

The First Law of Petropolitics

By Thomas Friedman¹

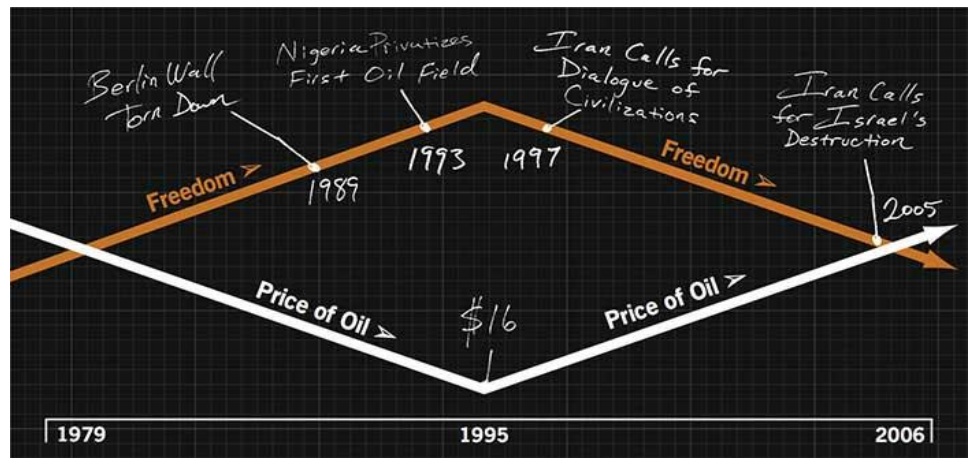
From Foreign Policy Magazine, May/June 2006

When I heard the president of Iran, Mahmoud Ahmadinejad, declare that the Holocaust was a "myth," I couldn't help asking myself: "I wonder if the president of Iran would be talking this way if the price of oil were \$20 a barrel today rather than \$60 a barrel." When I heard Venezuela's President Hugo Chavez telling British Prime Minister Tony Blair to "go right to hell" and telling his supporters that the U.S.-sponsored Free Trade Area of the Americas "can go to hell," too, I couldn't help saying to myself, "I wonder if the president of Venezuela would be saying all these things if the price of oil today were \$20 a barrel rather than \$60 a barrel, and his country had to make a living by empowering its own entrepreneurs, not just drilling wells."

As I followed events in the Persian Gulf during the past few years, I noticed that the first Arab Gulf state to hold a free and fair election, in which women could run and vote, and the first Arab Gulf state to undertake a total overhaul of its labor laws to make its own people more employable and less dependent on imported labor, was Bahrain. Bahrain happened to be the first Arab Gulf state expected to run out of oil. I couldn't help asking myself: "Could that all just be a coincidence? Finally, when I look across the Arab world, and watching popular democracy activists in Lebanon pushing Syrian troops out of their country, I couldn't help saying to myself: "is it an accident that the world's first and closest thing to a democratic country happens not to have a drop of oil?"

The more I pondered these questions, the more it seemed obvious to me that there must be a correlation – a literal correlation that could be measured and graphed – between the price of oil and the pace, scope and sustainability of political freedoms and economic reforms in certain countries. A few months ago I felt the need to try to quantify this intuition in graph form. Along one axis would be plotted the average global price of crude oil, and along the other would be the pace of expanding or contracting freedoms, both economic and political, as best as research organizations such as Freedom House could measure them. Examined would be the extent of free and fair elections held, independent newspapers opened or closed, arbitrary arrests, reformers elected to parliaments, economic reforms projects started or stopped, companies privatized and companies nationalized, and so on.

I would be the first to acknowledge that this is not a scientific lab experiment, because the rise and fall of economic and political freedom in a society can never be perfectly quantifiable or interchangeable. But I think there is value in trying to demonstrate this very real correlation between the price of oil and the pace of freedom, even with its imperfections. Because the rising price of crude is certain to be a major factor in shaping international relations for the near future, we must try to understand any connection it has with the character and direction of global politics. The



graphs assembled here do certainly suggest a strong correlation between the price of oil and the pace of freedom – so strong, in fact, that I would like to spark this discussion by offering the First Law of Petropolitics.

