center for ENERGY STUDIES
Rice University's Baker Institute for Public Policy

Working Paper in
THE ROLE OF FOREIGN DIRECT INVESTMENT IN RESOURCE-RICH REGIONS

The Case of the Gulf Cooperation Council

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February 2020

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"The Case of the Gulf Cooperation Council"

Introduction

Purpose of this paper is to answer the questions in the research protocol in the context of the petroleum sector in the Gulf Cooperation Council countries (GCC)[1]. However, for reasons to be developed, the history of this sector was unique. In particular, the traditional view of resource curse is not entirely appropriate. It is difficult to argue that the windfall revenues generated by the sector damaged the rest of the economy. Before the sector developed, 'the rest of the economy' was only subsistence, pearl fishing or some trading. A more productive analytical approach is to ask, given the enormous wealth created by the sector, why did the economies not perform better? The answer is simply that the governments and the international oil companies (IOCs) for the most part failed to optimize the linkages that existed between the sector and the rest of the economy. These linkages involved fiscal, forward and backward linkages although where the blame lies for this failure as will be seen is debatable.

The paper begins by explaining why the GCC makes for a good case study. This is followed by a history of relations between the governments and IOCs with emphasis on their attitudes to the linkages and how they changed over time. This history is then used to address the specific questions in the 'research protocol'. Finally, based on the history and the answers, the main lessons are drawn that might guide future FDI.

Why Pick the GCC?

The GCC Experience

The GCC experience was very different from most countries that experienced resource curse. Put simply, there was virtually no serious economic activity before FDI in petroleum. There was only subsistence agriculture, pearl fishing and trading. This matters because the traditional arguments about resource curse damaging the economy are difficult to justify in the GCC case.

There were a number of strands to this argument (Humphreys et.al., 2007; Ross, 2012; Stevens et.al., 2015). Initially the arguments derived from macro-economic arguments associated with "Dutch Disease" leading to an over-valued real exchange rate contracting the non-oil traded sector (Corden and Neary, 1982). Then the focus moved towards political economy explanations. The resource curse is evident in those countries that have a poor record of poverty alleviation. Much emphasis is put on the observation that resource abundance tends to increase income inequality, which is usually explained as a systemic problem resulting from the way in which extractive resource wealth flows into an economy. In most legal jurisdictions, extractives are the property of the state and the initial revenues from them accrue to the government or a government-industry elite. The sector is capital-intensive (and therefore often dependent on foreign investment in the early phases), requires a small amount of labour relative to its contribution to the economy. Such characteristics encourage an 'allocative' approach to wealth distribution, for which governments are often ill-equipped. As a result, wealth is not distributed evenly or fairly.

Linked to arguments about the centralization of wealth is the charge that natural-resource abundance retards political change and entrenches regimes. The members of the government- industry group are collectively termed 'rentier elites', who 'capture' natural-resource rents and use them to create patronage networks that consolidate their power (Beblawi and Luciani, (Eds), 1987). It is argued that these elites have strong vested interests in maintaining the status quo and thus act to suppress criticism and potential political challengers. In short, the ruling elites grab the best deals for themselves or demand a large cut from those obtained by others, thereby stifling competitiveness and, consequently, broader value creation in the economy. This is a self-reinforcing mechanism in which centralized wealth serves to consolidate the political hold of the ruling elite.

Closely linked to the above is the way in which disproportionate fiscal dependence on petrodollars channelled through the state has an impact on the capacity of government to make decisions. The illusion of prosperity together with the focus on spending as policy – reduces a government's ability to build a successful state.

At the same time, the development of extractives raises popular expectations, which put pressure on governments to make decisions quickly. Hasty, ill-coordinated decision-making inevitably yields bad decisions. Rapid decisions on how to spend revenues may introduce distortions into the economy because there is less chance for natural adjustment. At the same time, greater wealth can weaken prudence and due diligence – making the 'right choices' seem less important when the prospect is one of bounty. Linked to this is the charge that investments made by resource-rich governments often fail to develop the productive base of the economy.

Yet another strand to the traditional 'resource curse' argument is the alleged propensity for more social conflict. Large resource revenues create a pot that is worth fighting for – since whoever is in power is better able to plunder that pot. Such revenues have been used to directly fund government actors in civil wars, as in the case of Angola before 1992. Even if there is no active conflict, they have still tended to generate much higher levels of military spending. With respect to oil in particular, the military-industrial complex of such countries can use petrodollars to buy defence equipment from the major importing countries – particularly the US. Whether this increases security or the potential for conflict must be considered on a case-by-case basis, but it is clear that more government revenue spent on military equipment means less spent in other areas. War and strife are regressive – i.e. they hurt the poor more than the rich since the former lack the resources to mitigate their negative effects (for example, by resettling in another area). Moreover, fighting or expectations of fighting absorb resources that could otherwise go towards improving economic performance and alleviating poverty. At the national level, deteriorating governance and judicial independence, on the one hand, and increasing corruption and inequality, on the other, are among the predictors of declining regime stability and an increased risk of civil unrest and conflict.

In the case of the GCC, there was virtually nothing there to be 'damaged' before the FDI began to develop the petroleum sector. Thus the traditional approaches to resource curse outlined above cannot apply. Indeed it is unrealistic to try and argue that the GCC countries would have been better off without hydrocarbons. Without hydrocarbons they would probably not exist. Therefore an alternative approach is needed. This simply asks why the countries concerned did not do better as a result of their petroleum sector developments. Common sense suggests that large revenues should improve a nation's well being if only on the grounds that while money cannot buy you happiness it might be a good down payment. Simple economic theory reinforces this view. Poor countries are poor because low income creates lower saving, which creates low investment, which creates low income. A large windfall revenue inflow could break that cycle because it could increase investment. The fact it comes in the form of hard currency also helps given it allows the import of much needed capital goods. In this context 'better' means developing a diversified sustainable economy (Mitchell and Stevens, 2008; Stevens and Mitchell, 2008). This opens the question as to what IOCs can do to help countries improve and what they should not do to make things worse.

One explanation to explain why the countries did not do better concerns the failure of countries to optimize the linkages between the petroleum sector and the rest of the economy. Albert Hirschman first developed the concept of linkages between natural resources and the rest of the economy in the late 1950s (Hirschman, 1977). Three types of linkage are relevant: fiscal, forward and backward linkages.

The fiscal linkage is the revenue that accrues to the government as the owner of the sub soil hydrocarbons from the production and sale of the hydrocarbons. These revenues should allow the government to promote economic development and to improve social conditions for the population. However, an important point to note for later analysis is that it is not enough to simply maximize the size of the revenue at any point in time. It is also crucial that the use is also optimized. The use of the word 'optimize' in terms of the size of the revenue is deliberate given oil production takes place over time. Thus it is possible to increase revenues in the short term but this may well be at the expense of future revenues if investment in maintaining or indeed increasing production is compromised by the government being 'greedy' and trying to take too much of the economic rent.

Economic rent in oil price comes from two sources. First, if the producer has access to lower cost production then there is producer's surplus – the gap between the lower part of the supply curve and the market price. A key point here is that because the fields in the GCC were large and prolific, production costs were extremely low (Adelman, 1972). Thus there was a lot of producer's surplus. Second, if the market is manipulated to increase price above its competitive equilibrium then there is supernormal profit.

