative energy supply route for Europe. This supply route diminished European dependency upon Moscow for energy¹³⁸. Even the United States has been erroneously been accused of acting in a manor to increase the supply of energy markets. Countries are willing to go to extraordinary lengths to satisfy their need for energy resources.

¹³⁷ Goodman, Peter S. "China Invests Heavily In Sudan's Oil Industry." Washington Post. 23 Dec. 2004. 10 Oct. 2008 <http://www.washingtonpost.com/wp-dyn/articles/a21143-2004dec22.html>.

¹³⁸ Kandiyoti, Rafael. "Pipeline politics caused the war in Georgia." United Kingdom Telegraph. 20 Aug. 2008. 10 Oct. 2008 <<http://www.telegraph.co.uk/opinion/main.jhtml?xml=/opinion/2008/08/20/do2005.xml>>.

This willingness grants states supplying energy resources, the complacency to add liberalize markets and permit government policies to remain tightly intertwined with business environment. In order to properly measure whether this phenomenon is in effect in the Middle East, this paper chose states that possessed a considerable amount of energy resources. The key difference between the individual governments' was their policy to interfere with the political business environment. All of the states chosen (Saudi Arabia, Iran and the United Arab Emirates) were based in the Persian Gulf region of the Middle East. This region is extremely important in not only the production and transportation of global oil supplies, but also in terms of regional stability. This studies importance goes to the heart of whether a mercantilistic economic system, inhibits a state to moving to an economic system based on liberal principles.

The first case study examined Saudi Arabia. The results of the case study indicate that the price of oil provides some support for the governments' policy of involvement in the business world (see table 15). The price of oil finances government policies of intervention through the use of subsidies to citizens. Subsidies in turn allow the government to remain entrenched in a mercantilism, which inhibits the need for any restrictions of governments' policies in the business community. Even with the subsidies, government officials have still made attempts to liberalize the economic system. Each attempt at business reform brings the state closer to its goal of liberalization. However, the liberalization attempts were created and instituted by government officials whom seem to be the ones concerned with actually prohibiting liberalization efforts. The political interference with property rights is another area the government is reluctant to bequeath back to the citizens. The state involvement in property rights is only partially built upon property rights (see table 15). While the price of oil does a

small role, most of the involvement in property rights is built upon the governments own discretion of priorities and policy choices. In terms of oil revenues affect on trade, oil does not appear to have an effect (see table 15). Even with the price of oil increasing, the Saudi government has joined trading organizations (WTO) and decreased the barriers in regional customs unions (GCC). Nonetheless, the actual implementation of trade liberalization is still an area of concern for the Saudi government. The Saudi government still has a policy of sanctioning the generation and enforcement of a negative list. The overall lack of a relationship in each of the three principles of economic liberalism is not because of oil. Rather the lack of movement towards economic liberalism stems from the political choices made by government officials. The lack of a relationship between oil and economic liberalism means that manipulating the market forces of supply and demand will not cause the Saudi government to change its economic course. This means the strategic political choices of the Saudi government are the reasons for the continued heavy involvement in the affairs of the economy. Moreover, the geopolitical position of Saudi Arabia and the American military use of Saudi land make direct confrontation over decreasing the governments' policy choices in the business world extremely unlikely. Rather allowing the WTO and other financial institutions to be the primary means of moving the Saudi government towards greater liberalization of businesses, property rights and trade.

The Iranian case study provided results that were similar to the Saudi Arabian case study. Government policies in both states play the predominant role in maintaining a mercantilistic economic philosophy. In many, but not all instances, the ability of the government to reduce the mercantilistic nature of the domestic economy is not influenced by the price of oil, but rather by

strategic political choice. In examining the liberal economic tenant of business freedoms, the revenue generated by oil only partially explain the government's willingness to increasingly participate in the business world (see table 15). For Iran, this interaction is the result of balancing different political constituencies. Oil revenues play a role by providing the financial resources to enable government policies that create a society dependent upon the state for basic goods. In determining the effect the price of oil has a small role in influencing property rights (see table 15). The amount of property rights, throughout the years being examined, was extremely low making a link between oil and property rights difficult. The subsidies provided by the price of oil establish a minimal connection to property rights. Subsidies artificially inflate citizen's incomes and prevent the need for property rights as means of liberalizing the market place. But a majority of government policies on property rights originate from sources other than the price of oil. At the inception of the Islamic Republic, granting property rights to citizens' was inhibited. Furthermore, out of the three states being examined Iran, possesses the most diverse landscape. With oil fields only comprising a small amount of land in the western portion of the state, this landscape presents the opportunity for many different activities to be performed. However, the proper incentives (property rights) to utilize the land have not been implemented. In the final section, trade liberalization was also prohibited by government and not the price of oil (see table 15). In the beginning of the relationship between the price of oil and trade freedom a semblance of a relationship existed but that potential quickly vanished. For most of the years being examined the efforts to start economic liberalization efforts were dependent upon the political environment within the state.

