

The Gulf Investment Framework, 2010–2025: Opportunities, Limitations, and Risks

An integrated research programme based at the University of Oslo

Regardless of discoveries of “new” energy suppliers in other parts of the world, and despite efforts to make Western economies less dependent on oil, the Gulf region – with its characteristic mix of giant energy reserves and intractable political tensions – is likely to remain a key area to the global oil industry for decades to come.

The Gulf Investment Framework programme aims at advancing the current understanding of the social, economic and political processes shaping the future of the region through original research of high international standard. Simultaneously, it seeks to provide Norwegian companies and authorities with improved insights into what the economic, legal, political and institutional characteristics of the Gulf region will be in the period between 2010 and 2025. Can the region be expected to maintain a stable state system? What kind of regime type will dominate, and what political currents are likely to present ideological challenges? Is economic reform towards greater liberalisation a realistic scenario? How will the states in the region perform on such key indicators as transparency and anti-corruption policies? And what will be the consequences for this oil-rich region if concerns about global CO₂ emissions result in dramatic changes in energy consumption patterns worldwide? The US fiasco in Iraq is a clear indication of the inability of the West to transform the Gulf in accordance with its own interests, and serves as a reminder of the need to put local and regional developments centre stage in analyses and future scenarios.

An assessment of the investment framework in the Gulf requires a holistic, multi-level research strategy that can identify potential risks at a variety of levels and in different sectors. A collapse in the state system, a radical regime change, new ideological currents, retrogression with regard to transparency, or increased corruption – all of these are factors that can turn promising investment opportunities into loss-making liabilities. For the same reasons, analyses of key countries should be supplemented by studies of smaller regional players and comparative studies, in order that significant indicators of change can be identified and understood as early as possible.

A unique contribution of the Gulf Investment Framework programme will be to create and coordinate a network of researchers who, while approaching the problems from their various disciplines, possess a thorough working knowledge of the languages, cultures, religions, and ideologies of the region.¹ Today, such basic knowledge forms an indispensable prerequisite for any serious empirical analysis and research of international stature. By systematically employing researchers who have in-depth knowledge of the relevant languages and cultures, the programme as a whole will be able to conduct and draw on its own fieldwork, and utilise primary source material to ensure that the more theoretical aspects of the analyses remain empirically grounded in the existing local conditions.

¹ Additionally, researchers working on more comparative issues have been linked to two projects (8 and 9). This will enable the programme to benefit from the macroeconomic modelling expertise of the SSB, and the strong competence in development economics represented by the ESOP Centre of Excellence.

Research questions, hypotheses and methods

The individual projects of the programme will be arranged into three overarching (and overlapping) cooperative research clusters that will focus on thematic integration: a) dynamics of political change, b) the “Gulf model” as a socio-economic framework, and c) the oil-belt micro-region from South-western Iran to the Eastern province in Saudi Arabia. Within each cluster research cooperation and integration will be focused and driven forward through a series of cluster seminars leading on to major conferences for each cluster, at which the results of the research will be presented (for details see below under “Organisation and cooperation”, and “Communicating the results”). The “micro-region” cluster will in addition produce an edited book on its research topic.

a) Dynamics of political change

The research cluster on “dynamics of political change” will challenge the static view of politics that prevails in rentier state theory, and seek to identify actual and potential factors for political change in the Gulf region.

The rentier state theory has been the dominant paradigm for analysing politics in the Gulf over the past two decades. It upholds two central ideas: that oil income prevents revolution and thus favours regime stability, and that it hinders democratisation. The theory’s weakness, however, is that it cannot really account for political change. In fact, a glance beyond the surface stability of the regimes will reveal a host of changes underway that are bound to thoroughly affect the political future of the region. The emergence, growth and increased organisation of new social classes, the development of new institutions for political participation at central and local levels (albeit limited and partial), the inner tensions and factionalisation among elites faced with challenges of development and rivalry over resources and positions, and not least the growth of powerful oppositional ideological movements; all are evidence of profound change underway. Based on the insights of individual research projects, this cluster will try to map the political dynamics underway at country and regional levels. In particular, Selvik and Shahibzadeh’s analyses of Iranian politics, Utvik’s study of Islamist movements and Roald’s thesis on local actors and competing regional affiliations will provide important inputs. Also Visser’s work on state identity and the studies of economic development problems by Bjorvatn, Cappelen/Rosendahl and Mehlum/Moene will be of relevance.

b) Understanding the “Gulf model(s)”

This cluster will aim to achieve a comprehensive grasp of how the Gulf economies function. What is the interrelationship between natural resources, decision-making institutions, social class, distribution and development?

The aim here is threefold: a) gathering and systematising as much sound empirical data on central economic indicators as possible, b) with the help of these data, and the understanding of social and political developments provided by other projects, to gain an understanding of the logic of the interplay between policy decisions, social conditions and economic development and distribution, and c) to make predictions about future developments both of the economy as such, and the directions of economic decision making. The cluster will benefit both from the

comparative perspective of economic regimes based at ESOP and the modelling expertise of SSB. Mehlum/Moene will address the characteristics of the “Gulf model” in a comparative perspective, using both developed countries in the West and countries of the region as bases for comparison. Bjorvatn and Cappelen/Rosendahl will provide insights into how this “Gulf model” behaves under pressure, from internal social developments as well as from changes in the global economic and political environment. Inputs will also come from the projects of Hellestveit on the legal framework and questions of corruption, Utvik on the economic ideas of the opposition, and Selvik on the make-up of political elites.

c) The oil-belt micro-region

The research cluster on the oil-belt “micro-region” from South-western Iran to the Eastern province in Saudi Arabia will have geopolitics in a very literal sense as the point of departure.