In theory, the government, as the owner of the hydrocarbon resource can capture all of the economic rent without inhibiting production given the operator is receiving their 'normal profit' defined as the amount the operator must receive to stay in business. In practice, there is always room for disputes over the level of 'normal profit' and if host governments try to capture too much rent, investment by the operator is likely to suffer. As will be seen below in the history section, much of the relations between the IOCs and the host governments over time have revolved around how much of the economic rent is captured by the governments.

Forward linkages concern how far petroleum sector can supply inputs to the rest of the economy. The most obvious input would be the provision of energy. For an economy this can be a crucial factor input to promote development. This is especially true if the energy can be provided at a cost that gives the economy a comparative advantage over others although this may be a double edged sword if the energy attracts a subsidy that creates distortions in the economy. However, in the GCC context, there is another possible input. In all of the GCC countries, as will be developed below, the hydrocarbon sector, run by the IOCs, was a major (arguably in the early days the only) source of managerial capacity and competence. In so far as this, either by a transfer of qualified and competent personnel or by a sort of demonstration effect, promotes the rest of the economy, this can be an extremely valuable forward linkage.

Backward linkages concern the input of labour from the rest of the economy creating jobs in the sector and by means of forward linkages improving transferable skills. It also refers to the development of a local supply chain that can have multiplier effects on the rest of the economy. Again, this then potentially creates a non-oil sector, economic diversification and economic development.

This linkages approach provides a framework to ask the questions how did the IOCs in this story help develop these linkages thereby contributing to their host countries' development and how did they inhibit the development of the linkages thereby undermining economic development? This will form the central part of this case study.

Homogeneity of the Countries

This is another reason for choosing the GCC as a case study. Although there are important differences between the six GCC members, there is also a great deal of commonality. In particular, both host governments and investors have been subject to similar political, economic and social pressures in terms of the nature of how the sector developed and the behaviour of the investors. The GCC members have always been intensely competitive and action by any one has often provoked a similar action by the neighbors. This allows in some situations the use of a 'control group' approach to assess the impact of IOC behaviour on the individual countries of the GCC. There is however a problem with this methodology. There are differences between the countries. There are also differences between the experience of FDI in the different GCC members. Furthermore, these differences, both between the countries and the FDI experiences, have changed over time. However, constraints of time and space prevent detailed discussions and so the reader must be satisfied with generalizations for which there will be many exceptions. The argument is that these exceptions do not invalidate much of the discussion and there are general lessons to be learnt,

Relations Between FDI Companies and the State in the GCC Have Changed Over Time

As will be explained below, relations between FDI and governments in the GCC have experienced a wide range of cycles over a long period that gives a rich vein for investigation. In particular, there have been changes in attitudes to the linkages both from the points of view of the GCC host governments and the IOCS. This section attempts to outline briefly a history of these interactions on linkages with emphasis on how the attitudes and responses of the IOCs fed into a positive[2] (and negative impact) on the GCC countries. It is intended to set the scene for the answers to the research protocol questions in section 4.

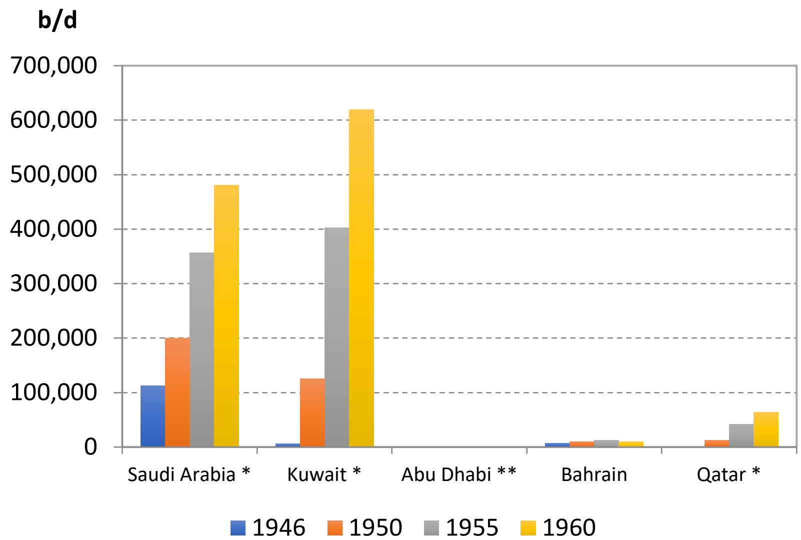
The history of relations between GCC Governments and the IOCs in terms of their attitude to linkages can be divided into specific periods. Each is outlined below with indications of the change in attitudes by governments and IOCs to the linkages, bearing in mind the previous health warnings about exceptions to the generalizations. The differences between the GCC governments have already been alluded to. However the IOCs themselves could also be differentiated (Hartshorn, 1962; Penrose, 1968; Sampson, 1975; Keating, 2006). In particular, there were noticeable differences between IOCs from a European background and those from the USA (Blair, 1976).

From the granting of the original concessions to 1951 – starting to create rent

Figure 1 indicates the scale of production in the GCC countries in the period 1951 to 1968. In all cases, production was coming from the IOCs.

Britain's interest in encouraging the IOCs to develop oil production in the region was obvious. At the start of World War I Britain switched the fuelling of its warships from coal to oil. However, Britain had no indigenous oil. Securing oil supplies became a central pillar of British foreign policy up to the early 1970s. There was also the factor that the GCC effectively presented a route to India, the jewel in the imperial crown. It was perceived that securing a strong fiscal linkage between the oil sector and the ruling families was an effective guarantee of their continuing support for British interests. The US interest was more driven by the fact that American IOCs were able to capture significant amounts of economic rent, especially in Saudi Arabia. There were also periods when there was real concern that the US might begin to run out of oil (Yergin, 1991). In addition, as the cold war began to develop in the 1950s, having the ruling GCC[3] families on board was seen an important counter to Soviet influence in the region.

Figure 1. GCC Liquids Production 1946-1960



* In Oman the first commercial oil discovery was in 1962.

** Abu Dhabi production before 1960 was limited – 103,000 b/d in 1955 and 175,000b/d by 1960 derived from Stocking, 1970. Accurate data on Bahrain is difficult to come by and has been derived from disparate sources. In 1932, production was estimated at 9,600 b/d, which reached 35,000 b/d in 1957 and reached a peak of 76,600 b/d in 1970 thereafter declining.

Source: Darmstader,1971

From 1951 to 1968 – sharing the rent

In the early 1950s, several events changed the relations between GCC governments and the IOCs: in 1951, there was the introduction of 50-50 'profit sharing' as the basis of the fiscal terms (Mikdashi, 1970); and in the same year there was the nationalization of all of BP's operations in Iran by the government of Dr Mossadegh (Bamberg, 1994). Then in 1952, the United Nations passed the first of a series of resolutions on 'permanent sovereignty over natural resources' that emphasized the rights of a nation over its own natural resources (Mughraby, 1966).

