

## RENTIER STATES AND INTERNATIONAL RELATIONS THEORY

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Paper to be presented at the 6th Pan-European Conference on International Relations,  
ECPR Standing Group on International Relations, Section 21

“The Place of the Middle East in International Relations: Making Sense of Global  
Interconnection and Local Dynamics in Middle East Politics”

(Turin, September 12-15, 2007)

### *Abstract*

The state plays a central position in theoretical debates in International Relations (IR). Both Realists and Liberals see the state as the central actor in the international system and thereby follow a Western understanding of the state as the holder of the monopoly of force. In the IR-sub discipline of security studies new categories such as weak state, quasi state or state failure have created new debates in recent years. These debates have been limited to two ideal types, the strong state (Western Europe and North America) and the weak state (in the Third World, mainly in Africa). States that fit neither characterisation, like most Arab Middle Eastern states, have not been treated in the debate. The concept of the rentier state offers interesting bridges, as it allows to analyse states that are both strong (in the area of security) and weak (in the area of representation and legitimacy). In addition to this, the concept of the rentier state allows a broader conceptualisation of the state in IR that links the internal form of the state to its foreign policy. Specifically in the case of rentier states, this is the economic foundation of the state which allows in boom periods the allocation of welfare benefits to society at large and which in times of fiscal crises sees a renegotiation of state-society relations and with it adjustments in foreign policies. This article highlights the potential of the rentier state concept for general IR with special reference to the Arab Middle East.

## Introduction

If political theory is concerned with “speculations” about the state and government (Wight 1966) then international relations theory is concerned with speculations about relations between states. According to traditional views, international relations are concerned with relations among sovereign entities and their representatives, and individuals and non-state actors are hardly ascribed a role in international affairs. Historically, it has often been lamented that little systematic thought has been invested in thinking beyond the state system and in particular in thinking about the possibility of a world state or a world government. Only recently have some attempts in this directions appeared in international relations theory (Wendt 2003). Most political theorists have accepted the premise that the international system is a system of sovereign states and have consequently focused their attention on how relations between states ought to be structured (Wight 1966, p. 17).

The following article shows that mainstream international relations theory has remained state-centric and that only recently “speculations” about the make-up of states have found their way into the debate. Recent trends in IR theory have started to look at the internal characteristics of states (strong state/weak state) and their outward implications. While a much welcome development compared to earlier Realist approaches that completely disregarded the internal characteristics of states, these new debates have been limited to two ideal types, the strong state (Western Europe and North America) and the weak state (in the Third World, mainly in Africa). States that fit neither characterisation, like most Arab Middle Eastern states, have not been treated in the debate. This article highlights the potential of the rentier state concept for general IR theory by making special reference to the Arab Middle East.<sup>1</sup> The concept of the rentier state allows to analyse states that are both strong (in the area of security) and weak (in the area of representation and legitimacy) and to make predictions about their foreign policies. Since rentier states receive a substantial part of their revenues from the outside world, they show a remarkable different political dynamic than other states: on the external side this means the primacy of foreign policy (and particularly foreign economic policy) and on the domestic side, the absence of democratic governance. Externally, the state becomes a rent-seeker in the international system and foreign economic actors receive particular importance as potential donors and rent providers, especially in times of fiscal crises.

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<sup>1</sup> Rentier states are those states that derive most or a substantial part of their revenues from the outside world and whose functioning of the political system depends to a large degree on accruing external revenues that can be classified as rents.

## **International Relations theory**

The state plays a central position in theoretical debates in International Relations (IR). Both Realists and Liberals see the state as the central actor in the international system and thereby follow a Western understanding of the state as the holder of the monopoly of force. Realism is particular prone to be state-centric, as it sees the anarchic international system as composed of sovereign states. International institutions, non-governmental organizations, multinational corporations and other sub-state or trans-state actors are viewed as having little independent influence and are clearly subordinate to the main units of the system, namely states. According to Kenneth Waltz, one of the main proponents of Realism:

“States are the units whose interactions form the structure of the international-political systems. They will long remain so. The death rate among states is remarkably low. Few states die; many firms do. Who is likely to be around 100 years from now - the United States, the Soviet Union, France, Egypt, Thailand, and Uganda? Or Ford, IBM, Shell, Unilever, and Massey-Fergusson? I would bet on the states, perhaps even on Uganda.” (Waltz 1979, p. 95).