This region is home to the world’s largest oil and gas resources, and yet research on the area has overwhelmingly approached it through the lenses of country studies, focusing on Iran, Iraq, Kuwait and Saudi Arabia in isolation. But the numerous transnational links in the region suggest that this kind of focus may be inadequate: ties between Shiites in the four countries, networks linking Shiite sub-sects (Akhbaris, Shaykhis) across the region, family and tribal ties that often supersede sectarian loyalties (seen not least in the Kuwait/Zubayr/Basra triangle), as well as obvious instances of economic interdependency (delivery of water/electricity, oil exports facilities) all mean that inhabitants in this area routinely relate, directly or indirectly, to a greater regional framework whose existence needs to be taken into account in analyses of overall political stability. The individual research projects that will be included by this cluster focus on issues like federalism and decentralisation (Visser), transnational social ties at the elite level (Selvik), local government (Shahibzadeh), economic investment patterns (Roald). Input from the economists within the programme will be used in analyses of economic interdependency and trade patterns.

Country focus

Taken together, the Gulf Investment Framework programme encompasses all the major oil-producing countries of the region, with topics ranging from macroeconomic developments to local politics. Three countries will receive particular attention in light of their significant natural resources and complex political conditions:

For *Saudi Arabia*, important topics include the recent emergence of religiously and ideologically framed debates on economic development, modernization, state structure, and relations with foreign powers. The programme will investigate the trajectories of these debates, in particular who the main actors are and how their ideas can have a basic impact on such key issues as regime survival and the prospects of democratization. It will also analyse the institutional and economic constraints that will determine the range of possible outcomes in terms of economic policies: How mature are Saudi Arabia’s fiscal institutions, and what reforms are needed in order to stimulate economic growth and provide business with a transparent legal environment?

For *Iran*, as for Saudi Arabia, the twin pressures of local politics and global developments provide the context in which policy outcomes are shaped. But the question of regime unity is perhaps even more acute in Iran, given the existence within the ruling regime of open rifts that

are being expressed in terms of identifiable political factions. Will the already divided regime retain the composure needed to formulate and implement effective economic reforms, and precisely what reforms are necessary to meet the challenges of volatile oil prices and demographic growth? Will locally elected municipality councils eventually affect the political unity of the country as a whole?

For *Iraq*, emphasis will be on the present and possible future conditions of the basic state structures. Given the unstable political situation, particular emphasis will be placed on the evolving character of the country's federal structure, as well as assessing anti-corruption efforts and the rule of law. Regional dynamics that cross Iraq's national borders with Iran and the Gulf countries are also important, and may have significant effects on both capital flows and on the viability of any future political structure, whether federative or unitary.

Projects included within the programme

The programme will be divided into eleven distinctive but closely related projects, each of which will be assigned primary researchers based on their specialisations. In methodological terms, some projects will proceed on the basis of hypotheses and deductions, while others will have a more inductive approach.

1. The state system of the Gulf: Decentralisation, federalism and regional integration

Reidar Visser, D. Phil., Research Fellow, NUPI

Can today's established states in the Gulf be expected to survive, or should future foreign investors prepare themselves to deal with far smaller entities, like the federal units that are currently emerging in Iraq? This project will address the issue of unitary versus federal states at a regional level in the Gulf. The concept of "federalism," until recently largely seen as a taboo in Islamist and Arab nationalist discourse, has since 2003 made an astonishing impact the region, in particular in Iraq. But other key countries such as Saudi Arabia, Iran, Oman and Yemen also possess internal tensions similar to those that have prompted demands for federalism in Iraq. Could these countries also come to devolve into federal entities over the next decades? Might existing federal structures, like those of the United Arab Emirates (UAE), devolve further as a result? This project will show how federalism has some considerable precedents elsewhere in the Arab and Islamic worlds, but also how the concept of devolution is becoming increasingly mixed with the question of external intervention in the region and therefore may face some unexpected future backlashes as well. The outcome of this battle of ideas will shape not only the political system of the Gulf, but also the way in which its energy resources are managed in the decades to come.

The first part of this project will describe the roots of the federal idea in the Muslim world. It is important to take seriously these early beginnings of federalist thought, because they transpired in a context of Islamic reform, as seen in the decentralisation movements of the late Ottoman Empire and during the debate on the Persian constitution in the first decade of the twentieth century. Many concepts that remain influential in today's debate on federalism in the Islamic world have their intellectual roots in this era.

The project will then move on to analyse how twentieth-century imperialism created federal systems of government in a number of Arab and Islamic countries. Examples include mandate-era Syria, Pakistan, Nigeria, the Federation of South Arabia and the UAE. Within this

string of specimens, the locus of attention will be on the Gulf case: the UAE. The UAE had an uneasy launch, but has since developed into an economically successful showpiece of federalism in the Islamic world. The study will also briefly review another category of federalism that emerged in the Muslim world in the twentieth century: the federalism of the pan-Arab unification schemes, in which federalism was more of a tool towards greater integration than a device to check the powers of the central government – so far the only variant of federalism in the Islamic world that has been subjected to a degree of systematic and comparative investigation.²

Finally, the more recent trajectories of federalism in Arab and Islamic countries with a unitary past will be traced. Since the 1970s, federalism has been proposed as a solution for internal conflicts in a series of countries with large Muslim populations, including Lebanon, Sudan, Iraq and Somalia. The new characteristic of this third wave of Muslim federalism is the leading role of Islamist parties in shaping the debate. In some countries, Islamic parties have rejected federalism, whereas elsewhere, especially in Iraq, some Islamist parties have begun seeing it as a possible vehicle for the realisation of their political aims. Again, Iraq will be centre stage. In Iraq, the debate over the definition of federal entities among the Shiites – especially whether Basra should become a federal entity of its own, or form part of an all-Shiite super-state extending from the Gulf to Baghdad – will have ramifications for the politics of some of the world's greatest oil reserves.

On this basis, an assessment will be made for the prospects of the spread of “Islam-style” federations in the Gulf region in the decades to come. What roles can the pioneering but still highly rudimentary ideas about Islamic federalism be expected to play in Gulf states that share the political complexity of a country like Iraq? “Candidate countries” for federalism include Saudi Arabia, Iran and Yemen – all of which have seen increasing interest in the concept of federalism among at least certain segments of the opposition. Particular attention will be paid to the cases that directly relate to the management of oil and gas resources: the UAE, the fate of Basra in the Iraqi federation, the role of Arabistan (Khuzestan) in the debate about decentralisation in Iran, and the place of the Hasa region in the Saudi Arabian reform project.