This presaged a period when the GCC governments sought a greater share of the economic rent in crude oil revenue together with greater control over the way in which the oil sector was managed (Mikdashi, 1970; Blair, 1976; Hartshorn, 1993). Their main target of control was the production level. While there was some minor fiddling with the fiscal systems over issues such as expensing of royalties, in reality, the only way for the governments to increase their revenue was to secure an increase in production (Seymour, 1980). However, in the 1950s and 1960s the industry was generally suffering from an excess capacity to produce crude. To manage this without threatening the price structure meant the IOCs had to try and restrain production (Penrose, 1959).

Since they were all operating in the Middle East, the region was the obvious target to control production and collectively they managed, with a degree of success, to balance the global oil market[4] (Blair, 1976). The concessions gave IOCs effective control over all aspects of the sector enabling determination of production levels (Mikdashi, 1970).

In the mid 1950s, there was an interesting experiment in Saudi Arabia that generated an outcome for the future that would prove to be crucial in the context of developing linkages. In the early 1950s, Aramco faced a serious problem. Operating in the Eastern Province of Saudi Arabia meant that virtually everything involved in their operations, ranging from drilling equipment to food for the workers, had to be either shipped in or flown in. This was beginning to prove increasingly expensive[5]. They desperately needed to develop a local supply chain to provide backward linkages. To this end they came up with "Operation Bultiste". They picked out a number of their very bright Saudi employees. Then, with training, support and access to credit they were told to develop local industries to provide sector needs. This led to the industrialization of the Eastern Province and eventually the whole of the Kingdom. It was the ultimate example of how FDI might maximize linkages (Coon, 1955; Vitalis, 2007).

From 1968 to 1972 – "Participation"

Relations between the GCC governments and the IOCs changed again in 1968 with the rise of the issue of 'participation' (Stevens, 1976). Control of the IOCs over the GCC oil sectors had remained an important issue throughout the 1950s and 1960s. The feeling was growing that they had too much managerial control over the operations (Mikdashi, 1970 Vernon, 1971). Who controlled the operations was a particularly popular issue at the level of the Arab street (Hirst, 1966). Calls for the nationalization of the IOCs was always guaranteed to receive mass support. However, it was less popular with the rulers for two reasons. First there was the memory of what happened to Dr Mossadegh after the nationalization of BP in 1951. Following the coup that removed him, orchestrated by the US and British Governments, he had been sentenced to death by the new Iranian government. While the sentence was never carried out it acted as a salutary reminder of what might befall other rulers trying to follow a similar path. Second, there was a growing realization by the Governments that it was the IOCs' control of the global oil market that was protecting crude oil prices that were suffering downward pressure as a result of creeping over supply (Blair, 1976). However the Six Day War between Israel and the Arabs led to growing popular pressure in the Arab world to nationalize the IOCs given it was widely believed that the Egyptian air force had been destroyed by the Americans and the British. To try and assuage these pressures and also to try and meet the growing demand for greater control by the oil producer governments, the Oil Ministers of Saudi Arabia, Zaki Yamani came up with the concept of 'Participation' as a solution (Yamani, 1970; Stevens, 1976).

The idea was that the GCC governments would take an equity share, the percentage to be negotiated, not only in the upstream operations of the IOCs in each country but also in the downstream operations of the IOCs outside the country. There followed a series of negotiations leading in October 1972 to the General Agreement on Participation. Initially, the agreement gave the governments a 40 percent share in the equity of their operating companies. The agreement rapidly unraveled led by Kuwait where the National Assembly demanded an ever-greater equity share; initially 60 percent. Other GCC governments followed suit. It rapidly became apparent that Kuwait was pushing for 100 percent so while Saudi Arabia reluctantly followed suit, Qatar and Abu Dhabi declined to follow because the governments felt they lacked the managerial and technical capacity to take over completely. This admission of a lack of capacity by Abu Dhabi and Qatar was embarrassing for these governments given the intense rivalry that existed within the GCC. It emphasized the need for the GCC governments to get greater technical and managerial capacity as rapidly as possible. In this period, the IOCs were trying to resist the growing control of the producing governments. Furthermore, fearing stranded assets with the prospect of nationalization, they effectively stopped investing in the GCC countries. Up to this point they had been reluctant to share their technical and managerial capacities with the host governments of the GCC for fear of becoming redundant and enabling the governments to take control of operations[6]. The effectiveness of this strategy from the IOC point of view, at least for a time, was seen when Abu Dhabi and Qatar decided not to try for full control.

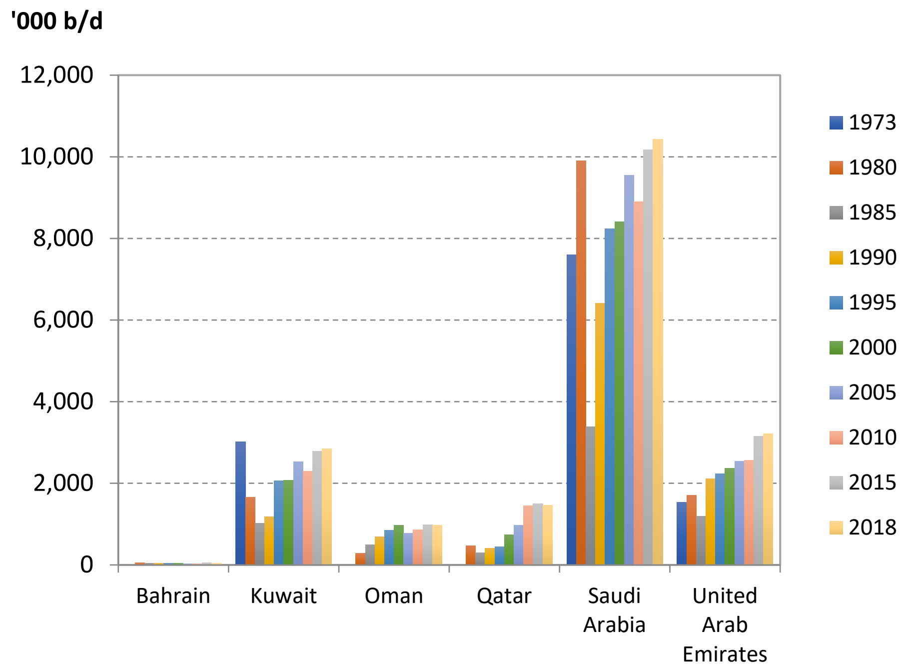
From 1972 to 1981 – oil price shocks and the emergence of the resource curse

The oil world changed after October 1973 with the first oil shock. This generated two major concerns relevant to understanding the role of the IOCs and resource curse: the rise of traditional resource curse and growing interest in forward linkages and the downstream.

The windfall revenues from the first and second oil price shock created all of the usual symptoms of traditional resources curse in the GCC states. There was an economic boom involving many vanity projects and what became seen as 'conspicuous construction' and the 'edifice complex'. The economies were seriously distorted with excessive government projects and the inevitable corruption. In these circumstances there was little if anything the IOCs could do as their role was drastically reduced as NOCs increasingly took over the upstream roles as the 'participation' process effectively collapsed[7]. The only motivation of the IOCs was to secure crude oil at least cost. There was no attempt by the IOCs to rein in what might be terms 'irrational exuberance'. To be fair to both governments and IOCs, there was no understanding of traditional resource curse. The term 'Dutch Disease' did not emerge until 1977, well into the period of damage being done by the first oil shock. Also, the IOCs were becoming increasingly concerned that they might aggravate their relations with the host governments by appearing to behave like old style colonial powers. It was seen to be not their place to interfere with sovereign governments.