The First Law of Petropolitics posits the following: The price of oil and the pace of freedom always move in opposite directions in oil-rich petrolist states. According to the First Law of Petropolitics, the higher the average global crude oil price rises, the more free speech, free press, free and fair elections, an independent judiciary, the rule of law and independent political parties are eroded. And these negative trends are reinforced by the fact that the higher the price goes, the less petrolist leaders are sensitive to what the world thinks or says about them. Conversely, the lower the price of oil, the more petrolist countries are forced to move toward a political system and a society which is more transparent, more sensitive to opposition voices, and more focused on building the legal and educational structures that will maximize their people's ability, both men's and women's, to compete, start new companies, and attract investment from abroad. The lower the price of crude oil falls, the more petrolist leaders are sensitive to what outside forces think of them.

I would define petrolist states as states that are both dependent on oil production for the bulk of their exports or gross domestic product and have weak state institutions or outright authoritarian governments. High on my list of petrolist states would be

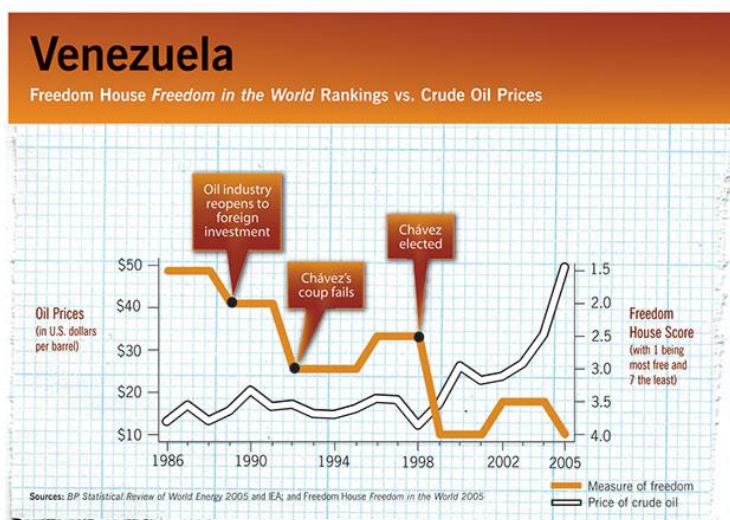
¹ Thomas L. Friedman is a columnist for The New York Times and author of, most recently, "The World Is Flat: A Brief History of the Twenty-First Century" (Farrar, Straus & Giroux, 2005) Foreign Policy 2006

Azerbaijan, Angola, Chad, Egypt, Equatorial Guinea, Iran, Kazakhstan, Nigeria, Russia, Saudi Arabia, Sudan, Uzbekistan and Venezuela. (Countries that have a lot of crude oil but were well-established states with solid democratic institutional and diversified economies before their oil was discovered – Britain, Norway, the United States, for example – would not be subject to the First Law of Petropolitics.²)

To be sure, professional economists have, for a long time, pointed out in general the negative economic and political impacts that an abundance of natural resources can have on a country. This phenomenon has been variously diagnosed as "Dutch Disease" or the "resource curse".³ Dutch Disease refers to the process of deindustrialization that can result from a sudden natural resource windfall. The term was coined in the Netherlands in the 1960s, after it discovered huge deposits of natural gas. What happens in countries with Dutch Disease is that the value of their currency rises, thanks to the sudden influx of cash from oil, gold, gas, diamonds or some other natural resource discovery. That then makes the country's manufactured exports uncompetitive and its imports very cheap. The citizens, flush with cash, start importing like crazy, the domestic industrial sector gets wiped out and, presto, you have deindustrialization. The "resource curse" can refer to the same economic phenomenon, as well as, more broadly speaking, the way a dependence on natural resources always skews a country's politics and investment and educational priorities, so that everything revolves around who controls the oil tap and who gets how much from it – not how to compete, innovate, and produce real products for real markets.