For several years now the United States policy has been to isolate Iran economically from

the world markets; for the actions of attempting to proliferation nuclear weapons. This isolation has done little to facilitate political change towards a liberal economic philosophy. Allowing Iran to become part of the globalized economic community only risks re-entrenching the political position. This political position is policy actions in other areas (nuclear proliferation, support for terrorism) will not have any impact on becoming a member of the entire global market place. Recent policies of the United States have involved a multilateral approach with other global powers. The international community and the United States citizens do not have the stomach, nor the resources, for another coup d'etat. Therefore the diplomatic approach is the most palatable political solution.

In the final case study, the UAE presented the most comprehensive example of the effect of the price of oil on tenants of economic liberalism (business freedom, property rights and trade freedom). The UAE has seven emirates. One of the emirates, Abu Dhabi, is oil rich and has been reluctant to make the necessary liberal economic changes. While another emirate, Dubai, only possess a very modest amount of oil. Dubai has also taken the necessary steps to reform its economic structures making friendlier to liberal free-market principles. The movement to economic liberalism was the cognitive choice of political leaders. Unlike the previous two case studies, this was not only political decision to create a liberal economic system, but an actual policy choice to implement that system. The results from the study could not establish a link between the price of oil and political involvement in the business world (see table 15). During the time being examined a negative relationship between the price of oil and business freedoms appeared to exist. However, a significant amount of information shows that a government choice to liberalize other sectors of the economy and not the business sector. The lack of liberalization

in business was due to the governments' strategic choice and not the price of oil. When examining property rights the price of oil does play a role (see table 15). Dubai does not rely upon the sale of oil as the primary means to finance the local government. As a result foreigners are allowed the right to own property; even though that right is limited to specific areas. Abu Dhabi is the only emirate that prohibits foreigners from owning property; instead the government institutes a policy of allowing foreigners the right to lease property in certain areas. The final section examines the price of oil on trade liberalization. The results indicate that the price of oil does not influence trade freedom. For many years now the UAE has been involved in trade agreements, and is a leader regional movement to solidifying trade relationships. The persistence in creating these trade relationships has taken place regardless of the price of oil or the political situation in the region. In examining the data despite the ever increasing revenues from oil, the amount of trade liberalism remained extremely high. In combination with continually pursuing a liberal economic policy, regardless of the price of oil, the UAE has become involved in initiatives that promote regional economic reform. The continued pursuit of economic liberalism, while maintaining their close relationship with other regional states (Iraq, Saudi Arabia) makes the UAE an ideal state to demonstrate the benefits of economic liberalism.

Each of the three case studies returned very similar results; policy choices contribute more than the price of oil to determining the extent of political involvement in the business community. Authors such as Karl and Stijns were correct in their assessment that policy use of natural resources, not the natural resource itself, determines economic parameters. This study

continues to build upon the previous authors works. This study diminishes the natural resource curse theory¹³⁹ to a secondary role, behind the governments thought concerning the role of the state in the economy. Governments in this part of the world operate from a certain political perspective that recognizes the importance of oil, but does not allow the movement of oil to dictate rearranging this policy perspective. The natural resource curse was examined using states with different levels of political involvement in the business sector. The results indicated that the natural resource curse only partially exists. Two of the three case study states, Saudi Arabia and Iran, were already inclined to prevent economic liberalism. This inclination was not the result of the price of oil, but rather by other political factors. Subsidies, provided by an increase in the price of oil, contributed in the extent government policies encroach on economic activity. The government encroachment would have occurred in spite of the price of oil. The United Arab Emirates also proved the natural resource curse is secondary to government policies; except in property rights. For the Persian Gulf, policy choices supersede the revenue provided by the price of oil. Natural resources may provide easy access to desperately need revenue for states. But, in many instances, states will prohibit the movement to reducing political involvement in businesses regardless of the movement of the price of oil. This leaves little doubt that changing political behavior cannot be influenced through economic means. Many of the governments' policy choices come from a predetermined set of beliefs as to the role of government in the economy. Future areas of study should include in, what factors determine how the government

¹³⁹ The natural resource curse is based off of the assumption; governments that are well endowed with natural resources will be reluctant, even hostile, towards moving their mercantalistic economic system towards one based on economic liberalism.

should interact in the economy and the prioritization of the economic concerns compared to other domestic concerns. Another area of future study should include are the principles of economic liberalism incompatible with the conceptualization of the states interaction with the economy. Studying these areas will allow for better understanding of how Persian Gulf states prioritize the economy and view the economies role in the state. More importantly though, studying these areas provides an assessment of whether considerable movement towards economic liberalism is possible.