The second oil shock also meant that the previous arrangements, whereby the IOCs marketed the crude output on behalf of the governments after the various takeovers of operations by the NOCs following 'participation', were dropped by governments. They now felt sufficiently confident to market their own crude, which meant the IOCs had lost their access to what had effectively been a form of 'equity crude'. They were therefore very unlikely to try and pressure governments into anything that might further spoil relations and they simply behaved as buyers of whatever crude oil they could get access to.

Figure 2. GCC Petroleum and other liquids production 1973-2018



Source: EIA online data accessed 13 December 2019

The second change following the first oil price shock concerned the attitude of the governments to the downstream and forward linkages. The first oil price shock provided the GCC governments with the revenue and the control to raise two areas of concern: the development strategy of the countries and developing the downstream links for the NOCs (Al Wattari, 1980; Stevens, 1988a; Al Moneef, 1998; Luciani & Salustri, 1998). The development strategy concerned how to promote an industrial strategy in order to diversify their economies away from dependence on exporting crude oil. Thus large amounts of the windfall revenues were poured into infrastructure and industrial projects. However, the governments for the most part lacked the capacity to manage so many large projects. So they were done hastily with little effort to coordinate. Very large amounts of money were wasted on poorly executed projects[8]. This attempt at an industrial strategy was linked into a growing interest in developing the downstream both domestically and for exports. For the NOCs this reflected the fact that their management very much wanted to become vertically integrated and therefore behave like the IOCs (Victor et.al., 2011). The original idea of 'participation' was for the host GCC governments to negotiate a share of the equity in the owning IOCs' downstream global activities. In the event, negotiating the equity in the upstream proved so complex and contentious that this idea was quickly dropped (Stevens, 1976). However, the NOCs retained a desire to mimic the IOCs (Victor et.al., 2011). The problem was that the context had changed following the first oil price shock (Stevens, 2007). Leading up to 1973, there had developed in the IOCs a view that oil demand would continue to grow at the sort of rate seen in years after the mid 1960s as the world experienced an economic boom reflected in the so-called 'OECD economic miracle'. This led the IOCs to make massive investments in new refinery (and tanker) capacity. However, these expectations of ever growing oil demand were dashed following the increase in prices as a result of the first oil shock. Thus post 1974; given the lead-time on projects, as the new capacity came on-stream global refining suffered massive over capacity as oil demand rather than rising actually fell. In the period 1973-4, before this overcapacity became apparent, the GCC countries came up with massive plans to build export refineries. In October 1975, OAPEC called a meeting of Arab oil exporters to share these plans (Luciani and Salustri, 1998). What became rapidly apparent at this meeting was that if the governments went ahead with these plans it would severely aggravate the existing overcapacity, which in any case was seriously damaging the economic of refineries[9]. Thus all the plans were scrapped apart from Saudi Arabia who decided to continue with its refinery plans but by making them joint ventures with a number of IOCs.

In this context, the IOCs, faced with disastrous refinery margins, began sell off many of their downstream assets extremely cheaply. These were then bought by the GCC governments (Stevens, 2011,a). At the same time, the GCC industrial strategy and the interest in the downstream began to create significant investment in petrochemicals again in the form of joint ventures with IOCs and other major international companies. The key to determining FDI interest by the various international companies was simply access to feedstock on favourable terms. One consequence of this was to encourage the development of forward linkages in the form of using gas. Throughout the 1960s, gas flaring by the IOC operators had been a serious bone of contention. The governments argued it was wasting national resources but the IOC countered by arguing that the gas had little or no commercial value. After taking control the GCC governments began to limit the amount of associated gas that was flared leading to significant industrial development activity as the gas began to be used as feedstock (Abushihada, 1986).

This helped develop not just the petrochemicals sector but also other energy intensive industrial projects such as metal smelting. How far these projects constituted real economic development was (and is) a moot point. However, they did lead to technology transfer and presented the option of allowing a nascent petrochemical and metals sector to develop further downstream. The IOCs, searching for cheap feedstock, contributed technological assistance and managerial training. The problem was that most of this was being driven by government dictat with the result that often the projects lacked any valid commercial basis. A commonly heard view in this period was that 'governments were bad at picking winners but losers were good at picking governments!'

The 1980s to 1998 – the rise of NOCs and growing realization and concern of resource curse

In this period, attention began to be directed to the potential role of an NOC in national economic development (Van der LInde, 2000; Marcel, 2006; Stevens, 2008a). There are many different views on the role and functions of NOCs (Stevens et.al., 2003). The starting point was that if sovereignty over the oil sector was seen as important, then governments needed a tool to command the sector, which inevitably required an NOC (Stevens, 2008b). Of course a similar result would in theory be possible by use of regulation rather than state ownership but it was generally held that this required a degree of maturity, capacity and sophistication that was lacking in most governments in developing countries. From this there was also the observation that a company would have public as well as private objectives. The public objectives would relate to ensuring a competitive environment, internalizing externalities, and the provision of public goods. Until the 'Washington Consensus' emerged in the 1990s, these objectives, it was believed, were best achieved by state ownership. A further role of the NOC was to assist the government in negotiations with the IOCs. This was especially prevalent in the smaller GCC countries such as Bahrain, Qatar and Oman, where central government had limited experience of the industry. Initially such negotiations referred to upstream operations but as interest developed, also into downstream and petrochemicals. Such negotiations required knowledge of the industry and such knowledge needed to be accumulated. The obvious mechanism for this from the government's perspective was an NOC. A variant on this theme was that the NOC would facilitate technology transfer for the oil and gas sector. A problem with these arguments was that they ignored the impact of principal agent analysis and rent seeking (Victor, 2011)[10]. The key to rent seeking is that the principal (the controlling ministry) lacks the knowledge regarding the actions of the agent (the NOC). Thus the ability of the NOC to rent seek is determined by this information asymmetry. Therefore the NOC has a vested interest in keeping the controlling ministry in the dark. The knowledge gained by an NOC was not necessarily passed onto the government.

Another argument in favour of an NOC is the ability of the NOC to raise revenue i.e. maximize the fiscal linkage. If an IOC is producing the oil, they will take a share of the sales revenues according to the fiscal system. The argument is that if it is an NOC producing the oil then the NOC (and by implication the government) captures that share of the revenue. The weakness with this argument was that if the NOC is inefficient and high cost because of rent seeking, then it may well be capturing a share of a smaller cake than if an IOC was operating.

The final argument in favour of having an NOC is that it could act as a leading developing sector (Stevens et.al., 2007). In this way, the country develops. This implies that an NOC will help develop forward and backward linkages to the rest of the economy. However several factors may limit this process. If there is a culture of corruption in the country then the linkages may well prove to be mirages. In addition, many NOCs had ambitions to be international players. This is to some extent natural 'empire building' by ambitious operators who want to imitate the experience of the IOCs (Stevens, 2011a; Stevens, 2003; Stevens, 2008a). Another reason for such ambitions comes back to principal-agent analysis. The ability of the agent (in this case the NOC) to capture rent is determined by the degree of information asymmetry vis-à-vis the principal. Operating abroad, outside the remit of the national government, is a classic way of deepening that information asymmetry. However, a problem with operating abroad is that this clearly limits the size and effectiveness of the forward and backward linkages. So the only benefit to national development may come through developing the fiscal linkage, assuming the overseas operations are profitable. The exception to this would be if the overseas operations create synergies with the domestic operations of the NOC. For example, operating overseas processing units might increase the market size for domestically produced inputs. Indeed a major argument used in the GCC NOCs in the1980s and 1990s for buying-up refineries from the IOCs was that it provided security of demand for crude oil exports, which explains why most NOCs used operational vertical integration when the IOCs were moving away from this business model and using markets instead.