Beyond these general theories, some political scientists have explored how an abundance of oil wealth, in particular, can reverse or erode democratizing trends. One of the most trenchant analyses that I have come across is the work of UCLA political scientist Michael L. Ross. Using a statistical analysis from 113 states between 1971 and 1997, Ross concluded that a state's "reliance on either oil or mineral exports tends to make it less democratic; that this effect is not caused by other types of primary exports; that it is not limited to the Arabian Peninsula, to the Middle East, or sub-Saharan Africa; and that it is not limited to small states."

Ross essentially argues that excessive oil wealth impedes democracy for a specific reasons. First, Ross argues, there is the "taxation effect." Oil-rich governments tend to use their revenues to "relieve social pressures that might otherwise lead to demands for greater accountability" from, or representation in, the governing authority. Oil-backed regimes that do not have to tax their people in order to survive also do not have to listen to their people or represent their wishes.



The second mechanism through which oil dampens democratization, argues Ross, is the "spending effect." Oil wealth leads to greater patronage spending, which in turn dampens pressures for democratization. The third mechanism he cites is the "group formation effect." When oil revenues provide an authoritarian state with a cash windfall, the government can use its newfound wealth to prevent independent social groups – precisely those most inclined to demand political rights – from forming. In addition, he argues, an overabundance of oil revenues can create a "repression effect," because it allows governments to spend excessively on police, internal security and intelligence forces that can be used to choke democratic movements.

Finally, Ross sees a "modernization effect" at work. A massive influx of oil wealth can diminish social pressures for occupational specialization, urbanization and the securing of higher levels of education — trends that normally accompany broad economic development and that also produce a public that is more articulate, better able to organize, bargain and communicate, and endowed with economic power centers of its own.

The First Law of Petropolitics tries to build on such arguments but to take the correlation between oil and politics one step further. What I am arguing in positing the First Law of Petropolitics is not only that an overdependence on crude oil can be a

² Why? The First Law of Petropolitics presumes weak governmental institutions, in so much as it allows for an ebb-and-flow of civil liberties by authoritarianism or totalitarian dictatorships. The nations with established and stable democratic institutions prior to the discovery of oil would not be in a position where oil resources would be a destabilizing force.

³ The resource curse (Paradox of Plenty) refers to the paradox that countries and regions with an abundance of natural resources, specifically point-source non-renewable resources like minerals and fuels, tend to have less economic growth and worse development outcomes than countries with fewer natural resources. This is hypothesized to happen for many different reasons, including a decline in the competitiveness of other economic sectors (caused by appreciation of the real exchange rate as resource revenues enter an economy), volatility of revenues from the natural resource sector due to exposure to global commodity market swings, government mismanagement of resources, or weak, ineffectual, unstable or corrupt institutions (possibly due to the easily diverted actual or anticipated revenue stream from extractive activities).

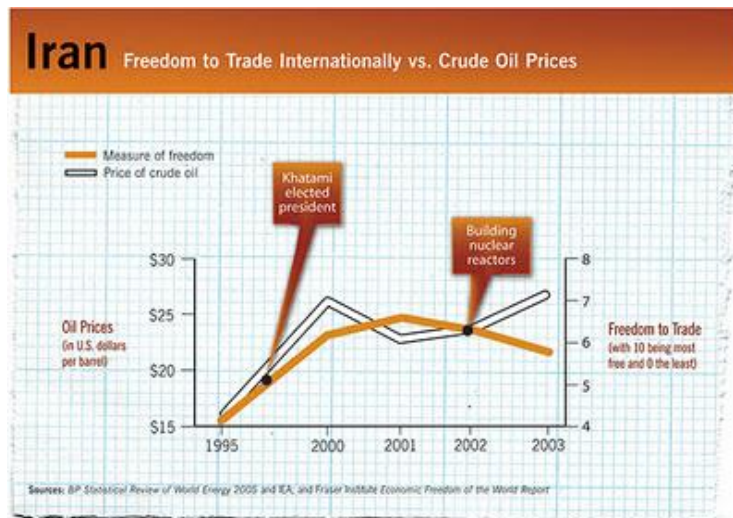
course in general but also that one can actually correlate rises and falls in the price of oil with rises and falls in the pace of freedom in petrolist countries.

