The political instability characterizing the Middle East is reviewed against a background of the region's recent history. The presence of oil and of Israel, regarded by other countries in the region as an alien implant, are seen as the special causes to particularly unstable political conditions. The impact of unsettling political events on oil supply is then explored. This reveals that the causes of political instability persevere, and so do the risks and dangers of future oil supply disruptions.

L'instabilité politique qui caractérise le Moyen-Orient est examinée à la lumière de l'histoire récente de la région. Les ressources pétrolières et la présence de l'État d'Israël, considéré comme un corps étranger par les autres pays de la région, sont tenus pour les causes particulières du contexte politique notablement instable. Les répercussions des bouleversements politiques sur les approvisionnements de pétrole sont ensuite examinées, ce qui permet de constater que les causes de l'instabilité politique sont toujours présentes, de même que les risques de perturbations futures des approvisionnements.

The Political Instability of the Middle East and Its Impact on Oil Production and Trade

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1. Introduction

The Middle East holds a very large proportion of the world's proven oil reserves. More importantly, the region has been the major potential source of *incremental* supplies since the 1940s, and will retain this role in the foreseeable future. Other oil regions that played this role in the past, such as the North Sea and Mexico, have not been able to sustain it for very long.

Yet, the Middle East is unstable politically. Its troubled history has been punctuated with crises since the end of the Second World War; crises that were associated with either a threat to or an actual disruption of oil supplies.

Some of these crises, particularly in 1973 and 1979, involved an interruption of oil supplies that caused significant price increases. Others affected oil production and trade while failing to cause prices to rise. But even these "mild" crises induced important structural changes in the oil industry.

Political instability in the Middle East has not yet negated the importance of the region for world oil. To be sure, many industrialized and developing countries made strenuous efforts in the 1970s and 1980s to reduce their dependence on oil imports from the Middle East. And for a short period in the 1980s, the view that "the

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Middle East may not matter after all" emerged and gained some currency. But oil-import dependence is on the rise again.

For these reasons, any serious understanding of major petroleum issues — supply security, market performance, prices, industrial structure, investment patterns, the future place of oil in the energy demand-mix, etc. — involves an assessment of Middle Eastern political problems.

In the next section, I shall briefly analyze the main causes of political instability in the Middle East. In section 3 an attempt is made to assess the impact of political crises and other major events on oil. Some speculation about the future is offered in conclusion.

2. Political Instability in the Middle East

The causes of political instability in the Middle East are many. The first is economic underdevelopment. All countries in North Africa, the Levant, the Arabian Peninsula and the rest of Western Asia are underdeveloped. Oil wealth has not removed this feature. It may have raised standards of living in parts of the region and created a small number of very rich families. But even those Gulf states where per capita incomes are higher than anywhere else in the world are still underdeveloped. Their manpower resources are limited and poorly endowed with technical and professional skills. Their institutions are bureaucratic and inefficient. These economies depend entirely on a single commodity, and lack, therefore, the diversified productive structures capable of sustained economic growth.

The poorer Middle Eastern countries, which account for a very large share of the region's population, suffer from both these and other problems. High rates of population growth have caused, and continue to cause, greater impoverishment and social tensions. Internal migration, the inevitable consequence of a galloping demography in countries where the rural resource base is exceedingly narrow, is a source of social dislocation and economic frustration. In these countries the educational system and the health and social services are all failing to keep pace with population pressures. And governments are becoming increasingly unable to manage their economy. They are finding themselves squeezed between the problems arising from the servicing requirements of their foreign debt and those posed by their country's poverty.

Continuing underdevelopment is perceived as a failure by populations which harbour expectations of betterment, expectations sown in by education, the lure of the town, the money remitted by migrants working in oil countries, the television image and the all-intruding symbols of the consumers' society. This sense of failure is a cause of instability.

The second factor is oil. Oil has been a source of both wealth and corruption. It has induced, after 1973 and 1979, rising expectations for rapid and significant betterments which the oil economies could not deliver. This phenomenon has played a partial role in the events leading to the Iranian revolution. To be sure, oil wealth has benefited more people in the Middle East than generally recognized, but it has caused considerable social tensions between those who obtained a little and those who acquired a lot, be it countries or different groups in the same country.

Oil also aggravates the separation between governments and their subjects because it provides governments directly with all their required revenues. The oil state has no need to tax citizens or residents; the absence of taxation removes a possible instrument of accountability. Much worse, the population becomes dependent on the largesse, direct or indirect, of the state. The citizens become intermediaries, rentiers or courtiers. Deep down they may despise and resent those who govern their destiny and on whom they depend for handouts. In these societies there is dependence but no real allegiance. Oil corrupts, because the basic nexus between work and reward is broken throughout large segments of society in an oil economy.