In this period and indeed in some cases during the 1970s, decision makers in the GCC governments began to consider the absorptive capacity of their countries given the influx of oil revenues. They also became increasingly aware of traditional resource curse issues as more and more literature on the subject emerged from academia. As the 1980s proceeded, this awareness moved beyond the issue of Dutch Disease and over-valued exchange rates and began to focus more on the political economy of economic distortions (Stevens et.al., 2015). This concern was not just within the NOC but also within various arms of the government, notably finance ministries where economist were familiar with all the arguments about rent seeking and principal-agent analysis. In some cases, this raised voices who argued for the need to slow down oil production and hence oil revenues. An excellent example of this was in Abu Dhabi where Sheik Zayed, aware of the limited absorptive capacity of the domestic economy, wanted to restrain production. Another solution practiced, notably in Kuwait and Abu Dhabi, was the development of sovereign wealth funds aimed at reducing the immediate impact of the inflow of revenues. In effect, this was designed to optimize fiscal linkages.

In this period, the IOCs also began to be increasingly concerned about resource curse issues in oil and gas resource rich countries generally as it moved up the discussion agenda Stevens & Dietsche, 2008; Stevens et.al., 2015). This was because of a growing awareness by IOC management of what became known as 'third party risk' (Stevens, 2008a; Stevens et.al.,2013). Thus actions by the IOCs that produced a negative effect in one country where they operated would have knock on effects in a different country where they operated. Thus the IOCs were in danger of being accused of causing resource curse in a country with a negative impact on their reputation. However, they were still seeking access to low cost crude and therefore were obliged to operate in countries vulnerable to resource curse. This was simply because that is where the low cost crude tended to be located.

Globally, the IOCs began to consider ways in which they could assist the governments to make better use of the revenues and develop the forward and backward linkages. If a company appeared to be making serious efforts to mitigate resource curse in one country, this made them a more attractive option in other countries looking to develop or expand their upstream operations. The problem was that, as already discussed earlier, the GCC countries did not fit the usual pattern of resource curse and so the idea of the IOCs 'assisting' the GCC governments was not high on their agenda. At the same time, while some technocrats within the GCC countries began to be uneasy at their dependence on oil, they tended to be in the minority. The majority consensus within the GCC governments was that they had all the oil reserves. In 1980, the GCC countries held around 40 percent of global proven oil reserves and by 1990 this had risen to 45 percent. Therefore, the logic went, the GCC countries' economic future was assured. Obviously oil demand would continue to grow steadily as it had always done. In the 1990s the concept of 'peak oil'[11] began to emerge and so future supply would be constrained. All the governments of the GCC had to do was sit back and wait for the world to beat a path to their door to secure increasingly scarce oil resources[12].

In anticipation of this, plans were made in many GCC countries to increase productive capacity. After the 'participation' negotiations and its aftermath there was a division of attitudes within the GCC. Saudi Arabia and Kuwait did not seek IOC involvement in the upstream. Both Saudi Aramco and KPC felt they had sufficient in-house capacity although both did make great use of the service companies. For Kuwait this changed in the aftermath of the Iraqi invasion in 1990. After the liberation, Kuwait was more than happy to allow IOCs into the upstream by means of 'Project Kuwait'. This was in part because they needed technical assistance to restore the badly damaged oil fields but also because it made sense for them to have large foreign companies on the Northern Border as a buffer between them and Saddam Hussein who still ruled in Baghdad. The other four GCC countries – Bahrain, Oman, Qatar and the UAE - however allowed the IOCs to maintain a degree of involvement in the upstream reflecting the concern within the GCC countries amongst the cognoscenti regarding the lack of managerial, technical and financial capacity at a time when they felt the need to raise crude producing capacity. This need to develop managerial capacity was also encouraged because in most cases, the easier fields had been developed first. As easy fields became depleted, new fields were more complex, as was the technology required to exploit them.

The interesting exception to this was Saudi Aramco, which had been fully nationalized in 1976. Two decades of input into educating and training Saudi nationals in the 1950s and 1960s was beginning to bear fruit and the company was becoming one of the most efficient and highly regarded NOCs.

As the GCC governments, except Saudi Arabia, began to open up to the IOCS, the IOCs were very interested. Throughout the 1980s, a key pillar to their business model was maximizing bookable reserves (Stevens, 2016)[13]. Therefore access to low cost reserves was an increasing part of their business strategy. However, IOCs had given away their technological edge by outsourcing much of their technical activities to the service companies. This meant the IOCs had made themselves less attractive and so their ability to influence government behaviour over resource curse issues was limited. The service companies were less vulnerable to accusations of assisting resource curse than the IOCs. Coupled with the fact that in the 1990s, the GCC countries were still not viewed as victims of traditional resource curse, meant there were limited pressures on the GCC governments to make more effort to maximize forward and backward linkages thereby promoting economic development.

Both the IOCs and the service companies did make efforts to improve the managerial and technical capacities of the NOCs but this had an ulterior motive. Almost without exception, the IOCs had gained access to upstream operations in the form of joint ventures with the NOCs of the host governments. Therefore their operations were under the command of the NOCs. As a result the IOCs had a strong vested interest that their NOC partners would be operating on a commercial basis. Thus much effort went into training nationals so they would 'speak the same language' i.e. realize the importance of commercial criteria in decision-making. GCC Governments increasingly injected training obligations into upstream agreements (Victor et.al., 2011). At a more informal level, in the joint ventures where ADNOC was involved, senior management from the IOCs would mentor nationals. The result was that within the UAE, ADNOC became the leading institution for building indigenous talent. Aramco had pursued a similar practice using the former IOC owners.

However, while crude producing capacity was being expanded in much of the GCC, OPEC discipline was weak and most were cheating and producing over their agreed OPEC quota. Since it was not only the GCC countries that behaved in this way but other OPEC members followed suit (Stevens, 2011). Thus the market became over supplied with the result that in 1998 crude prices collapsed. In 1997, Brent averaged $19.09 and 12.72 in 1998.

1998 to 2014 – the writing on the wall over the need for diversification is ignored.

The price collapse in 1998 and the consequent precipitous fall in oil revenues appeared to be a wake-up call for the GCC states. Their failure to diversify their economies became rapidly apparent[14]. This brought economic reform to the top of the policy agenda. However, the key problem with such reforms was that it inevitably meant reform of price subsidies to the general population[15]. Not surprisingly this was not popular and there was much discussion over the nature of the social contract between ruler and ruled. The GCC governments began to pay attention to the potential for forward and backward linkage in the context of paying lip service to economic diversification. However, as prices began to recover –Brent moved from an average of $12.72 in 1998 to $111.67 by 2012 – as in the past, so the reform resolve weakened.

2014 to present – the realization that there is the need for real diversification.