In this book *Theory of International Politics*, Waltz (1979) elaborated several core principles of a Neorealist theory of IR, in particular a structural component which emphasized that the international system was anarchical, that there was no higher authority in the international system that was capable of regulating interactions among sovereign states, that states only seek to assure their survival and extend their national interest, and that consequently all components of the system (i.e. states) were like-units. This structural focus came at the detriment of state-society relationships within the system's units and underlined the belief that internal traits of states were irrelevant to the explanation of international politics, as the system was anarchical and non-hierarchical.

From a historical perspective, such a state-centred approach seems *a priori* justified given that the numbers of states and state-like entities in early modern Europe stood at around 500. Through centuries, wars, conflicts and armed violence were the driving force in building viable states on the European continent (Tilly 1990). By the beginning of the 20<sup>th</sup> century a stable number of large, unified nation-states (France, Germany, England, Italy) had emerged through military competition, and smaller states (Brabant, Flanders, Venice) had been eliminated and taken up by larger states. In the 20<sup>th</sup> century a new wave of state creation occurred and the number of newly created states increased considerably from an estimated 57 in 1900 to 192 in 2000 (Delmas 1995; Hansen 2002). Recent years, however, have witnessed more and more occurrences of state failure precisely due to conflicts, wars and armed

conflicts. While this phenomenon has mistakenly been seen by many as the unmaking of the international system and has thus received prominent attention, the international system has actually allowed for the disappearance of states in only a few cases. Historical studies have shown that state disappearance has been a rare case in world history and that between 1415 and 1987 only 11 cases went from sovereign to dependent status and only 15 states merged or were dissolved (Strang 1991). The disappearance of the Soviet Union – on whose existence Kenneth Waltz had placed his bet – certainly has been the exception and state survival the rule. Several scholars (Jackson 1990) have shown that the continued survival of many states in the contemporary era is assured not by their own efforts at state and nation-building, but by the international legal protection of the international system.

Despite Realist core assumptions there is hence the possibility that un-like units exist in the international system and that the international system be structured hierarchically. Contrary to Kenneth Waltz's assertion that it is "not possible to understand world politics by looking inside of states" (Waltz 1979, p. 65), IR theory should be able to account for the growing role of non-state actors in world politics and more importantly should have a theoretical conception of both the international and the state level. In recent years liberal IR scholars have developed a causal linkage between internal characteristics of a state and its foreign policy that analyses rent-seeking coalitions and preference structures of social groups within states (Moravcsik 1997, p. 530). Unfortunately this approach has so far only been applied to democratic states. The internal characteristics of states are however important in at least two instances that have recently received much attention in IR: the analysis of democratic states in the framework of the Democratic Peace theory and the analysis of security studies in authoritarian Third World states. In both instances it is clear that the internal cannot be divorced from the external and that state-society relations play a key role.

### **The internal form of states and recent trends in IR theory**

The so-called Democratic Peace theory has sparked a lively scholarly debate between liberal IR scholars and Realists on how to explain the absence of war between two democracies (Baldwin 1993; Brown et al. 1996). Referring to an "empirical law in international relations", Realists have attributed the peacefulness of democracies to the specific conditions of the international system (i.e. a bipolar world) and Liberals to the internal characteristics of democratic states (i.e. democratic institutions and shared norms) (Levy 1998). The debate