Table 15 Overall Case Study Results

Country	Hypothesis	Results
Saudi Arabia	Price of Oil → Business Freedoms	Partial Relationship
Saudi Arabia	Price of Oil → Property Right	Partial Relationship
Saudi Arabia	Price of Oil → Trade Freedoms	No Relationship
Iran	Price of Oil → Business Freedom	Partial Relationship
Iran	Price of Oil → Property Right	Partial Relationship
Iran	Price of Oil → Trade Freedom	No Relationship
UAE	Price of Oil → Business Freedoms	No Relationship
UAE	Price of Oil → Property Right	Relationship
UAE	Price of Oil → Trade Freedom	No Relationship

Implications for Iraq

The Persian Gulf holds other states than the three previous case studies. One of these states, Iraq, is central to current American foreign policy. Prior to 2003, the American government has had a turbulent relationship with Iraq and its former leader. Throughout the 1980's the United States supported Saddam Hussein against the Iran in the Iran-Iraq War. That support vanished when Saddam Hussein invaded Kuwait in late 1990. After the Persian Gulf

War, the United States implemented United Nations (UN) sponsored sanctions against Iraq. Those sanctions ended via the American Invasion of Iraq in 2003. The American invasion started a strenuous and demanding journey to place a democratic society in the hands of the Iraqi people. In January of 2005, Iraq made progress towards its democratic goals by holding its first ever free and fair election. This move was the initial starting point of Iraq becoming a self sustaining government. As part of this process, benchmarks were created to completely reconcile the country. One of the most essential elements of this reconciliation is the institution of an economic system. This economic system must respect the private sector and restricts government policies intervening in the economy.

An important aspect of the reconciliation for the Iraqi state concerns the economic conditions in the state. According to General David Petraeus and U.S. Ambassador to Iraq Ryan Crocker, the Iraqi government has made legislative strides to liberal reform. The Iraqi government has reformed the regulatory framework governing businesses and promoted the private sector¹⁴⁰. The timing of instituting the necessary legislative acts to liberalize the economy presents a quandary for the American and Iraqi political establishment. Releasing industries and sectors from government control too soon could cause security setbacks; due to the increase in the possible amount of attacks on soft political targets. These attacks cause people to become unwilling to take the appropriate business risks that a liberal economic system. Also pushing a liberal economic system could fail due to the lack of security and poison the Iraqi

¹⁴⁰ Benchmark Assessment Report. United States of America. Office of the President. 17 Sept. 2007. 10 Oct. 2008 <<http://www.whitehouse.gov/news/releases/2007/09/20070914.html>>.

people towards that type of economic system. Instituting the necessary changes to promote a free market based system too late, and citizens have started to become reliant upon oil revenues. While this will not completely prohibit liberal reforms, the drive to become self sufficient and not continuously rely on government policies is diminished. Regardless of other factors that have the potential to impede economic liberalization, security remains the primary issue of concern. According to General Petraeus, the "lack of adequate security remains the largest impediment to increased private economic activity"¹⁴¹. As long as security concerns remain an issue, citizens and foreign corporations will be beyond reluctant to engage in any form of economic development. The timing between instituting liberal economic principles and obtaining security is crucial to both. Therefore, liberalizing the economy must be slower than that of the progress made in increasing security. The ratio of security benchmarks to economic liberalization benchmarks needs to occur at a pace of three to one. At this pace citizens and foreign investors can be assured that the government is not just making temporary security gains. Rather the Iraqi government is making significant and actual long term security gains. The security benchmarks provide a sense of stability to regions within the country, the overall country itself and foreign investors within the state. By also reaching the security benchmarks the citizens can begin to feel a sense of stability. This stability lets citizens devote themselves towards endeavors other than their survival. The three to one ratio also slowly familiarizes the free market system to a population that in the last four generations has been subject to

¹⁴¹ Benchmark Assessment Report. United States of America. Office of the President. 17 Sept. 2007. 10 Oct. 2008 <<http://www.whitehouse.gov/news/releases/2007/09/20070914.html>>.

authoritarian rule. For citizens that have not directly participated in a liberal economic system the initial shock can be overwhelming. A liberal economic system can appear harsh, violent and cold to those who are unfamiliar with participating in it. Therefore, policy steps need to be taken to assuage the initial fears of the population. Policy choices, such as gradually reducing trade barriers, allowing greater property rights for citizens, and reducing the time required to close a business are beneficial to the population.

One should not expect a purely liberal market system in Iraq, with government policies completely abstaining from the economic environment. However, an economic system based on principles of the free market system is extremely reasonable to expect. In conducting the three previous case studies, the price of oil was found to have minimal affect on influencing liberal economic policies. Rather the liberal economic policies had to be pursued by each countries government. Therefore, the United States must make sure the Iraqi government is actively making policy choices that support a liberal economic system. The consequences in not pursuing policies based on economic liberalism present a dire scenario. Resulting in an Iraqi population that once again relies on state policy and state issued subsidies for their economic survival, instead of relying on themselves. To familiarize the Iraqi citizens with a liberal economy, these policy choices must happen on a slow but consistent basis. For the United States and the citizens of Iraq, the Iraqi government reliance on the price of oil to support economic policy cannot be accepted. The Iraqi peoples' economic situation will not have improved if they rely on government provided subsidies. For the Iraqi people and economy to thrive in the future, government policies must include not relying on oil to provide for economic survival. Rather

policy initiatives must be aimed at reducing the political involvement in the business community, and letting people determine their own future through economic liberalism.

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