The oil price collapse of 2014 revived the talk of diversification and the need for economic reform in the GCC governments. At the same time analysis was emerging that began to move away from traditional resource curse thinking to raising the question why the GCC States had not done better? (Stevens, et.al., 2015). In addition, the growing discussions regarding the energy transition away from hydrocarbons to electrons meant for the first time, the elements within the GCC governments began to be concerned that their assumption of ever growing oil demand might be threatened (Stevens, 2019). Therefore, it began to be seen that there could be a real need for diversification that needed immediate action. However, it also raised questions over whether petrochemicals, which had formed the foundation of the GCC's industrial strategy, represented a realistic option given that some were beginning to regard plastic as the new tobacco and presenting an overwhelming waste issue.

At the same time, the IOCs became increasingly concerned that their old business model was no longer fit for purpose (Stevens, 2016). Several factors explain this concern. The pillars of the old business model increasingly faced problems: in a world of 'resource nationalism' there was limited access to low cost reserves aggravated by increasingly progressive upstream fiscal terms; outsourcing meant giving up much of their technological edge; the downstream failed to generate adequate returns on capital; finally the capital asset pricing model that had driven much of the project analysis significantly underpriced risk[16]. These problems, which emerged in the 1990s, had been aggravated by three other more recent factors. Post the 2008 financial crisis; markets became disillusioned with large, long-term, high-risk projects, which were the basis of the IOC's previous profitability. Issues to do with 'unburnable carbon' began to come to the fore leading to the development of the 'divest campaign'. Finally, post 2014 as already outlined, the market experienced much lower oil prices. Suddenly, ethical shareholders were something that the IOCs had to take account of in a world where they could no longer automatically assume the loyalty of their shareholders. Ethical shareholders could begin to take note of the role of IOCs in promoting resource curse.

The Research Protocol Questions

In this section, attempts are made to provide answers to the questions in the Research Protocol in order to address specific issues in the GCC.

Defining and Measuring the Role of FDI?

How is success defined when it comes to FDI—from the perspective of the host government and the investing entity?

One measure of success for FDI from the host government's perspective can be defined as maximizing the linkages from the oil sector, as developed by the IOCs. One positive consequence of this would be to help to diversify the domestic economy away from oil dependence an issue that has become prominent in the GCC in the context of the post 2014 oil price collapse. For the IOC success is maximizing the rent capture. Historically, the IOCs achieved this in the period before the first oil shock of 1973-4. Thereafter the host governments began to claw back rent. This meant the GCC governments began to maximize the fiscal linkage but, with the exception of Saudi Arabia, failed to maximize the forward and backward linkages although this failure was not at the feet of IOCs because their role was substantially reduced as NOCs increasingly dominated the sector. By contrast, Aramco began to invest heavily in training nationals, which was to bear fruit in the 1980s and beyond. It was not until the 1980s that other GCC countries began to follow and focus on developing a skilled national workforce. However, simply maximizing the fiscal linkage did not necessarily lead to economic development as traditional resource curse symptoms began to emerge following the oil price shocks of the 1970s. Resources were wasted on prestige projects that often were ill thought out and poorly executed. The IOCs did little if anything to try and rectify this tendency especially after their upstream role was greatly diminished. Amongst the GCC governments there was a clear failure to diversify. Indeed if diversification is measured by the non-hydrocarbon fiscal deficit (NHFD), after the 1990s, the economies became more oil dependent. In the 1990s, Saudi Arabia's NHFD was below 50 percent; by 2010 it was 140%. This was similar to the rest of the GCC. In 2011, the IMF found non-hydrocarbon GDP in the GCC was 61% of GDP in 1990. By 2010, this had fallen to 51%.

After the IOCs lost access to what they saw as their equity oil in the post-'Participation' context, they focused only upon getting access to low cost reserves of which many were located in the GCC. Thus they were unwilling to challenge or upset the host governments' upon whom they were so dependent. It was not until the 1990s that they began seriously to consider their role in trying to help overcome a resource curse in a country and even then the GCC countries were not regarded 'victims' suffering from traditional resource curse and the IOC role in upstream was much less in GCC countries compared to other non-GCC producing countries. Elsewhere, the IOCs went to considerable lengths to have a more positive impact on the domestic economy but not in the GCC given their role in GCC was as small players compared to NOCs.

If welfare is a key societal goal, how are intergenerational concerns weighed and addressed, and what is the role of FDI?

In the GCC countries, intergenerational concerns were a relatively recent issue and even then not of special importance. King Abdullah, in 2008, did talk about keeping some new oil discoveries untapped to save oil reserves for future generations. Underlying this approach was the generally held assumption that the GCC economies would continue to grow and provide the necessary resources to meet the needs of future generations. This largely explains the unwillingness of the GCC governments take economic diversification seriously. Only when oil prices collapsed in 1986 and again in 1998, did it become an issue and even then concerns invariably disappeared once prices began to recover. However, after the 2014 price collapse, and then the looming threat of the energy transition (Stevens, 2019), so far at least, the concerns appear to have remained. As for the IOCs, they have continued with the strategies of ignoring concerns over a country's lack of diversification and poor economic performance. The sense has always been that these are the concerns of sovereign governments and not the responsibility of companies providing private FDI.

Is a national-level examination adequate, or must the sub national level — where the effects of FDI are concentrated — be the focus of any analysis? Can a more localized approach better explain how the resource curse manifests and be avoided?

In the case of most countries, looking at the impact of the sector at a sub national level is important. But, in reality, until recently the sub national data required for analysis was simply not available. Where the data is available then it makes sense to consider the impact at a sub national level. However, the reality in the GCC is, with the exception of Saudi Arabia and possibly Oman with their relatively large landmasses, the rest of the GCC countries are simply too small geographically to make sub national level analysis relevant. They are, in effect, simply city-states. In the case of Saudi Arabia, there is clearly a difference of impact of FDI between the Eastern Province where most of the oil activities are located and the Najd – the central region – and the Hejaz – the western region. Indeed it was the lack of virtually anything in the Eastern Province in the 1950s that promoted Aramco to encourage young Saudis to develop the necessary infrastructure and enterprises to provide services for the sector.

Is there sufficient heterogeneity in FDI to render broad generalizations regarding its relation to the resource curse impossible, or at least categorical?

As outline in section 2, a major reason to pick the GCC states as a case study was precisely because their homogeneity made broad generalizations possible[17]. However, as also explained, the GCC are far from typical and so their experience may not be relevant to other regions. One message that does appear to be clear however is that if the IOCs make serious efforts to develop forward and backward linkages, especially developing the technical and managerial capacities of the nationals, the outcome for the host nation is very positive. Another important lesson from Saudi Arabia is that the IOC providing access to capital for potential entrepreneurs is a key to any success story.

Regional Appetites?

Do firms that are subject to anti-corruption measures in their home countries approach FDI in resource-rich countries differently than firms that are not? What impact does this have on perceptions of FDI by host governments and other constituents in resource-rich regions?

In the history of relations between the GCC governments and IOCs the issue did not arise. This was simply because anti corruption measure were not a constraint at the time of greatest interaction in the 1950s and 1960s. By the time the legislation began to emerge in the 1990s perceptions were already well established.