was initiated by a series of articles by Michael Doyle on Kant's political philosophy and its contemporary relevance (Doyle 1983), but has since become part of mainstream IR research. Realists have attempted to counter liberal arguments not by countering the empirical validity of the democratic peace theory or by convincingly challenging it with counter examples (exceptions are Layne 1996; Rosato 2003), but by challenging the causal explanation put forth by liberal IR scholars. Realists have thereby denied that internal characteristics of states produce the peacefulness of democratic states but that rather structural elements (bipolarity) account for that. With the end of the Cold War and the end a bipolar world, Realists' expectations for instability in a multipolar world (Mearsheimer 1990) have however not convincingly done away with liberal claims that democratic states can mitigate the destabilising effects of multipolar structures (Schweller 1993, 99-100).

With regard to the security of states in the Third World, IR studies have divided these states into strong and weak states (Migdal 1988) and into quasi states and failed states (Holsti 1996; Jackson 1990; Milliken/Krause 2002; Morton 2005). Weak states are generally seen to be those states that do not have the capacities to actively penetrate society, regulate societal relationship, and extract human and financial resources from society (Mann 1993). Where capacities are high, states possess infrastructural power. Where states are weak, they lack infrastructural power. State capacity does not say anything on regime type (democratic, authoritarian, totalitarian), as infrastructural power may exist across these regime distinctions and as it points to lasting attributes of the state that may vary from one government to another. Infrastructural power simply indicates that political decisions are taken not isolated from societal concerns, are embedded in societal interests, and reflect a state's legitimacy. Where this is not the case, as in weak states, states are not adaptive to societal demands, lack political legitimacy and often revert to coercive means. They thereby create a domestic security predicament (Ayooob 1996). Strong states, on the other hand, are those states that possesses certain power potentials, either in the military realms (size of its army) or in the economic realm (size of domestic economy) (Chase-Dunn/Rubinson 1979; Keohane 1984), that effectively penetrate their territory (Evans et al. 1985) and that show an effective adaptation to changes in the international system (Ikenberry 1986). Strong states are hence characterised by infrastructural power and the penetration through purposeful resource extraction and subsequent re-distribution as a way of controlling societal interest groups (Krasner 1978; Migdal 1988.) While both weak and strong states are a general feature of international politics, weak states have received renewed attention since 9/11 and have been described as a security policy problem of the world (Fukuyama 2004).

Failed states are a more recent phenomenon. They have equally been identified as a security threat to strong states. As one observer noted “the US and its allies are [now] obliged to recognise the distinct threat from the spreading chaos of failed and broken states. Pariah states can be deterred and, if necessary, defeated. Afghanistan is but one example of the new threat: havens where criminals, drug barons and now terrorists have stepped in when the authority of the state has fractured. Think of Somalia, Liberia, Sierra Leone, Chechnya, the vast drug plantations in South America.” (Spanger 2002, p. 2). Contrary to this common view that sees failed states as security failures, as the breakdown of order and the emergence of anarchy (Rotberg 2002; Schneckener 2004; Zartman 1995), cases of state collapse have been a rare phenomenon in the international system. While for centuries, state collapse and disappearance was a regular feature of international relations (Tilly 1975, p. 38), very few states have disappeared since the 19<sup>th</sup> century despite ineffective governance structures. This has been termed quasi states (Jackson 1990).

In order to adequately conceptualise the strength, weaknesses and failure of states one needs to start with a functional understanding of the state. Drawing an ideational line from Thomas Hobbes to Max Weber, the state is commonly seen as the provider of public goods and service deliveries.<sup>2</sup> Its basic functions are seen to include: the provision of internal and external security; the provision of a certain level of representation and legitimacy; and the provision of welfare and wealth (Milliken/Krause 2002, pp. 755-62). The tripartite distinction serves to highlight the core challenge of modern states, namely to provide all three functions at the same time: security, welfare, and representation.