The reason this connection between the price of oil and the pace of freedom is worth focusing on today is that we appear to be at the onset of a structural rise in global crude oil prices. If that is the case, this higher price level is almost certain to have a long-term effect on the character of politics in many weak or authoritarian states. That, in turn, could have a negative global impact on the post-Cold War world as we have come to know it. In other words, the price of crude should now be a daily preoccupation of the U.S. secretary of state, not just the treasury secretary.

Since 11th September 2001, oil prices have structurally shifted from the \$20-\$40 range to the \$40-\$60 range. Part of this move has to do with a general sense of insecurity in global oil markets due to violence in Iraq, Nigeria, Indonesia and Sudan, but even more appears to be the result of what I call the "flattening" of the world and the rapid influx into the global marketplace of 3 billion new consumers, from China, Brazil, India and the former Soviet Empire, all dreaming of a house, a car, a microwave and a refrigerator. Without a dramatic move toward conservation in the West, or the discovery of an alternative to fossil fuels, we are going to be in this \$40-to-\$60 range, or higher, for the foreseeable future.

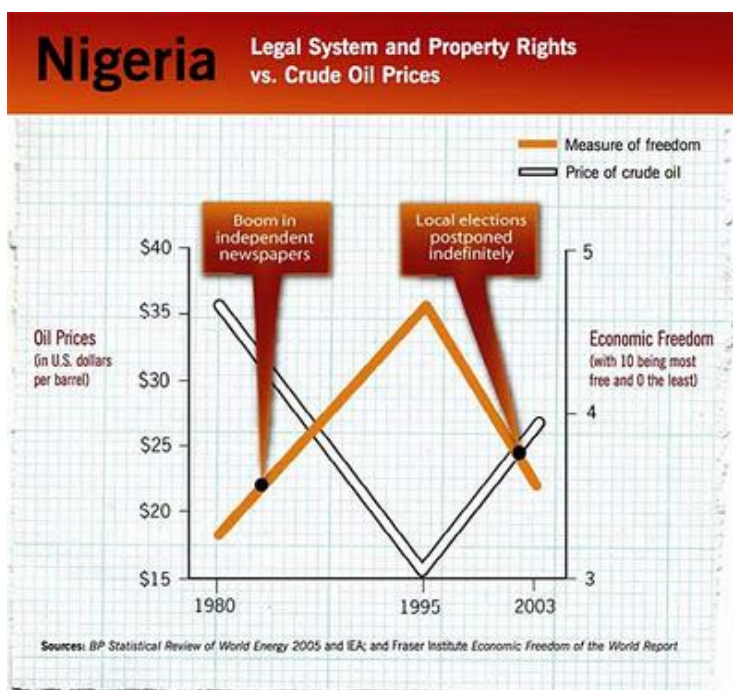
Politically, that will mean that a whole group of petrolist states – with weak institutions or outright authoritarian governments – will likely experience an erosion of freedoms and an increase in corruption and autocratic, antidemocratic behaviors. Leaders in these countries can expect to have a significant increase in their disposable income to build up security forces, bribe opponents, buy votes or public support, and resist international norms and conventions. One need only pick up the newspaper on any day of the week to see evidence of this trend.