Finally, oil brings in foreign intervention. So long as the Middle East remains the major source of incremental oil supplies it will live under the threat of foreign military incursions.

The third factor of political instability in the Middle East, as in Africa and in the Indian subcontinent for example, relates to the drawing of political boundaries by the imperial powers either at the time of colonization or at the time of independence. Once a new country has been

created, be it with artificial or very ill-defined borders, it tends to acquire very quickly all the features and attributes of a nation-state.

Although a country, once established, quickly sets hard and becomes a nation state, the artificial features of its creation do not usually die away. They constitute, and for a long time, potential sources of both internal unrest and conflict with neighbours. The problem of ill-defined borders is also a dangerous cause of trouble. Border disputes have plagued relationships between pairs of neighbouring countries in the Middle East, particularly in the Gulf, since their emergence as independent states. The Iraq-Kuwait border dispute, which played such an important role in the August 1990 events, is but one instance of a very widespread problem which is at the root of much regional instability.

The fourth factor of political instability, is related to the role played by the superpowers. The US was determined to prevent the spread of communist parties and regimes in the third world, and favoured therefore military dictatorship or right-wing traditional governments. The USSR also supported communist dictatorships as well as non-communist strongmen who happened to be allies.

Democracy does not blossom easily in a third world country. The first step in the very long process that leads to the establishment of democratic institutions is the emergence of a national consensus on important political issues and of rulers or leaders legitimized by public support. It is worth noting that the great powers have always reacted antagonistically, if not violently, to any leader who embraced national causes. Any leader who legitimized his rule with his people by embracing deep national aspirations was confronted at the very time when he was enjoying legitimacy. The honeymoon between an emerging dictator and his own people may be a fleeting moment. It is during this moment that the great powers usually tried to remove or vilify the leader — Mosaddeq in 1951, Nasser in 1956, King Feisal in 1973, Khomeini in 1979. But the dictators who never enjoyed the support of their people were never seriously challenged. They only incurred the powers' wrath when they embarked on foreign adventures without the support of their people — like Qaddafi after 20 years of unpopular rule when he pushed his luck too far with terrorist attacks, and Saddam Hussein, cajoled so long as he was fighting Iran, when he turned his guns onto Kuwait.

Dictatorships may achieve, at the cost of coercion and at the expense of basic human rights, a period of apparent internal stability. But dictatorships are like lids tightly secured on the top of boiling pans. The pressures are only contained for a while. When the lid can no longer hold securely, explosions (like the Iranian revolution) with considerable side effects occur. Dictators also cause instability because their power tends in the end to affect their judgement and their wisdom. Power becomes very quickly absolute power; absolute power becomes arbitrary power. The exercise of power shuts the dictator's ears: he does not listen to advice, and even if he wishes to listen he will rarely find an adviser or a messenger willing to convey bad news or to contradict the master. The exercise of power by unchallenged individuals can lead to adventurism and therefore cause considerable instability.

The fifth factor is the existence of Israel, a fundamental cause of instability. Israel is a small foreign body artificially inserted in a large living organism, and kept there with the application of tremendous force. The organism wants to reject it but has consistently failed to do so for more than forty years. This failure has traumatized the organism. Hence the deep political frustrations which cause extremism and terrorism on both sides of the conflict, in the Arab world and in Israel.

The existence of Israel has destabilized the region both through the emergence of extremism and through open wars. It has provided further excuses for the establishment of dictatorships and coercion (the argument being that strong regimes are needed to stand up to the outside enemy). It has frustrated very deeply every Arab because of the failure of the Arab nation and all its governments to solve the Palestinian problem and because of repeated military defeats in the confrontation with Israel. This has resulted in alienation on two important counts. Alienation of the people from their "incompetent" governments, and alienation of the self from the self. The former has made most, if not all, governments in the region illegitimate in the eyes of

their people; the latter has induced a search for a new basis on which to build self esteem and reconcile through a solid bridge of values the alienated parts of the self. Hence, the delving in the past in a search for roots and values in religion and the culture. Hence the emergence of fundamentalism which is not the initial cause of instability and frustrations but its consequence. In its extreme forms (see above) fundamentalism at the fringes may also become destabilizing in turn. This is how vicious circles emerge and trap those involved in developments where nobody gains.