The focus on the internal characteristics of states – so far only crudely captured in IR theory as state strength and state weakness – points towards a typology of statehood that promises interesting avenues for IR theory and that go beyond the reductionist Realist approach (see also: Clapham 1998; Sørensen 2001). Presenting an extension of Max Weber’s understanding of the state (Weber 1922), it looks at the form and the performance of the state. Statehood is thereby illustrated on a continuum, ranging from an ideal type strong state on the one end, to an ideal-typical rentier state in the middle, and to a patrimonial weak state on the other end of the spectrum. Hereby the form of the state (patrimonial, rentier, modern) is linked to the output side, namely the performance of the state, i.e. its ability to provide

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<sup>2</sup> This view focuses on a state’s purpose and its fulfillment of basic human needs. It also allows for a minimization of the role of the state and the role of non-state actors in the fulfillment of these basic needs (Oppenheimer 1990, pp. 47 and passim).

security, welfare, and/or representation, and the corresponding implications for a state's foreign policy.

**Table 1: Degrees of Statehood**

Form of the State	Strong State (Weberian ideal type)	Reformed State (Industrialised, post-welfare state)	Rentier State (allocative state)	Weak State (patrimonial non-western state)	State Failure (functional and institutional)
Performance of the State					
Security function	X	X	X	X	--
Welfare function	X	--	X	--	--
Representation function	X	X	--	--	--

Strong states are today not necessarily those that possess large bureaucracies or authoritarian structures. The 19<sup>th</sup> century and perhaps the first half of the 20<sup>th</sup> century still belonged to strong states that could mobilise their societies for war-making. Over time, however, the need for states to be flexible and adaptive to demands by societal groups became more and more apparent. Today states compete in the international system for resources and revenues in terms of economic growth and economic development, and less so in terms of military might and war-making.

The claim that strong states are those that limit themselves to popular accountability seems somewhat paradoxical. For those states that institutionally restrain coercive powers actually limit their ability to work with and through society and to actively influence policies. The power of the state hence comes from its ability to extract social capital and resources from its people (infrastructural power). Empirically, however, the contrary is true in the Arab Middle East. Most contemporary Arab states, while authoritarian and coercive in nature, display elements of institutional weakness, as they are limited in actively coping with the challenges posed by globalization and economic decline in the post-rentier order. This point can be exemplified by disaggregating the core functions of the state and analysing how states have empirically fulfilled these. The capacity of many Arab states is limited to providing domestic security, and lacking genuine representation and in some cases broad-based welfare.

## **War and State-formation in the Middle East as a starting point for IR theory**

Realist IR theory has similarities to the standard theory of state-formation based on the work of Charles Tilly that sees the activity of war-making as closely connected to the emerging centralisation of state power over a well-defined territory (Hobson 2000, p. 189). The crucial element of state-formation in Europe has been organised violence and military competition among states. This violence did, over a period of several centuries, lead to demands for more effective and lasting internal organisations and eventually converged on what Charles Tilly has termed ‘the civilianization of governments’ (Tilly 1990, p. 122). The institutional mechanism that provides this link between the waging of wars and the expansion of states is the fact that wars needed to be financed and hence taxes levied. The levying of taxes by the state associated those who had to pay these taxes with the state, whose relative legitimacy in turn permitted it to raise even more taxes, build larger military capabilities, and fight more wars to victorious conclusions or at least prevent its destruction as a state at the territorial expansion of other expanding states. The use of these enhanced capabilities to prosecute successful wars then lead to even greater administrative and political capacities of the state to tax and extract other resources. The final outcome was a highly centralised state which exercised effective control over its territory.

Combining the insights from historical studies of state-formation in Europe and studies on rentier states allow the formulation of a larger argument in IR that links the availability of rents to a particular model of state-formation (Barnett 1992; Bromley 1994; Gongora 1997). State-formation in the Middle East has by and large not followed the European experience. The logic that drove state-building in Europe, namely the interplay between war and state making, was not able to unfold fully in the Arab Middle East due to the high degree of outside penetration (Brown 1984). The effects of military competition had required European states to organise itself effectively internally and hence contributed to the emergence of a few centrally organised state bureaucracies. The highly asymmetrical competition between Arab states and outside Great Powers effectively hindered the same effect.