Consider a February 2005 article in the *Wall Street Journal* about how the mullahs in Tehran – who now are flush with cash thanks to high oil prices – are turning their backs on some foreign investors instead of rolling out the welcome mat. Turkcell, a Turkish mobile-phone operator, had signed a deal with Tehran to build the country's first privately owned cell-phone network. It was an attractive deal: Turkcell agreed to pay Iran \$300 million for the license and invest \$2.25 billion in the venture, which would have created 20,000 Iranian jobs. But the mullahs in the Iranian Parliament had the contract frozen, claiming it might help foreigners spy on Iran. Ali Ansari, an Iran expert at the University of St. Andrews in Scotland, told the *Journal* that Iranian analysts had been arguing in favor of economic reform for 10 years. "In actual fact, the scenario is worse now," said Ansari. "They have all this money with the high oil price, and they don't need to do anything about reforming the economy."



Or, how about a Feb. 11, 2006, story in *The Economist* about Iran, which stated: "Nationalism is easier on a full stomach and Mr. Ahmadinejad is the rare and fortunate president who expects to receive, over the coming Iranian year, some \$36 billion in oil export revenues to help buy loyalty. In his first budget bill, now before parliament, the government has promised to build 300,000 housing units, two-thirds of them outside big towns, and to maintain energy subsidies that amount to a staggering 10% of [gross domestic product]."

Or, consider the drama now unfolding in Nigeria. Nigeria has a term limit for its presidents – two four-year terms. President Olusegun Obasanjo came to office in 1999, after a period of military rule, and was then reelected by a popular vote in 2003. When he took over from the generals in 1999, Obasanjo made headlines by investigating human rights abuses by the Nigerian military, releasing political prisoners, and even making a real attempt to root out corruption. That was when oil was around \$25 a barrel. Today, with oil at \$60 a barrel, Obasanjo is trying to persuade the Nigerian legislature to amend the constitution to allow him to serve a third term. A Nigerian opposition



leader in the House of Representatives, Wunmi Bewaji, has alleged that bribes of \$1 million were being offered to lawmakers who would vote to extend Obasanjo's tenure. "What they are touting now is \$1 million per vote," Bewaji was quoted as saying in a March 11, 2006, article by VOA News. "And it has been coordinated by a principal officer in the Senate and a principal officer in the House."

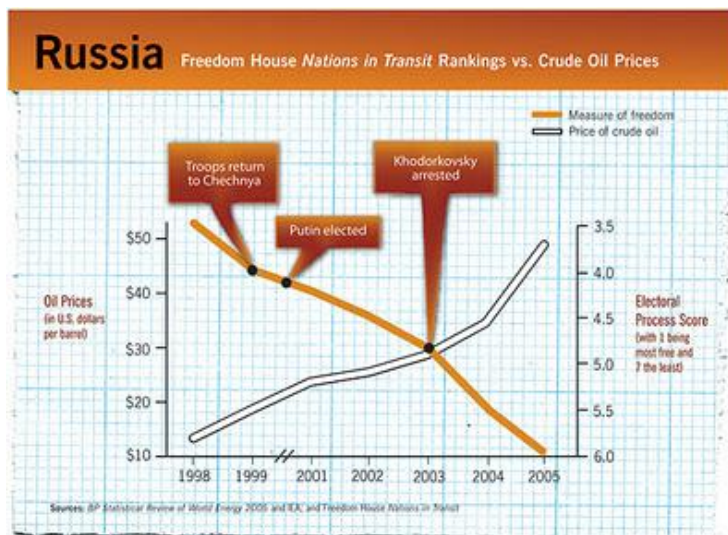
Clement Nwankwo, one of Nigeria's leading human rights campaigners, told me during a visit to Washington in March that since the price of oil has started to climb, "civil liberties [have been] on a huge decline – people have been arbitrarily arrested, political opponents have been killed, and institutions of democracy have been crippled." Oil accounts for 90 percent of Nigeria's exports, added Nwankwo, and that explains, in part, why there has been a sudden upsurge in the kidnapping of foreign oil workers in Nigeria's oil-rich Niger Delta. Many Nigerians think they must be stealing oil, because so little of the revenue is trickling down to the Nigerian people.