The project will have a historical approach with a strong emphasis on the comparative dimension. For twentieth-century developments, the principal archives and libraries of the British Empire will provide a solid empirical fundament, to be supplemented with materials from collections of Turkish, Arabic and Persian newspapers and journals, and French diplomatic sources where relevant. For recent history and the contemporary situation, the documentary collections of the universities of Exeter, Durham, SOAS and LSE can add to materials that are available online via the internet. The case studies will be coordinated closely with other project participants as follows: Bjorvatn, Selvik and Shahibzadeh for Iran; Utvik, Hellestveit and Roald for Iraq and Saudi Arabia. The project applicant has published extensively on the subject of federalism in Iraq and the wider Gulf, including three books,³ and has held numerous invited lectures on the subject for the US and British governments and international NGOs.

² See for instance Gabriel Ben-Dor (1979): “Federalism in the Arab World” in Daniel Elazar (ed.), *Federalism and Political Integration*, Ramat Gan: Turtledove.

³ *Basra, the Failed Gulf State: Separatism and Nationalism in Southern Iraq*, 2005, *An Iraq of Its Regions: Cornerstones of a Federal Democracy*, 2007, and, in Arabic translation from previously published articles, *Shia'at al-'iraq: judhur al-haraka al-fidiriyya*, 2007.

2. *Elite integration and regime stability*

Kjetil Selvik, Dr. Art/PhD, Associate Professor at UiO and Middle East Researcher at Fafo

How solid are elite foundations of political regimes in the Gulf region? Will the present power elites be able to maintain stability in the next 15 years? This project explores regime stability from the understudied angle of elite integration. Fights between disunited elite groups are an important source of political instability and therefore a fundamental component of the investment framework. This project will explore sociological, ideological and institutional dimensions of elite integration in selected Gulf countries, starting with Iran and Kuwait. In both cases the political systems have developed mechanisms to contain existing tensions among elite factions. The study will map the political elite, identify conflict lines among elite groups and analyse mechanisms that promote elite integration and prevent fragmentation within each political system.

The existing literature on political elites gives few authoritative guidelines on how to measure elite integration and how to determine the causal relations behind it. The classical elite theorists were little concerned with the issue. In 1976 Robert D. Putnam identified six dimensions of elite integration – social homogeneity, recruitment patterns, personal interaction, value consensus, solidarity and institutional and social context – but failed to specify the origin of the factors and systematically discuss the relationship between them.⁴ Higley & Burton's recent work made important progress in this respect by convincingly tying elite types to historical patterns of regime formation; but placing the analysis on a macro-historical level, it still leaves many questions unanswered regarding the concrete sociological mechanisms behind elite integration.⁵

This project's theoretical framework is designed to disentangle "elite integration" by more clearly distinguishing its *indicators* from underlying and intervening *causes*. Four indicators will be used to evaluate the level of elite integration: 1) collective action; 2) value consensus; 3) trust; and 4) feeling of mutual dependency. Regarding the causes of elite integration, the project shares Higley & Burton's basic assumption that one must study the way a regime comes into existence to understand specific patterns of elite integration or fragmentation. Beyond this underlying variable, however, it also defines four intervening variables that are thought to affect the level of elite integration directly: i) sociological preconditions in the sense of gender, age, ethnicity, class, education and personal interaction; ii) institutional arrangements that regulate and define the framework for intra-elite interaction, such as mechanisms for conflict solution and consensus building, deterrents, as well as arenas for bringing members of the elite together; iii) unifying symbols, such as a charismatic leader or an ideological doctrine; iv) external or internal threat perceptions.

In order to analyse the different aspects of elite integration in the Iranian and Kuwaiti cases, one first needs to identify the political elite. Following Higley & Burton, the project defines *political elite* as persons who are able, by virtue of their strategic positions in powerful organizations and movements, to affect political outcomes regularly and substantially. Applied to Iran, this definition will require research beyond the holders of formally defined positions of authority inside the state apparatus so that groups with privileged access to decision-makers are

⁴ Robert D. Putnam (1976): *The Comparative Study of Political Elites*. Englewood Cliffs, New Jersey: Prentice Hall, pp. 107-132.

⁵ John Higley & Michal Burton (2006): *Elite Foundations of Liberal Democracy*, Maryland: Rowman & Littlefield Publishers.

also taken into consideration. This includes the clergy, the merchant guild Mo'talefe, and the currently out-of-power reformists. Applied to Kuwait, the proposed research strategy requires a study of the extended royal family (with a particular focus on the Jabir and Salim branches), members of parliament, business elites and tribal leaders, in addition to the heads of the executive.

The data collection will take place through a combination of text analysis and qualitative interviews through fieldwork. Starting with Iran, written primary sources include web sites and biographies of elite members, while years of fieldwork experience, a well-established contact network⁶ and fluent Persian language skills will help the researcher gain access to interviews. Regarding Kuwait, similar networks will have to be built in the process, but the researcher starts with an international contact network,⁷ fluent Arabic skills, and extensive fieldwork experience from other Arab countries. The research project is closely related to Shahibzadeh's analysis of local government in Iran. It will also draw on the insights on political organisation in the Arab Gulf monarchies of Bjorvatn, Mehlum/Moene, Hellestveit and Visser.

3. Religion, power and modernisation: ideological developments in the Gulf monarchies

Bjørn Olav Utvik, Dr. Art., Associate Professor at IKOS, UiO

What ideological forces will shape the politics of the Gulf region in the coming decades? What are their attitudes towards the ongoing processes of economic and social modernisation? Focusing on Saudi-Arabia and Kuwait, this project aims at one level to map the terrain of political actors who will be in a position to influence future developments, at another to contribute to the understanding of the complex relationship between religion, power and modernisation in the region. Starting from an earlier exploration of the "modernising force of Islamism,"⁸ this project will investigate how various political and ideological trends are emerging under the common mantle of holy scriptures of Islam.