The destabilizing forces which operate in the Middle East originate both from within and from outside. Many of these forces are not specific to the Middle East. Underdevelopment, the political consequences of the drawing of boundaries by colonial powers, and the interference of superpowers are features of recent historical development in large parts of the third world. One unifying concept which relates all these factors is perhaps the concept of 'decolonization.' Many third world countries have gone through a process, sometimes violent, always troublesome and destabilizing, of decolonization. This involved confrontation with foreign powers, nationalization of foreign assets, the pursuit of extreme nationalist objectives and policies, revolutions, coups d'états, and in some instances civil or external wars. Two of the other causes of instability that are specific to the Middle East — oil and the implantation of Israel — have aggravated the tensions involved in the decolonization process. Oil was in a very privileged sense a foreign asset, a target for nationalizations, and Israel was and still is perceived as a colonial incursion which has paradoxically occurred at the time of decolonization.

3. Political Problems and Oil Developments

As mentioned in the Introduction, political crises, nationalizations of foreign assets, wars and other conflicts have been a conspicuous part of the recent history of Middle Eastern countries, both Arab and non-Arab. These events have often had wide and significant repercussions outside the region — partly because of the strategic importance of the Middle East in the context of superpower rivalries, and partly because of the dominant place occupied by many Arab countries, and Iran, in the oil world.

In two instances oil was one of the factors causing the political crisis. I am referring to the nationalization of Anglo-Iranian by Mossadeq in 1951 and to the Gulf crisis and war of 1990-91. In other instances, the Arab-Israeli conflict was the direct cause of wars and associated disturbances as in June 1967 and October 1973. Different factors caused other wars and crises such as the nationalization of the Suez Canal by Nasser in 1956, the Libyan coup d'état in 1968, the Iranian revolution of 1978-9 and the Iraq-Iran war in 1980-87.

This categorization, however, is too neat. More than one factor was at play in each of these events. The nationalization of oil by Mossadeq and of the Suez Canal by Nasser were both part of a drive for greater independence and decolonization. The Suez crisis led to a war in which Israel was involved and was therefore related to the Arab-Israeli conflict. The US intervention in the Gulf in 1990-91 had several objectives besides the liberation of Kuwait, namely the protection of oil resources in the Gulf and the removal of a threat to the security of Israel which a militarily powerful Iraq may have posed in the medium or long term. And the 1973 crisis consisted of a cluster of events: an OPEC decision to raise the price of oil which coincided with an Arab-Israeli war and led for the first and, so far, only time to the use of oil as a political weapon.

Some of these events led to foreign intervention. Mossadeq was removed by an internal coup supported by the CIA. The nationalization of the Suez Canal brought about a military intervention by Britain, France and Israel. And the invasion of Kuwait by Iraq caused a war by a UN coalition formed and led by the US.

All of these events had repercussions of different nature and significance on oil. The most dramatic were the price rises of 1973 and 1979. The Mossadeq episode failed to disrupt world supplies and to affect prices but led to some structural changes (with the entry of US companies including small independents in Iran) and, more importantly, was a precursor of the nationalizations of the late 1960s and the 1970s. The tempo-

rary closure of the Suez Canal in 1956 accelerated the development of supertankers and the re-routing of oil trade around the Cape. The Libyan revolution started a sequence of oil price rises which enhanced OPEC's confidence in bargaining with oil companies. The Iraq-Iran war had a serious impact on the production capacity of both countries from which Iran has not yet recovered. It also involved a crypto "price war" which was prolonged into 1988, for reasons that remain obscure. Contrary to a common belief, political instability in the Middle East does not only cause price explosions; it can be responsible for price falls.

Finally the Gulf crisis and war of 1990-91 had short-term effects on prices, devastating consequences on the oil assets of Kuwait and long term repercussions which are yet to unfold. One of the immediate effects of the Gulf war is an increased dependence of Saudi Arabia and other Gulf states for security on the US, a sharper awareness of this dependence and a greater sensitivity to US objectives, views and policies regarding world oil. The long-term effects may either reinforce or, on the contrary, dramatically reverse these trends.

Four decades of recent Middle Eastern history thus reveal in diverse and complex ways the links between political instability and oil developments, be it supply disruptions and price effects, destruction of capacity, or relationships between foreign companies and governments. These political factors have also led to the vertical disintegration of the international oil industry in the 1970s and 1980s. Disintegration involves considerable structural changes. Two of the most important are:

(1) The replacement of transactions internal to the oil firms, and transactions conducted under very long-term contracts between vertically integrated firms, by arms length sales and purchases. An external market, already in existence on a small scale, developed into a considerable institution and acquired in the process a number of diverse functions and dimensions. In less than 10 years the oil market added to spot deals, forward physical, forward contracts and futures transactions, and an increasingly richer array of trading instruments: options, swaps, trading in spreads, and such esoteric instruments known as boxes, butterflies, condors etc. The oil market has ceased to be the exclusive club of oil companies and is now inhabited by trading houses, speculators, financial institutions and a host of other economic agents —individuals as well as corporations.