“When the ferocious men and women who built Britain, the United States, Germany Italy, France, and Russia used advantages over their neighbours for territorial aggrandizement and the construction of great national states, there was no external club of preexisting great powers able to penetrate their continents and enforce paralyzing fragmented status quo on behalf of “civilized” norms of interstate behaviour” (Lustick 1997, p. 675).

In addition to this, the rentier nature of Arab states has blocked the “war makes states” process. The importance of this rentier effect on state-formation is threefold. Firstly, excess oil revenue in the hand of the state reduces the state necessity to extract resources from its own population (taxation). Rentier states have secondly the privilege to distribute and allocate excess oil revenues according to political considerations (Luciani, 1990) and without reference to economic consideration. Thirdly, a high level of rentierism has a negative effect on the human, social, and economic development of a country. While the economic benefit from oil revenues may be only short-lived, the long-term consequences are market distortions, corruption, unproductive economic sectors and the absence of autonomous social groups (Karl 1997). All three considerations underline that rentier states differ drastically from states whose role is to collect taxes.<sup>3</sup> Based on the notion of ‘no taxation without representation’, the diminished need of the state to levy taxes from its citizens impedes the emergence of a strong state that legitimately represents its citizens (Luciani 1988, p. 463). The process through which war-makers are civilised due to their need to forge a symbiosis with nascent civilian state-makers in order to extract resources for war-making from society, thus never materialises.

Rentierism is linked to the emergence of weak states in two ways: Firstly, a high level of rentierism will negatively affect the function of the modern state to represent its citizens (representation function). The existence of a rentier state serves as a strong impediment to democratic rule and pluralistic institutions (Luciani 1994; Ross 2001). Secondly, a high level of rentierism positively affects the function of the modern state in providing welfare and wealth to its citizens. The high level of wealth and welfare allocation in rentier states has led to an implicit social contract that substitutes political rights for state-provided welfare and to the cooptation of strategic social groups. The expenditure side of rentier states displays a state-building agenda of creating societal peace and political acquiescence. While this informal social contract may only be sustainable as long as there are enough resources to be allocated both for the state and for the whole of society, the chances for political change increase if the state fails to fulfil his part of the social contract and thereby fails to fulfil its

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<sup>3</sup> Some scholars have raised critical positions concerning this linkage and have questioned the democratizing power of taxation (Herb 2003). In defense of our argument one should not look at a positive linkage between taxation and democracy (as done by these critiques) but rather at the flip side of the coin, which emphasizes that in the absence of taxation wealthy rentier states enjoy the privilege of disposing of their resource wealth freely and without demands for accountability. That is indeed the crucial difference highlighted by Luciani (1990) in his terminology of ‘allocation states’ and ‘production states’ respectively. The spending effect of rentier states – namely oil wealth being spent on patronage and thereby inhibiting latent pressures for democratization – is by far more important. The link between rentier states and democracy is thus a negative one and the absence of rentierism is not a sufficient condition for democracy, but rather a necessary condition.

welfare function. In order to avoid collapse, the state has to react to societal demands and broaden its representative function, which includes changes in its foreign policy.

### **Rentier states in the Arab Middle East**

Rents have been defined as “the income derived from the gift of nature” and are thus usually understood to be income accrued from the export of natural resources, especially oil and gas (Beblawi 1990, p. 85). Furthermore, external rents may also be conceived of as bilateral or multilateral foreign-aid payments, such as foreign development assistance or military assistance, which are termed ‘strategic rents’. The rentier effect in the Arab world concerns both oil-exporting states and non-oil exporting states. A significant extent of the rents of the oil states has been recycled to all Arab states through migrant workers’ remittances, transit fees and aid (Beck 2007). The region-wide effect of rentierism has been highlighted by several studies:

“the oil phenomenon has cut across the whole of the Arab world, oil rich an oil poor. Arab oil states have played a major role in propagating a new pattern of behaviour, i.e. rentier behaviour.” (Beblawi 1990, p. 98).