The investigation will consist of an in-depth study of ideological and organisational developments, focusing on movements and individuals with a significant following. In Kuwait focus will be on the government and on the main oppositional groupings, on the Sunni majority side the Islamic Constitutional Movement (representing the Muslim Brother trend) and the Islamic Salafi Alliance, among the Shiites the Islamic National Consensus Movement. Since in Saudi-Arabia no formally organised opposition movement is allowed to exist, both reform movements in exile, such as the London-based Movement for Islamic Reform in Arabia (MIRA), and influential individuals linked to the heterogeneous *Sahwa* trend inside the country (like

⁶ Besides the personal contacts established through 2 years of fieldwork in Iran for the project manager's PhD dissertation, the University of Oslo has signed a cooperation agreement with the University of Tehran that will facilitate the research.

⁷ Notably from years of study at the Institut d'Etudes Politiques in Paris and affiliation with the "Eurogolfe" research project.

⁸ Bjørn Olav Utvik, "The modernizing force of Islamism," in François Burgat and John Esposito (eds.), *Modernizing Islam: Religion and the Public Sphere in the Middle East and Europe*, Hurst, London/Rutgers University Press, Piscataway, NJ 2003.

Salman al-Awda and Hasan al-Maliki) will be studied, along with the ideas and political positions of various regime figures.

The analysis will focus on three broad topics within the emerging debates in Kuwait and Saudi-Arabia: economic policies, democracy, and the position of women. First, ideas about economic policies and the road to economic development will be investigated, in particular as regards privatisation, foreign investment and the role of expatriate labour in the economy. Secondly, ideas about the political system and attitudes towards democracy will be evaluated. Both countries are still traditional monarchies in the sense that ultimate power rests with the hereditary emir or king, yet the reintroduction of parliamentary life in Kuwait since the 1990s has caused the emergence of a partially contested political field. The Saudi regime remains highly autocratic, yet there too, opposition is becoming increasingly vocal.⁹ Thirdly, in both states the position of women is regulated by a patriarchal system legitimised by reference to the Islamic Shari'a. Yet in both states recent decades have seen massive improvement in education for women. In Kuwait the emir has recently promoted the political rights of women, stirring harsh debates that split society and the Islamic movement down the middle. In Saudi Arabia, however, almost no freedom of action is accorded women outside the home, famously not even the right to drive a car.

The project will have a historical and comparative orientation. The emphasis will be on analysing written sources: party programmes where this applies, books, speeches, articles and interviews in newspapers and journals by major leaders of the various political and ideological trends. This will be supplemented by interviews with political leaders where feasible. For access to sources the project will greatly benefit from our close cooperation with the Eurogolfe network based at Sciences Po in Paris, which involves important academic centres in Saudi Arabia, Kuwait, Sharja and Qatar (see below).

The study will be coordinated with the work done on Saudi Arabia by Hellestveit, Bjorvatn, Visser, Mehlum/Moene and Cappelen/Rosendahl, and on Kuwait by Selvik. The project applicant has long research experience in working with political and ideological developments in the region. He is fluent in Arabic and Persian, and has authored a number of international publications analysing political and ideological debates both on economic development and on political system, as well as more general analyses of the relationship of the Islamist movement to modernity and modernisation.

4. Regionalism in the Gulf: The role of non-state actors in Iraq

Ane Mannsåker Roald, PhD Fellow at IKOS, UiO

Do Iraqis agree on where to seek political and economic allies in their surrounding region? What are the consequences when the various regional projects that can be hosted within one country at times reinforce each other, at other times are contradictory, or compete? This project will study the scope and impact of informal regionalism in three Middle East border areas. In a region of flawed and grandiose state-led regional projects such as the Arab League, the United Arab Republic and the Gulf Cooperation Council, regional dynamics that emerge through the activities of non-state actors are largely understudied and neglected. While the New Regionalism

⁹ Madawi Al-Rasheed, *Contesting the Saudi State: Islamic Voices from a New Generation*, Cambridge University Press, Cambridge 2007.

Approach¹⁰ has expanded the scope of the traditional theories by including informal actors and processes, very few of these have focused the Middle East. By introducing theories of informal regionalism to the field of Middle East studies this project will contribute to knowledge of regionalizing dynamics that are arguably more important than formal, inter-state regional institutions.

The first study will focus on the micro-region of the Basra-Khuzestan/Arabistan area. Situated on each their side of the Shatt al-‘Arab waterway, Basra on the Iraqi side of the border and Khuzestan on the Iranian side are characterised by regionalising dynamics, despite the fact that the two regions’ mother states have been in conflict for long periods. Cross-border marriages have been common, people have moved from one city to another, and Iranian goods are sold on the markets of Basra and vice versa. In addition, in the Basra area, a second, competing regionalist dynamic is oriented not towards Iran, but rather towards the Arab Gulf states, perhaps most importantly towards the United Arab Emirates (UAE). Whereas the Basra-Khuzestan micro-region is characterised by a myriad of small-scale actors, the Basra-UAE micro-region can also boast of large, international enterprises, investors and entrepreneurs seeking to take part in the rebuilding of Iraq. The research will revolve around the relationship between these two regionalisms, addressing the questions of who the main actors are, and why and how they work to impose their regional visions.

The second case study will concentrate on the economic relations along the Baghdad-Amman axis, another regionalism in competition with those currents that are present in the Basra area. Whereas the Basra area is dominated by Shi'a communities, the Iraqi Arab Sunnis promote the role of Amman, and thereby strengthen the traditional (Sunni) Arab nationalist ties. Although seriously challenged, Amman is arguably still the most important regional centre for Iraq-related business, and therefore attracts international and Iraqi corporations, NGOs and Iraqi political elite.