(2) The second consequence of vertical disintegration was increased exploration and development of petroleum reserves by oil companies in countries willing to provide them, in one form or another, with equity oil. This caused investment to move from the low-cost oil provinces of the OPEC region to (generally) higher-cost regions. There was a dramatic increase in non-OPEC supplies between the late 1970s and the late 1980s which was not due in its entirety to the incentive provided by the 1973 oil price rise. Some significant investments and some crucial decisions to invest on a large scale outside the OPEC region were made before October 1973 partly because of fears of nationalization which began to emerge in the late 1960s.

In short, these were profound transformations in the size and functions of the petroleum market, in the pattern of upstream investments and in the structure of the international petroleum industry. The price shocks played a role in all that, not however the most important one, although it was the price shocks that attracted, for good or bad reasons, all the attention. The most important role was played by nationalist policies which are part and parcel, the inevitable expression, of a decolonization drive. The oil concessions, and, for that matter, the Suez Canal concession, were perceived as colonial implants. Israel is perceived in the Arab world as a foreign, colonial outpost. Decolonization is a violent process. It involves a struggle against foreign interests. It also involves a violent rejection of regimes, that of King Farouk in Egypt, of King Idriss of Libya, of the Shah of Iran, all perceived as alien to the national identity or aspirations of the country because of their allegiance to, or dependence on, foreign powers. And decolonization combines with all the complex factors analyzed earlier on — underdevelopment, dictatorships, social tensions due to oil wealth, etc. — in exacerbating internal and regional conflicts. Hence, wars between neighbours, civil wars and in certain instances a response from outside

powers which clumsily intervene politically and militarily.

The most important changes in the world oil scene were due to the vertical disintegration and the search for security of oil supplies (through conservation, interfuel substitution and development at sources of oil outside the OPEC region). Both resulted from a set of political factors labelled for short, and perhaps not very accurately, "political instability."

4. Conclusion

The question, when considering or speculating about the future, is whether the decolonization phase with all its violent spasms and crises is ending or whether the many causes of political instability in the Middle East will continue to disrupt the region, extending their repercussions to world oil.

One may be tempted to think that decolonization is akin to an adolescence crisis. After the shackles of dependence have been shaken away with cathartic violence, a more stable situation may emerge with nations becoming secure in adulthood and ready to engage in mutually beneficial relationships. Things, however, are not that simple. First, the problems that third world countries face are not all solved by the process of affirming or establishing full independence. Underdevelopment is an ill which persists for a long time after. The tensions between a homogeneous nation state and a society divided into different ethnic, religious and cultural groups, tend to persist and may reemerge after a long time, as in today's Yugoslavia, with a vengeance. The tensions between neighbours with ill-defined borders will tend to persist and survive decolonization, even if the areas on both sides of these borders are inhabited by people from the same tribe or the same ethnic group.

Secondly, the balance of power in the world is so uneven that the temptation of big nations to interfere in the affairs of smaller ones, albeit not directly, is a permanent cause of resentment and frustrations.

Thirdly, we are still a very long way from the emergence of mature democratic systems in large parts of the third world, in the Middle East (and for that matter in the ex-Soviet Union). Authoritarian regimes are destabilizing in very disruptive ways despite their ability to keep the lid on top of explosive situations. And authoritarian, even dictatorial, regimes might well continue to rule, often with outside support.

Fourthly, the "decolonization" issue in the Middle East is further exacerbated by oil and Israel, these two specific features of the region that are most likely to shape the landscape for a long time to come.

The end of the Cold War, and the Gulf crisis of 1990-91, may have generated the feeling that a new era, a new order, is on the point of being ushered in. The prospects for stability may appear to have increased because the superpowers will no longer engage in rivalry games in the area, and because the alliance between the US and Gulf states has strengthened.

I often hear approving remarks on how the governments of OPEC, oil-exporting countries and other similar entities are now becoming "reasonable;" more willing to accept the role of free markets, more open to foreign investments, less inhibited about the development of close bonds with the West. All that is true. But beware of misinterpreting its meaning. The opening up is not due to a realization that these countries have risen to the status of equal, independent partners, but to a deep sense of failure and feelings of inferiority. The dependence is being sought by the weaker party, not imposed on them by the stronger one.

In that, governments are at odds with the basic, strong, often implicit instincts of their people. And whenever this chasm exists and when it is likely to deepen, expect much future political instability.