This common rentier effect emerged in the 1970s through the establishment of an implicit social contract, the state used its economic resources (oil revenues, strategic rents, developmental aid; not taxation) to offer benefits such as jobs, free education, and subsidies to its citizens in exchange for political acquiescence. It was based on an inverse logic of the dictum of the American Revolution ‘no representation, no taxation’. As long as the state did not need to tax its people (due to alternative revenues in the form of rents), demands for representation were deemed not legitimate to be voiced. Political legitimacy was rooted in material legitimacy and the state’s ability to meet its welfare commitments.

The functioning of this rentier model of statehood depended obviously on sufficient resources in the hand of the state. Since the majority of these resources were accrued externally (oil windfalls from the world oil market, strategic rents from oil-producing states to non oil-producing states, developmental aid from Western countries or the Soviet Union), the state could only passively re-distribute them as they were beyond its control. The consolidation of state-formation reached its limits when economic resources were no longer forthcoming. This gave rise to state withdrawal from its core functions and imposed a re-negotiation of state-society relations.

The post-rentier state era (1980-today) has led to adjustments of domestic and foreign policies. During the 1980s, domestic economic weaknesses (inefficient and bloated public sectors, the exploitation of economies for military ends, university-biased education systems, and populist distribution policies) exhausted capital accumulation and led to the end of state-driven import-substitute industrialisation (Pawelka 1993; Waterbury 1997, p. 142). This led to a change from external to internal ways of financing the state budget: external borrowing was swapped for internal ways (often through issuing government bonds or favourable lending from state-owned banks, as in Egypt), external capital flows were countered by political tools to domesticate the revenues of migrant workers (through fixed exchange rates and obligations to transfer money through local banks, as in Tunisia), and policies of accruing external sources of public assistance were changed for policies designed to attract private and foreign capital. The boom-bust cycle of the international oil economy impacted directly on state-formation: oil rents financed a state-building project de-coupled from the demands of society, leading to overdeveloped states, exceeding the capacity of their own economic bases and unable to sustain. The decline of world oil prices at the beginning of the 1980s left most states of the region with a deficit in their balance of payments and an accumulated debt that was eventually no longer manageable (Hunter 1986).

In this situation two modes of crisis management were at the disposal of rentier states: one internally directed, which involves a more effective use of existing rents, usually through austerity measures; and one externally directed, which involves rent diversification and the attempt to attain new sources of external rents. In the Arab context the initial strategy of crisis management included a search for alternative sources of external capital, which were found on international capital markets. This led to unsustainable high external debt burdens and consequently to fiscal crises of the state. This fiscal vulnerability exposed the state to external pressures from Western donors and IMF demands for structural adjustment policies. Given the implicit social contract, the fiscal crises entailed in the Arab context a fundamental crisis of the state itself. The strategy to combat the fiscal crisis had therefore to be turned inwards and towards a widening of the social base of the state by introducing political liberalisation measures, allowing for the establishment of non-governmental organisations, and granting certain political and human rights (Schwarz 2004). The impact between the fiscal vulnerability of the state and the course of state-formation was most pronounced in states with few natural resources at their disposal, namely Algeria, Egypt, Jordan and Tunisia. Political measures were sought to stem the tide of unpopular economic policies demanded by

IMF-type structural adjustment programs and in order to attain the much needed international debt-rescheduling (Brynen 1998).

If state-formation in the Arab Middle East during the 1970s and 1980s was driven by outside considerations (oil revenues, external security threats), the driving element became in the 1990s the search for a balance between increased international demands and domestic resistance to these demands (Hinnebush 2003, p. 88). These international demands came in the form of macro-economic stabilisation (part of the post-rentier bargain) and increasingly in the form of political (respect for human rights) and military demands (especially since 9/11). The American ability to project military power in the region (Iraq and Afghanistan) coupled with the inability to project political power and to stem the tide of domestic opposition to these policies, underlines again the driving element of state-formation in the post-rentier era: the balance between international demands and domestic resistance to these demands.