The third case study will investigate the relations between Iraqi Shiite institutions and their opposite numbers in Iran. Do the regionalisms of religious authorities and representatives of the educational centres and institutions differ from those of the business community? And do the political goals of competing Shiite factions translate into competing regional projects as well?

The project has clear links to those of Reidar Visser and Yadullah Shahibzadeh. Understanding the political goals of the municipal authorities on the Iranian side of the border will provide important input for the exploration of the regional projects in play in the area. Likewise, Visser’s study of federalism will yield insights into the various factions both in southern Iraq and in Khuzestan/Arabistan, thereby enhancing the analysis of cross-border regionalism. Mehlum/Moene's economic study of Iraq will also add important background. In terms of methodology, the project will be based on in-depth interviews with a range of actors, including representatives of the Iraqi business community in Amman, UAE and Khuzestan, as well as secondary sources.

¹⁰ See for instance Hettne, Björn, Andrés Inotai and Osvaldo Sunkel (eds)(1999): *Globalism and the New Regionalism*. London: Macmillan; Hettne, Björn, Andrés Inotai and Osvaldo Sunkel (eds)(2000): *The New Regionalism and the Future of Security and Development*. London: Macmillan; Bøås, Morten, Marianne H. Marchand and Timothy M. Shaw (1999): “Special issue: New Regionalisms in the New Millennium,” *Third World Quarterly*, Vol. 20, No. 5, pp. 897-1070.

5. *State–society relations: Local government in Iran*

Yadullah Shahibzadeh, Dr. philos., Researcher at IKOS, UiO

Are Iran's municipality councils a stabilizing or destabilizing factor? Do they strengthen the central government, or contribute to weakening its authority vis-à-vis local leaders? How do they influence the political culture of the Iranian state? This project has two aims: to study the causes of the current and future challenges posed to the Iranian central government by municipality councils in the resource-rich border provinces especially Khuzestan and Chaharmahal and Blusher, and examine the impact of local elections on the collective attitudes of local people towards local and national politics.

Iran's municipality councils were initiated by Mohammad Khatami's government in order to integrate the population of economically and geopolitically important regions of the country into the state. They also function as a democratic mechanism, allowing the local population to express discontent with the central authorities. The municipal elections can thus be considered a political gauge showing who is ideologically and politically in charge within different the regions in different times.

Through a detailed study of previous local elections this research project will seek to explain the constitutive principles structuring the political identities of different communities in the region. Complementing this study, another aim will be to investigate the social, cultural, intellectual and ideological factors shaping the political culture of the area since the early twentieth century. This inquiry will address the question of whether the emerging local political and cultural identities are contributing to homogenizing Iran's national political culture and thereby to legitimizing central government, or to de-legitimizing the central government by dissolving the notion of Iranian nation-statehood along distinctive political-cultural lines. Analyzed in conjunction with biographic material, this will provide access to local political actor's self-understandings in terms of how they construe their relations to the communities they live in, how they perceive their local communities' relationship with other communities, and how these relationships are ideologically articulated. Finally the study will examine the interaction of local and national narratives of the political formation of these regions within modern Iranian nation-state, the impact of these narratives on the current political culture of the area and the position and function of these narratives in the power-relation between different social and ethnic groups in the region.

This research project will be theoretically revolved around the theory of *political culture* but explore it from a historical perspective. Instead of using it as it has generally been used in the comparative politics, the inquiry will analyze the political culture or the collective attitudes of these regions towards politics through intellectual history and history of mentalities. The theory of *political culture* understood from the perspective of intellectual history and history of mentalities will interpret and explain ideologies, political ideals and cultural norms within different communities in the region and accordingly will reveal collective attitudes of different communities towards nation-wide ideologies, political ideals and cultural norms. In doing so, this inquiry will reveal the collective attitudes of these regions towards the idea of *citizenship* as being political equals in Iran as a nation-state and identify their patterns of *political participation* both when competing for a position in the local councils as well as their acts of opposition against central government.

6. *Transparency, anti-corruption measures and the rule of law*
Cecilie Hellestveit, PhD Fellow at SMR, UiO

How do the regimes in the Gulf region perform with regard to the rule of law? How is the control and management of the extractive industries divided between executive, legislative and judicial institutions? What legal mechanisms are in place to enhance protection against corruption, and how are the conflicts related to such industries litigated inside and outside the traditional legal frameworks? As highlighted by other projects in this research programme (Kjetil Bjorvatn and Steffen Hertog), economists regard the ‘quality of institutions’ as crucial to economic development. In development theories, the quality of institutions is also an end in itself, to which transparency, anti-corruption measures and the rule of law are essential means. This project seeks to examine the current practices and future potentials for the rule of law, transparency and implementation of anti-corruption measures relevant to the extractive industries in the major Gulf states. The study will take Saudi-Arabia and Iraq as its primary points of reference, with occasional comparisons drawn to Iran. These countries are among the weakest performers in international cooperation on transparency and anti-corruption measures. During the past few years there has nevertheless been a growing recognition by the region’s authorities that corrosive practices are important impediments both to proper management of resources and to investments. However, this trend can partly be traced to pressures and incentives originating in Western countries;¹¹ it is still an open question how the increasing presence of non-Western actors in the extractive industries in the Gulf will influence this tendency in the years ahead.

Research remains scarce on legal institutions in these countries in general, and in particular on the rule of law in relation to extractive industries. Due to language barriers, information is largely inaccessible to outsiders. This project aims to contribute to mending this situation. It will map the constitutional, legislative and legal structures relevant to the extractive industries and anti-corruption policies in the three countries. The study will subsequently compare the countries’ jurisprudence, legal institutions, and the ability of those institutions to perform their role as basic guarantors of the rule of law. It will examine the role of the judiciary in litigating conflicts over rights and management of extractive industries, and the extent to which international standards of anti-corruption are practiced or deviated from. Lastly, the project will assess the implementation of international anti-corruption standards, and the extent to which the judicial infrastructure and other institutions entrusted with the management of the extractive industries are prone to non-official influences, corrosive political pressures, and outright bribery.