Very often in petrolist states, not only do all politics revolve around who controls the oil tap, but the public develops a distorted notion of what development is all about. If they are poor and the leaders are rich, it is not because their country has failed to promote education, innovation, rule of law, and entrepreneurship. It is because someone is getting the oil money and they are not. People start to think that, to get rich, all they have to do is stop those who are stealing the country's oil, not build a society that promotes education, innovation, and entrepreneurship. "If Nigeria had no oil, then the entire political equation would be different," said Nwankwo. "The income would not be coming from oil and therefore the diversification of the economy would become an issue and private enterprise would matter more, and people would have to expand their own creativity."

Indeed, the link between oil prices and the pace of freedom is so tight in some countries that even a far-sighted leadership can be diverted from the path of economic and political reform by a sudden spike in crude prices. Consider Bahrain, which knows it is running out of oil, and has been a case study of how falling oil revenues can spur reform. Even it has not been able to resist the temporary seduction of higher oil prices. "We are having good times now because of high oil prices. This may lead officials to be complacent," Jasim Husain Ali, head of the University of Bahrain's economic research unit, recently told the *Gulf Daily News*. "This is a very dangerous trend, as oil income is not sustainable. [Bahrain's] [d]iversification may be enough by Gulf standards, but not by international standards." No wonder a young Iranian journalist once remarked to me while we were on a stroll in Tehran: "If only we didn't have oil, we could be just like Japan."

With all due respect to Ronald Reagan, I do not believe he brought down the Soviet Union. There were obviously many factors, but the collapse in global oil prices around the late 1980s and early 1990s surely played a key role.

(When the Soviet Union officially dissolved on Christmas Day 1991, the price of a barrel of oil was hovering around \$17.) And lower oil prices also surely helped tilt the postcommunist Boris Yeltsin government toward more rule of law, more openness to the outside world, and more sensitivity to the legal structures demanded by global investors. And then came Russian President Vladimir Putin. Think about the difference between Putin when oil was in the \$20-\$40 range and now, when it is \$40-\$60. When oil was \$20-\$40, we had what I would call "Putin I." President Bush said after their first meeting in 2001 that he had looked into Putin's "soul" and saw in there a man he could trust. If Bush looked into Putin's soul today – Putin II, the Putin of \$60 a barrel – it would look very black down there, black as oil. He would see that Putin has used his oil windfall to swallow (nationalize) the huge Russian oil company, Gazprom, various newspapers and television stations, and all sorts of other Russian businesses and once independent institutions.



When oil prices were at a nadir in the early 1990s, even Arab oil states, such as Kuwait, Saudi Arabia, and Egypt, which has substantial gas deposits, were at least talking about economic reform, if not baby-step political reforms. But as prices started to climb, the whole reform process slowed, particularly on the political side.

As more and more oil wealth piles up in petrolist countries, it could really begin to distort the whole international system and the very character of the post-Cold War world. When the Berlin Wall fell, there was a widespread belief that an unstoppable tide of free markets and democratization had also been unleashed. The proliferation of free elections around the world for the next decade made that tide very real. But that tide is now running into an unanticipated counter-wave of petro-authoritarianism, made possible by \$60-a-barrel oil. Suddenly, regimes such as those in Iran, Nigeria, Russia, and Venezuela are retreating from what once seemed like an unstoppable process of democratization, with elected autocrats in each country using their sudden oil windfalls to ensconce themselves in power, buy up opponents and supporters, and extend their state's chokehold into the

