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Volume 50, 2014 - [Issue 1](#)

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The Guardian State and its Economic Development Model

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Pages 22-34 | Published online: 26 Nov 2013

Cite this article <https://doi.org/10.1080/00220388.2013.849340>



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Abstract

This article outlines the core features of a particular, resource-led development model, the oil-rich guardian state. Its key distinguishing feature from other resource-rich economies consists in its strong economic welfare objective function, which in line with its exceptional oil wealth renders its population amongst the wealthiest nations in the world. However, the guardian state also illustrates some of the negative externalities associated with resource wealth, namely the policy dilemma of directing seemingly abundant financial resources into the economy. The state faces a high propensity for waste, and for the systemic dilution of market incentives, thereby rendering sustained and self-generating economic growth more difficult than in less resource-rich economies.

Acknowledgements

Special thanks to Bassam Fattouh: for reading, discussing, guiding. The author would also like to thank Kristian Coates-Ulrichsen, Lavan Mahadeva, Simon Pirani, Lawrence Saez and Abdulaziz Al-Dukheil for their invaluable thoughts and discussion which flowed into this article, and two anonymous referees of this journal. All remaining errors are my own.

Notes

- ¹. Research outcomes such as those reported by Sachs and Warner have not remained uncontroversial. A considerable volume of literature has engaged critically with the concept and tried to refute part or all of it. In the economic literature, various studies have criticised Sachs and Warner, in particular over their methodology, including the choice of the resource variable (Brunnschweiler & Bulte, [2008](#); Davis, [1995](#); Stijns, [2005](#)); others have criticised the tendency by much of the subsequent literature to rely on per capita income growth – the dependent variable chosen in the original Sachs and Warner study – as the main indicator for the impact of natural resources on economic development per se; Boyce and Emery ([2011](#)), for instance, show that while per capita income growth relates inversely to resource wealth, per capita income levels are positively correlated with natural resource wealth – suggesting that per capita welfare may indeed be very high in resource-rich societies.
- ². Welfare is naturally a conceptual mosaic with different meanings associated in the literature. For the purpose of this article, I define ‘modern welfare’ simply as the presence of state activities in the areas of cash benefits, health care, education, food, housing and other welfare benefits (Barr, [2004](#), p. 7).
- ³. ‘Rent’ is defined here following the standard economist’s definition as payments to a factor of production over and above that required to induce it to do its work (Wessel, [1967](#)), that is the pecuniary value of natural resource exports from which all costs related to production and marketing have been deduced. Others have defined rent more broadly as ‘the free gift of nature’ (Marshall, 1920, p X.XV.12), although this broader definition helps us little in understanding the economic value of natural resources in our context.

- ⁴. These same factors make unconventional energy resources comparably less competitive, on financial grounds, with lower-cost conventional oil and natural gas, implying lesser profits, or rents, over and above their production costs.
- ⁵. There are good reasons to regard the consumption of non-renewable resource revenues as the consumption of capital rather than the consumption of income. If all revenues are consumed, the economy's total capital stock declines (Humphreys et al., [2007](#); Stiglitz, [1974](#)).
- ⁶. In its basic measure of trade openness and economic competitiveness vis-à-vis domestic and foreign investment, the World Bank, in its annual report, ranks Qatar 14th, the UAE 17th, Brunei 28th, and Kuwait 34th out of a total of 142 countries. While not matching the results of its East Asian peers such as Singapore (2) or Hong Kong (11), these results draw the picture of a surprisingly trade-open and business-friendly economic climate. Qatar and the UAE also score remarkably highly on some sub-aspects of the measure, including goods market efficiency, financial market development, business sophistication and innovation (World Bank, [2012](#)).
- ⁷. This legal situation is different in some oil producing countries, perhaps the most important example being North America, where oil and natural gas resources fall under individual land ownership rather than to the central state.
- ⁸. Foreign oil companies have since remained in the region but are subject to partnerships or other forms of contracts with, typically, the national oil company.
- ⁹. Kuwait, Qatar and the UAE combined hold as much as 224 billion barrels of crude oil, some 13.5 per cent of the world's known reserves of oil. Brunei, with 1.1 billion barrels, holds comparatively less oil resources in absolute terms, but due to its small population it ranks among the wealthiest economies on a per capita basis of subsoil wealth. All four countries also hold sizeable natural gas reserves, which add to the flow of oil rent in the cases of Qatar, Brunei and the UAE. Numbers based on EIA ([2012](#)).
- ¹⁰. One available measure of this rent stream is the World Bank's notion of per capita subsoil wealth, which includes mineral resources and oil and natural gas reserves. According to the latest available figures (2005) Kuwait, Brunei and the UAE rank as the world's three wealthiest countries. They are followed by similarly oil-endowed Norway, Saudi Arabia, Oman and Bahrain. It should be noted that this measure of subsoil wealth

is unrelated to current per capita income rates and gives merely an indication of the size of resources these countries hold per citizen (World Bank, [2005](#)).

¹¹. Exceptions in this context are war-torn oil producing countries such as Iraq and Sudan, where the virtual absence of any other form of taxable economic activity has driven the share of oil rents in government finance in recent years close to 100 per cent (Arab Monetary Fund, [2011](#)).

¹². Small populations tend to preclude the existence of large population divides. While some levels of social heterogeneity, be it tribe or sub-regional origin, are not entirely unknown in countries typically associated with the guardian state, the extent of their impact on long-term stability has historically been minimal. The most important dividing line within the guardian state tends, rather, to move along national-versus-expatriate lines. However, the main comparison here is with the considerably more combative cases of resource-rich states such as Sudan or Nigeria, where civil conflict has erupted between distinctively different population groups around access to natural resources and resource rents for much of their independent histories, to the extent that it has harmed the development of functioning central states and basic welfare functions such as universal access to basic health and education services.

¹³. Contrary examples include Sudan, Nigeria and Iraq, where considerable oil wealth has been met with a history of domestic civil conflict and the exclusion of parts of the population from these countries' wealth.

¹⁴. See Note 13.

¹⁵. See Note 6.

¹⁶. El-Katiri et al. ([2011](#), p. 24) calculated the Gini coefficient for Kuwait at the end of the 2000s to be 21.8 for Kuwaiti nationals, and 28 for Kuwait's entire population, including expatriates. This score is exceptionally low by international comparison, suggesting social equality in Kuwait is very high by all international standards.

¹⁷. This is in spite of legal provisions in most states. Kuwait's constitution, for instance, specifically stipulates:

Natural resources and all revenues therefrom are the property of the state. It shall ensure their preservation and proper exploitation, due regard being

given to the requirements of State security and the national economy.
(Government of Kuwait, [1962](#), Art.21)

¹⁸. The World Bank's concept of genuine savings is aimed at taking account of the depletion of natural resources in an economy's development. Genuine savings treat natural resources as capital, and deduct a measure of natural resource depletion, along with the depreciation of physical capital, from national gross savings. For the Gulf monarchies for which genuine savings timelines are available, along with the region of the Middle East as a whole, genuine savings tend to be negative, reflecting the long-term depletion of natural resources without an equivalent investment in new, productive activities. See World Bank ([1994](#)) and Hamilton and Clements ([1997](#)) for the concept and Dietz and Neumayer ([2004](#)) for a critique.

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