The methodology used in this project will be a functional method of comparative law. This approach is legal at its core, but also takes into account extra-judicial mechanisms, and allows for a broader contextual approach than the more dogmatic legal disciplines. This serves the double purpose of “tolerating and critiquing foreign legal systems.”¹² The researcher’s broad language skills will provide access to primary sources from governments and courts, reports submitted to international forums (WTO, OECD, UN, OIC, etc.), secondary sources from

¹¹ Under the OECD ‘MENA-project’ (Middle East and North Africa Initiative on Governance and Investment for Development) an Arab Anti-Corruption & Transparency (ACT) Network is currently being set up (2007/2008). Various MEPI-projects (Middle Eastern Partnership Initiative) have been executed under the US Department of State.

¹² Michaels, Ralf (2006) "The Functional Method of Comparative Law", in Reimann, Mathias and Zimmermann, Reinhard, Eds. *The Oxford Handbook of Comparative Law*, chapter 10, pages 339-382. Oxford University Press.

national research institutions, national and international NGOs, local and regional media, and interviews with public and private actors. The project will particularly benefit from the insights and findings of Visser, Selvik, Bjorvatn, Mehlum/Moene, Cappelen/Rosendahl and Roald.

7. Oil rent, demographic bonus, and economic development in Iran and Saudi Arabia: An empirical investigation

Kjetil Bjorvatn, Dr. Oecon., Professor at NHH

Will the economies of the Gulf region be able to withstand the challenges of population growth and potentially falling oil prices? What are the key reforms needed to stimulate sustained economic growth, and is there political will to carry them out? Oil revenues have transformed the economies of the Gulf. The large increases in oil revenues in the early 1970s brought enormous wealth, and allowed large-scale investment in public projects, expansion of the bureaucracy, and the introduction of generous welfare programs. However, the growth rates from the 1970s have proven hard to sustain. One reason for this is the decline in oil prices throughout the 1980s and 90s after OPEC I and II, combined with rapid population growth. A more important factor, however, seems to be poor economic management caused by lack of skills and limited state autonomy vis-à-vis influential pressure groups in society.

The Gulf region has not only experienced a strong increase in oil revenues. It has also witnessed a population explosion, giving rise to what is sometimes known as a “demographic dividend,” or a “demographic bonus.” When the baby-boomers enter the labour market, the workers’ share of the population increases, and this is typically associated with higher saving and increased economic growth. However, demographic transition does not automatically lead to a higher growth. Institutions need to be in place so that the larger work force can find meaningful employment, and new businesses can be established. Weak institutions creating insiders and outsiders in the labour market, and government regulations favouring the establishment, will reduce the growth potential. Similarly, a policy and culture that discriminate the participation of women in the labour market are likely to limit the growth effect of a demographic transition.

The exclusion of young workers from the labour market can lead to social unrest and challenge the relative stability that has characterized most of the Gulf countries in recent years. The present study aims at describing the demographic transition in the region, giving an overview of the theoretical and empirical literature on demographic transition and economic growth, and, based on international evidence and the relevant institutions and customs in the region, evaluate the likely growth effect of changes in demography taking place.

Particular emphasis will be placed on the effect of oil revenues on the countries’ ability to capitalize on the demographic window of opportunity. High oil revenues can be used to expand government bureaucracy and create well paid, but low-productive, patronage employment in state owned firms. This policy may be politically attractive in the short run, but is not likely to be economically or politically sustainable in the long run. Alternatively, the oil revenues may be used for public infrastructure projects that increase the profitability of private investment, and thereby lay the foundations for the creation of productive employment. This policy may not be the most attractive one from a patron-client perspective, but is more likely to benefit the country in the long run. Which path are the countries in the Gulf likely to choose? The present project aims at shedding light on these questions.

The country focus for the investigation will be on Iran and Saudi Arabia; the two economic and political superpowers in the region. To establish a sound empirical basis for analysis, the following data will be collected:

- i) Development of GDP over time
- ii) Population growth
- iii) Oil revenues over time
- iv) Education for male and female
- v) Demographic development
- vi) Female labour participation, in aggregate
- vii) Female labour participation, at sector level
- viii) Current policies on female labour participation
- ix) Current norms on female labour participation

The other projects in the research programme will provide data on how formal and informal institutions in different countries can affect the potential for transforming oil rents and demographic rents into development; this project will also yield useful empirical information for the numerical modelling to be undertaken by Cappelen and Rosendahl.

8. Macroeconomic modelling of oil-dependent countries and regions

Ådne Cappelen, Research Director, and Knut Einar Rosendahl, Researcher, SSB

What will be the budgetary, political and social effects on the regimes of the Middle East as non-oil producing countries seek alternatives to the region's increasingly expensive oil? Will the recent global concern with reducing CO₂ emissions affect the value of Middle East governments' oil resources? This project will utilise numerical economic models to construct scenarios that illustrate the relations between economics, demographic trends and politics in the Middle East. It will seek to predict under what circumstances these various forces dominate the development of important countries in the Middle East, the region as a whole and possibly even world energy markets.

To this end the project will construct and use models of two kinds. The first is nation-level macroeconomic models that are specified in enough detail to handle the relationship between economic structure, demographic and social change and government budgets. While the Middle East countries differ in terms of size, wealth, resources, and industry structure, they have in common governments that play a major role in providing infrastructure and social services. The financing of government budgets is in turn heavily dependent on oil; in some countries, such as Saudi Arabia, there is practically no other significant source of government revenue. While current oil prices provide many of these regimes with ample revenues, rapid population growth is likely to lead to an increasing demand for public services. Some countries are currently undertaking large investment projects in order to achieve diversification, but the success of these projects will depend on the ability of the labour forces to engage in economic activity under conditions of significant competition from the world market. The success is probably also linked to WTO membership – a membership that not only provides access to foreign markets but also opens up the domestic markets to foreign competition. We have already developed a model of the Saudi economy that has been used for similar projects earlier. In this project we plan to develop a

model of the Iranian economy and study similar and comparable studies on two major economies in the region. Both Iran and Saudi Arabia have ideas of economic development where private-public cooperation is an integral part of a development policy strategy. As explained in project 7 by Bjorvatn such a development strategy will involve government infrastructure investments such as communication and education that can be utilized by the private sector to raise productivity. There is of course nothing original in suggesting ideas like this. The point here is simply to try to assess the potential economic effects of various policy initiatives in the specific circumstances that prevail in these two countries. In particular there are quite different views on the role of women in the two countries that in particular might be shown to hamper developments in Saudi Arabia. Policy scenarios discussed will also be seen in the context of the discussion in project 3 by Utvik on Religion, power and modernisation in the Gulf monarchies. The aim of this part of the project is to contribute to the understanding of the interaction between economy and society in these two countries in particular. We also hope that this knowledge will be useful for an analysis of the whole region.