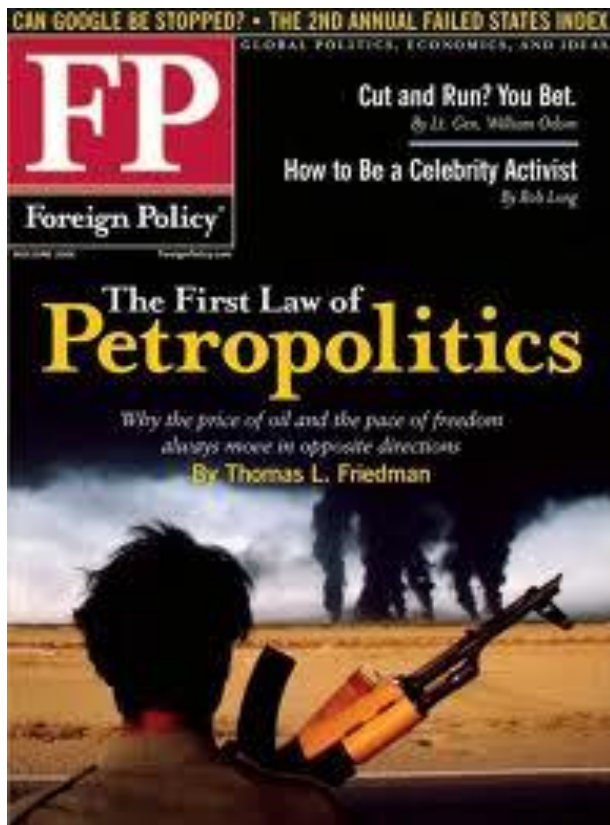
private sector, after many thought it had permanently receded. The unstoppable tide of democratization that followed the fall of the Berlin Wall seems to have met its match in the black tide of petro-authoritarianism.

Although petro-authoritarianism does not represent the sort of broad strategic and ideological threat that communism posed to the West, its long-term impact could nevertheless corrode world stability. Not only will some of the worst regimes in the world have extra cash for longer than ever to do the worst things, but decent, democratic countries—India and Japan, for instance—will be forced to kowtow or turn a blind eye to the behavior of petro-authoritarians, such as Iran or Sudan, because of their heavy dependence on them for oil. That cannot be good for global stability.

Let me stress again that I know that the correlations suggested by these graphs are not perfect and, no doubt, there are exceptions that readers will surely point out. But I do believe they illustrate a general trend that one can see reflected in the news every day: The rising price of oil clearly has a negative impact on the pace of freedom in many countries, and when you get enough countries with enough negative impacts, you start to poison global politics.

Although we cannot affect the supply of oil in any country, we can affect the global price of oil by altering the amounts and types of energy we consume. When I say “we,” I mean the United States in particular, which consumes about 25 percent of the world’s energy, and the oil-importing countries in general. Thinking about how to alter our energy consumption patterns to bring down the price of oil is no longer simply a hobby for high-minded environmentalists or some personal virtue. It is now a national security imperative.

Therefore, any American democracy-promotion strategy that does not also include a credible and sustainable strategy for finding alternatives to oil and bringing down the price of crude is utterly meaningless and doomed to fail. Today, no matter where you are on the foreign-policy spectrum, you have to think like a Geo-Green. You cannot be either an effective foreign-policy realist or an effective democracy-promoting idealist without also being an effective energy environmentalist.



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Foreign Policy – the First Law of Petropolitics

After reading the article entitled “The First Law of Petropolitics” by Thomas Friedman from the May/June 2006 edition of Foreign Policy Magazine, please answer the following questions as thoroughly and completely as possible.

Consider this scenario:

Concern around the world is that instability in the Middle East poses the risk of destabilizing the flow of oil on the global market. (This instability may be caused by nation-on-nation violence, civilian populist movements, regime change, military coup d'état's, etc; supply may also be restricted by a leader who chooses to reduce the amount of oil entering the market, as well as OPEC). Given basic supply-and-demand economics, this would trigger a rise in the cost of each barrel of oil on the market.

When considering the above in relation to Friedman's article, please *write a full page reflection which strives to explain the nature of Petropolitics, keep focus on what Petropolitics is as well as making notice of causation. This is your chance to offer an explanation of what Petropolitics is.*