What role does local culture play in forming perceptions about and attitudes toward FDI? Is there a class of elites among the citizenry that drives engagement with foreign entities? If so, how might firms avoid risks associated with local discontent?

Arguably, the fact that, with the exception of Saudi Arabia, the GCC states had been under the control of Britain meant that FDI was simply regarded as a natural extension of that control. Therefore, opposition from some groups to colonial control and interference was simply extended to the IOCs who were regarded as agents of the colonial power. By association the same applied to American IOCs. There is very little chance that FDI can break away from this linkage. All it can do is to hope that the positive benefits that are perceived to come from FDI outweigh the negative image of colonial control and oppression.

Saudi Arabia was different in so far as even the control exercised by the Ottoman Empire was lax and erratic. Therefore there was not the same legacy as for the rest of the GCC states. However, many Americans did generate negative impressions, especially many of those coming from the Southern States of what was the Confederacy with their essentially racist attitudes(Vitalis, 2007).[18] These negative attitudes to the US were strongly reinforced by American support for Israel. Throughout all of the GCC, in the experience of this author the ruling elites are frequently regarded by many, especially the educated, as corrupt and are assumed to be hand in glove with much of the companies involved in FDI.

How might regional experience with previous large scale investments factor into the equation? For example, is FDI directed toward greenfield or brownfield activity and to what degree are local and national government institutions already established?

The whole history of FDI in the GCC was about large-scale investment. Furthermore, all operations were initially greenfield sites. In a way, this was what was unique about the GCC as a case study. Those involved in FDI literally had to bring everything with them as the initial operations were being developed in the 1950's and 1960's. More recently however, as the forward linkages and downstream operations developed much of the FDI was directed to existing sites simply because the complementary infrastructure already existed.

GCC government institutions did already exist but either they were based upon traditional Islamic institutions or were the legacy of British imperial rule. They were, for the most part, extremely basic and rudimentary and lacked managerial capacity[19]. Of course, as the sector developed because of the influence of the oil sector and its contribution to educating and training nationals, capacity has increased.

Firm Objectives and Local/Regional Need?

How do broader definitions of corporate social responsibility impact the scale and scope of FDI? For example, how does obligatory funding for projects that can spur economic development but are unrelated to development of the natural resource — such as improved agricultural techniques, microfinancing of small businesses, education, health care, and sanitation services — influence FDI?

In the GCC, in the early days of the development of the sector as a result of FDI, CSR was not an issue before the 1970s. Even subsequently when CSR emerged its importance was limited. Traditionally, globally the IOCs pursued CSR as part of developing a 'license to operate' especially in terms of local communities proximate to their operations. In the GCC there was limited impact on local communities if only because the operations were isolated from local communities. Indeed there were no local communities![20] In any case, effectively the ruling families quickly took over any role that CSR might have played in order to claim the role of being a generous donor for themselves by 'redistributing' the oil revenues. This was always seen as part of the social contract between rulers and ruled.

Obviously, projects unrelated directly to oil and gas operations in the GCC had major impacts and influences on all sectors in the rest of the economy. Indeed give the IOCs were (at least initially) the only source of managerial experience they were therefore central to economic development. In Saudi Arabia, any projects dear to the King's heart were given to Saudi Aramco to implement

Does infrastructure needed for core project development – roads, bridges, port facilities, etc. – have spillover effects for the local community?

Given that in the GCC before the development of the oil sector there was no infrastructure apart from some very primitive port facilities, any infrastructure did have a positive spillover impact on the local community. In effect the oil sector was the local community.

How might the development of non-core, local use infrastructure – such as power plants – provide benefits to both the investing firm and local constituencies? Are there potential risks associated with such infrastructure investments? What issues may arise from firms engaged in FDI directly facilitating such infrastructure development, as opposed to indirectly through rent redistribution via government programs?

Where the IOCs were involved in the GCC, project management was better quality. Also to some extent they were able to avoid prestige projects[21] and corruption tended to be less if only because of the growing constraints on how FDI companies could behave in the context of anti-corruption legislation.

Does FDI tend to enhance or degrade sustainable domestic investment?

In the GCC, FDI has had a significant enhancing impact on sustainable domestic investment both as a result of forward and backward linkages and general spillover effects. If nothing else, it has created aggregate demand for the economy to justify investment in productive activities.

Policy Interactions and Implications

How do local content requirements impact FDI and goals of workforce training, domestic employment, and local economic development?

This depends upon what the basis is for the "local content requirements". It is common practise globally to make the requirements a legal obligation. However, in many cases this simply leads to avoidance (legal) and evasion (illegal) as the foreign companies, and indeed domestic companies seek to get round such restrictions[22]. Generally in the GCC such legal obligations for local content are rare. In most cases the move to local content has been driven by market considerations i.e. local is cheaper for the company to use. For this reason the input of local content is genuine, based upon self interest.

How might the host national government use revenues collected from the extractive industries to sustainably promote welfare improvement? Is revenue sharing with sub national or regional governments effective, or is it fraught with risks of potential corruption? Are direct transfers with citizenry considered, and if so, how might new technologies enable such programs? Does this open the door for larger public-private engagement through FDI?

In the GCC, oil revenues have been used by all the governments to provide infrastructure to promote welfare. This involves providing health care, education and also the provision of jobs in the public sector. Direct transfers have never been considered except in the case where the ruling families have distributed largesse to ensure domestic support[23]. This however, has been done randomly on an ad hoc basis. Indirectly there have been extensive transfers, as GCC governments offer subsidies on basic commodities and utilities although in recent years, and especially following the oil price collapse of 2014, efforts have been made to reduce such subsidies simply because of the growing realization of the extent to which they have introduced serious distortions into the economies. Where these have led to significant rises in prices, technology has been used to create systems of welfare safety nets, lifeline tariffs and also measures to protect nationals at the expense of expatriate workers.

Does FDI impact local or national policy – for example environmental policy, land use regulations, and labour laws – and does this have a positive or negative impact on wealth creation and broad economic development?

Given the IOCs have needed to protect their international reputation globally, they always claimed that they pursue best practice techniques in terms of matters connected to health, safety and the environment[24]. In so far as this is true, they do provide a positive benchmark for other sectors and activities, which certainly has a positive impact on wealth creation and economic development.

What is the interplay between FDI and other investment vehicles and development assistance programs, and how does domestic policy factor into the equation?

Development assistance is not a relevant issue given the relative wealth of the GCC countries. However, much of the FDI investment takes place in the context of joint venture projects that involve domestic investors, either government or private. This does require the governments to behave when it comes to the economic and commercial operating environment. A particular problem in the GCC is the fact that because of the role of the ruling families, the legal systems can leave much to be desired. Property rights in some cases at some times have been a matter for concern. For example, in 2017 when Mohammad bin Salman 'detained' a number of rich senior Saudis in the Ritz Carlton Hotel and only released them upon payment of 'fines' it was far from clear what the legal basis of this action was. In the following six months it has been estimated that some $100 billion of private funds left the Kingdom. This was somewhat ironic given this was the sum it was hoped to be raised from the IPO of Saudi Aramco.