The second type of model targets the global level, and will illustrate the possible effects of two major developments on the future value of the Middle East countries' oil resources. First, the recent period of very high oil prices has led non-oil producing countries to attempt to substitute oil-based energy with other energy carriers. Countries outside of OPEC are also likely to find and develop oil fields to increase their oil supplies. An interesting question is therefore whether this will force the regimes of the Middle East to return to the kind of fiscal austerity programmes that they were forced to adopt in the early 1990s. Second, the recent worldwide interest in combating CO₂ emissions from the use of oil and gas may eventually lead non-oil producing countries to enforce restrictions on the use of oil or impose higher taxes on petrol. The substitution effects could be strong, posing a challenge for oil producers in the Middle East and creating economic problems that may have serious political consequences. This study will also address the potential for success of a concerted action by the core OPEC countries to limit such measures by the global community. In order to study these problems, the project will use a detailed model of the world oil and energy markets (FRISBEE) that has been developed by SSB and financed by previous programmes of the Research Council of Norway. This model will also be used and developed further in another programme supported by PETROSAM. This project will thus be using the model as a "free rider", and will only require financing of the detailed scenarios developed within the project, not of model development and adjustments. This part of the project is less related to the regional study of economy and society in the region than the first. However, we do believe that an attempt to place the development of the region in the context of world energy markets is useful not only for the understanding of these markets per se, but also may provide some feedback to the country analyses suggested earlier.

9. Resources, policies, distribution and development: towards understanding the "Gulf model".
Halvor Mehlum and Karl Ove Moene, Professors ESOP/Department of Economics, UiO.

This project will be based at the ESOP (Equality, Social Organisation, Performance) Centre of Excellence at the University of Oslo. ESOP aims at exploring the links between equality, social organization, and economic performance, both in rich and poor countries. Much of ESOP's research is focused on distributional questions in relation to economic policies and economic development. The Gulf-region provides many interesting cases that illustrate the linkages ESOP are concerned with.

Every year the Human Development Report ranks countries according to the Human Development Index. The index is a weighted average of economic performance in addition to education and health. When this ranking is contrasted to rankings based on income only, one gets an idea of countries that under- or over-perform in human development relative to income. The Gulf states consistently under-perform quite dramatically. For instance, Saudi Arabia is 19 places lower on human development than other countries with a similar income. This under-performance is the result of the large inequalities between different segments of society, from the royal family all the way down to guest workers.

The project will explore the political economy mechanisms at work in the Gulf states with large natural resource incomes, in combination with their various political regimes and institutions (democratic or non-democratic; formal or informal). It will also explore the linkages between the political economy and economic performance and growth. One set of questions relates to the management of the wealth and investments for the future via education and infrastructure. Another set relates to the distribution of income and opportunities and the distribution of political voice and influence. Central research questions will be 1) What are the incentives for entrepreneurs in their choice between entering productive or non-productive “grabbing” activities? 2) Along what dimensions, (gender, socio-economic, ethnic, etc.), is the society divided? 3) What are the incentives (or the lack thereof) for the ruling elite to care for the wellbeing of the various segments of the population? 4) What strategies do people follow (political or private) in order to prepare for the future?

The investigation will focus on the cases of Saudi Arabia and Iraq.

10. PhD position in economics (linked to Project 9)

To be announced as a PhD fellowship

A three-year PhD fellowship will be announced. The applicants will be asked to propose projects that will contribute to investigating the research agenda outlined in Project 9 above. The fellowship will be announced internationally so as to provide a broad selection of competent applicants, and will preferably be awarded to a candidate who combines high qualifications in economics with relevant language skills. The fellow will be based at UiO and will receive supervision from the university’s Department of Economics in cooperation with the project director.

Organisation and cooperation

Norwegian research on the Gulf region has for a long time been less developed and integrated than that on other regions of the Middle East. For example, the University of Bergen has managed to achieve an internationally recognised position as a leading centre for studies of Sudan. In order to achieve something similar for the Gulf with the University of Oslo as a centre, this programme will take a number of steps to improve links between existing Gulf researchers in Norway, and to strengthen ties to experts abroad.

The programme will build on an institutional core at the Department of Culture Studies and Oriental Languages at the University of Oslo. UiO already has a robust record in Middle East

studies, and during the past few years it has developed a particularly strong circle of Iran researchers. At IKOS the project will benefit from co-habitation with the largest cluster of Middle East expertise at any Norwegian institution. The department's staff includes 20 researchers whose main competence falls within the field of Middle East studies, and who share a working knowledge of the native languages of the region. Close contact will be kept with other UiO researchers from various departments working within the field.¹³ The programme's group of UiO-based researchers, consisting of Bjørn Olav Utvik, Kjetil Selvik, Ane Mannsåker Roald and Yadullah Shahibzadeh at IKOS, Cecilie Hellestveit at the Norwegian Centre for Human Rights (SMR), and Halvor Mehlum and Karl Ove Moene at ESOP/Department of Economics will establish and coordinate close links to other research communities and individuals – including Ådne Cappelen and Knut Einar Rosendahl at Statistics Norway (SSB), Reidar Visser at the Persian Gulf research group at the Norwegian Institute of International Affairs (NUPI), and Kjetil Bjorvatn at the Norwegian School of Economics and Business Administration (NHH). Kjetil Selvik has been partially based at the Fafo Institute for Applied International Studies since January 2007, and will retain his position there, bringing another strong research community into the network.