The Lessons Learnt for the IOCs

The experiences of the IOCs operating in the GCC show some very clear lessons on how they should behave if they are to have a positive impact on the economic development of the countries where they operate. The IOCs are not charities but it matters that they get it right in the context of resource curse. This means being aware of externalities that may benefit the host country. An excellent example of this in the context of the GCC was the large scale flaring of associated gas in the 1960s. At the time, the gas had no commercial value but it had huge potential for developing a petrochemical industry in the future. Another example was developing the managerial capacity of nationals. In a capital-intensive industry such as oil this may seem an unnecessary luxury but the benefits to the local economy were huge and IOC reputations were enhanced. At a local level, developing such linkages enhanced their license to operate. Today a good reputation also matters globally more than ever in a world where ethical investors are looking closely at their behaviour. This is especially relevant when they are coming under increasing scrutiny in a rapidly developing energy transition and the growth of the "Divest" campaign.

What is clear from the GCC experience is that they can make a positive difference to the countries where they operate by optimizing the linkages between the petroleum sector and the rest of the economy as outlined in Section 2c. Fiscal linkages are perhaps controversial. While providing revenues for the governments is important, equally important for the country is the deployment of those revenues. Profligate use of the revenues by government has created elements of traditional resource curse in the GCC. The best way of avoiding this is for the IOCs to help develop the capacity of the nationals in government both in terms of education and practical experience.

As for developing forward and backward linkages, the GCC experience suggest that leaving this to market forces is probably better than regulation if only because regulation invites avoidance. In terms of forward linkages there is always the problem that providing subsidized energy inputs can lead to unwanted distortions such as inefficient and excessive consumption. On the other hand, there is a variant of the 'infant industry argument' that in the early stages of industrial development there are certain advantages in taking the benefit of the comparative advantage of having cheap energy and feedstock.

As for backward linkages the key is to develop manpower capacity of nationals and undoubtedly, in the GCC, this has been the major contribution of the IOCs to the development of the host countries. This has three routes. First, there is in-house training. Second, there is liaising with and indeed helping to create local education establishments at all levels. To make this effective, planning for future labour requirements can be crucial so the manpower requirements are known in advance both in terms of skills and timing. Finally, where the IOCs are operating joint ventures the government, whether through ministries or NOCs, to operate mentoring systems. Developing the local value chain is also a major potential contribution to developing the economy. GCC experience suggests there are many ways in which IOCs can assist in this. An obvious one is to buy locally, even if it initially involves paying a premium. Another is to provide some degree of certainty over future requirements and to lock-in local companies possibly on long-term contracts. Aiding access to credit and capital for local companies can also provide encouragement.

The GCC experience shows there are two underlying difficulties facing the IOCs in developing these linkages. First, there is inevitably a conflict between the sovereignty of the government and interference by the IOC. The extent of this conflict depends upon the state of the country in terms of the quality of its technocrats and their institutions. Second, the fiscal linkage invariably causes conflict between the IOC and the government as they battle over their share of the economic rent. The two difficulties can be reinforcing. If relations between the two are bad over fiscal terms then any attempt by the IOCs to influence the government is likely to be seen as unwarranted interference based upon ulterior motives. GCC experience suggests that resolving these conflicts depend very much upon how far the management of the IOC operations develop good personal relations with government officials. Where the management of the IOCs are staffed with locals, this is very much easier.

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Endnotes

[1] The GCC was created in 1981, initially as a common defence pact in the context of the Iran-Iraq war, which began in 1980. The members are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE.

[2] A positive impact in this context is assumed to be one that develops fiscal, forward and backward linkages between the sector and the rest of the economy. This promotes economic growth and especially economic diversification away from dependence on oil

[3] The GCC was not actually created until 1981.

[4] In this period that constituted what Shell used to call WOCANA – the world outside of communist areas and North America.

[5] It was said that for every dollar they spent on getting the oil above ground, they had to spend two dollars on the provision of services for their operations.

[6] In the mid 1970s, this author as an assistant professor of economics at the American University of Beirut (AUB), tried to introduce a course on the economics of international petroleum, unbelievably absent from the AUB curriculum. At the time, New York University validated AUB. The request was rejected and the informal explanation given was that the American IOCs were reluctant to disseminate such 'information' to 'the other side'.

[7] This was not the case in the UAE, Qatar and Oman where the IOCs maintained a non-controlling share in the upstream i.e. less than 50 percent of the equity. However, the IOCs were still constrained by the growing view that FDI should not interfere with domestic policy making.

[8] In the mid to late 1970s a common joke in the GCC was that you could always tell the construction engineer. He was the person walking down the middle of the street! This reflected the fact that much of the concrete was created with highly saline water effectively leading to internal corrosion making buildings unsafe.

[9] The very high fixed costs involved in refinery economics meant they had to operate close to capacity. Otherwise the fixed costs covered by a lower throughput exponentially ate into refinery margins. This aggravated product oversupply, putting downward pressure on product prices further damaging refinery profitability.

[10] Rent seeking is when the agent captures the resources of the company to improve their own position in terms of salaries and employment conditions.

[11] 'Peak oil' was the idea based loosely on a Hubbert Curve of oil production. Oil reserves were finite and at some point a peak would be reached followed by an inevitable decline. It was a seriously flawed concept invented by geologists to upset economists. In that, they most definitely succeeded but the idea became very popular in the 1990s. 'The oil is running out!'

[12] The author found this a very common view in oil ministries and NOCs in the GCC countries

[13] There were three other pillars to their developing business model. Maximizing shareholder value; reducing costs based upon outsourcing as many activities as possible; and using a discount rate on projects loosely based on the 'capital asset pricing model'.

[14] The only possible exception to this statement was Dubai. Arguably, Dubai was never that directly dependent on oil revenues.

[15] For the GCC countries, subsidies on basic items of consumption ranging from foodstuffs to fuel, electricity and water had long been a key part of the social contract between rulers and ruled

[16] According to the pure form of this model, an IOC drilling a wildcat well on the dark side of the moon carried the same financial risk as buying a US treasury bond!

[17] This is not to understate the differences between the GCC States. When dealing with the GCC it is always as well to remember the old adage that all generalizations are wrong!

[18] The Saudi Government actually passed legislation that became known as "The son-of-a-bitchny Law". This made is a criminal offense to refer to any Saudi with that appellation. It should be pointed out that such a remark directed to an individual is regarded very seriously in any Islamic culture.

[19] The classic example was Saudi Arabia's first Minister of Finance Sheikh Abdullah bin Sulaiman Al-Hamdan, who allegedly kept the oil revenues in gold coin in chests under his bed. In the early 1950s, the level of his bed rose to a point where a central bank - Saudi Arabian Monetary Authority (SAMA) - had to be created in 1952.

[20] It was equivalent to offshore oil operations although even in that case there are impacts on local communities in terms of port facilities for supplying and servicing the offshore equipment.

[21] This was not always the case and much FDI not involving the IOCs such projects became a pre-condition for securing contracts.

[22] There is also 'avoision' which represents a grey area between what is legal and what is not. The classic example is the desk in a local office with two trays. Moving a piece of paper from one tray to the other converts imported equipment into local equipment.

[23] For example in Saudi Arabia, it was always the practice for the King to give family members 'holiday money' when they were traveling outside the Kingdom. This practice appears to have been stopped by King Abdullah on his accession when he tried to introduce a degree of austerity.

[24] One only has to see the damage done to Shell's reputation from its operation in Nigeria even although many of the claims may be untrue.