In addition to thus seeking to fulfil the structural aim of the PETROSAM programme plan, the Gulf Investment Framework programme will take active steps to create closer interdisciplinary interaction between researchers of different academic backgrounds. As of today, a particularly acute problem is the lack of communication between, on the one hand, historians and political scientists, and on the other, economists and legal experts – a situation which often leads to one-sided impressions of current conditions and therefore incomplete estimations of future developments. The proposed programme directly addresses these problems, linking economists (NHH, SSB, ESOP) to legal experts (SMR), and political scientists to historians (IKOS, Fafo, NUPI). By focusing on concrete cooperation across these divides, not least in the shape of the research clusters described above, the research programme aims at establishing permanent dialogue between traditions, and thereby a more holistic description of the opportunities, limitations and risks presented by the Gulf region in the years 2010 to 2025.

A practical step towards securing maximum interaction among the researchers in the project will be an effort at increasing the number of programme researchers with IKOS as their daily work place. At the outset, Utvik, Shahibzadeh and Roald will be based fulltime at IKOS. Selvik at present works one day a week at IKOS, but we will seek an agreement with Fafo in order to increase this to three days. For Visser we will explore a solution where in the first part of the project he can work at IKOS some days a week, and then fulltime during the last two years. Hellestveit will be based at IKOS during her two-year post-doctoral work. For the PhD fellow in economics our intention is that he or she will work at IKOS and the Department of Economics during different phases of the project (also, these institutions are located within five minutes' walk of each other).

In order to create lasting and lively links between the institutional core at UiO and other research communities, the project will also hold regular internal seminars where researchers can share their results and provide feedback to each other (see below under *Plans for initial phase*). Given the project's emphasis on assigning researchers who are familiar with the languages and cultures of the region, the opportunity to exchange local knowledge as well as research findings throughout the process is likely to greatly enhance the quality of each project.

¹³ For an overview of the relevant competency based at IKOS, see "Midtøsten ved IKOS" at <http://www.hf.uio.no/ikos/forskning/forskningsprosjekter/gulf/index.html>

International cooperation is a particularly important aspect of the planned research activities. The group has already established formal links with three key research centres in the UK, France and Iran: The Institute for Islamic and Arabic studies at the University of Exeter (reckoned as the leading centre of Gulf studies in the Western world, and home to one of the best documentary collections on the contemporary history of the region), Institut d'Études Politiques de Paris (which has initiated the Eurogolfe network for exchanges and research in the social sciences between Europe and the Arabian Peninsula) and the Department of Political Science at the Mofid University in Qom (a well-established forum for Gulf research in Iran). Among the specific forms of cooperation envisaged are shared seminars, use of the documentary collections in Exeter, and cooperation on panels at the annual Gulf Conference in Exeter.

Finally, great emphasis is placed on recruitment activities. This aspect is represented in the proposed plan at three levels. First, the programme will establish a PhD position (project 10) linked to project 9 as described above, and will provide a stimulating environment for Hellestveit and Roald to finish their doctoral projects. Second, it will provide an opportunity for the realisation of major post-doctoral research work for Selvik, Visser, Shahibzadeh and Hellestveit. Third, in cooperation with IKOS and UiO's Programme of Asian and African Studies, two annual student scholarships of NOK 25,000 will be established, designated for MA students writing on topics related to the project. In addition to this the programme, as one of the major research efforts at the Faculty of Humanities/UiO in the years to come, stands a good chance at being allocated strategic PhD and post-doctoral funding from the faculty.

For the purpose of enhancing the efficiency of the project, especially its cooperative aspects, the project will employ a research assistant in a 50 percent position throughout the five years whose main task will be assisting the director of the programme in administrative aspects of project management, in coordination with the administrative staff at IKOS. In addition, the research assistant may also be assigned tasks related to assisting individual projects.

Plans for initial phase

In broad terms, the project will focus on two main tasks during the first two years:

(1) Seeking maximum integration of the research group as a whole and of each of the three research clusters described above. The integration effort will also include using the combined resources of the group to fine-tune and sharpen each individual project. For this purpose we will have a major internal start-up conference for the whole group in autumn 2008. In spring 2009 there will be seminars for each of the three clusters. The start-up phase will involve interaction with the user groups, whose representatives will be invited to the seminars. The timing of the budget allocations for seminars reflects this focus of the early phase.

(2) Effectuating a major part of the necessary field work/archival studies. Similarly, the travel allocation in the budget has been timed with this in mind.

A detailed budget is separately attached.

Communicating the results

In addition to the user contact overseen by the PETROSAM programme board, the proposed programme will host an annual conference with international participants. This will not only facilitate communication between researchers in the programme's network and research communities abroad, but will also provide the programme with a structured outlet for research reports and papers directed at peer communities. Each year between 2010 and 2012, the conference will be devoted to presenting the results of one of the three research clusters. The last conference will be devoted to the micro-region research cluster and will be timed to coincide with the publication of the edited book.

In terms of academic output, each of the full-time projects will result in the publication of an academic book. The other projects will prioritise publishing at least two articles in peer-reviewed academic journals of high international repute, and PhD fellows will be expected to publish four articles as a fellowship requirement. Additionally, all researchers are expected to contribute to the proposed collaborative volume on the geopolitics of the oil-belt area of the Western parts of the Persian Gulf.

In keeping with UiO and NUPI's practices during PETROSAM's predecessor programme, the present programme will also remain accessible to Statoil and government agencies for consultation on pertinent topics, and participate in seminars at the request of user groups. Participants will also be communicating continuously through web-based media such as IKOS's website for socio-economic and political development in the Gulf region (which will be upgraded to serve as the project website) as well as Reidar Visser's Iraq website www.historiae.org.