The economic foundation of rentier states offers to IR theory insights into how states adjust their external behaviour in order to assure their survival. The close connection in rentier states between the economic and political foundation of the state leads in times of fiscal crises to expectations of norm consistent behaviour in the field of human rights (Schwarz 2004) and expectations of the initiation of a process of political liberalisation and possibly democratisation (Luciani 1994). As the role of international donors becomes particularly important for the acquisition of strategic rents, this may also include changes in foreign policies (Beck 2007).

### **State Formation and implications for IR theory**

We have shown that rentier states follow a particular process of state-formation. This process entails the challenges of rentier states to effectively balance the state's welfare function with its representation function. This can be highlighted by disaggregating the core functions of modern states and their fulfillment. Understanding state-formation in this comparative perspective has implications for current debates in IR on failed states (how to avoid state failure?) and post-conflict peace-building (what to rebuild?), as well as on debates on democracy promotion in the context of the Democratic Peace theory (how to expand the democratic peace?).

### **a. Failed States**

State failure, a sort of state de-formation in which the state fails in providing its most basic functions, must be distinguished from state collapse, where the complete order breaks down and a war of all against all emerges. Full-blown cases of state collapse are relatively uncommon phenomena. The genocide that took place in Rwanda in 1994 was not enabled or produced by the Rwandan state disintegrating or ceasing to exist. On the contrary, the genocide was produced by ‘highly disciplined agents of the state’ who pursued the task of murdering many of its people with hideous efficiency: “There was no state collapse when the Rwandan state run by Habyarimana’s successor was defeated and displaced in mid-1994 by the Rwandan Patriotic Front” (Clapham 2002, p. 776). What happened in Rwanda was merely the change from one regime to another. Likewise, the case of Iraq illustrates very clearly the important distinction between functional state failure and full-blown state collapse. Under Saddam Hussein, state-formation had for decades been decoupled from the demands of society and had aimed at a transformation of that society. With declining oil revenues in the late 1980s, and especially during the decade of sanctions in the 1990s, the Iraqi state was seriously restricted in fulfilling its most basic functions (welfare, security, representation); nevertheless, it managed to maintain a minimal level of statehood and order. Only after the US invasion in March 2003, together with the dismantling of Iraqi state institutions by the Coalition Provisional Authority (CPA) in May 2003, did Iraq become a collapsed state, in which the situation resembled that of a war of all against all. Further examples of state collapse include Liberia, Sierra Leone, Somalia, Congo/Zaire and Albania (Milliken/Krause 2002, pp. 754-755).

As the examples of Rwanda and Iraq illustrate, there is an important difference between (institutional) state collapse and (functional) state failure. An understanding of potential state failure (when and where will it occur?) has to start with an understanding of the basic functions of the modern state. These three core functions – the provision of internal and external security, the provision of a certain level of representation and legitimacy, and the provision of welfare and wealth – do not exist in a vacuum and are closely interconnected. In some cases they reinforce each other and in others they hinder the others’ fulfilment (Schwarz 2005).

Understanding potential for state failure must hence start with an understanding of how these three functions interplay in a given state. This article has shown that rentier states display a particular connection between them: abundant external revenues allow the provision

of welfare and the acquisition of security to the detriment of representation. In times of fiscal crisis the state has to withdraw its welfare function and renegotiate a new equilibrium. This can take on an external strategy (revenue acquisition through foreign policy and/or war-making) or an internal strategy (economic reform and/or democratisation). Both scenarios bear dangers for state failure as war-making may lead to the unmaking of the state and as economic reform might increase societal conflicts. In both cases the heritage of a rentier economy, the informal nature of revenue distribution within rentier state, bears the potential of the emergence of shadow states.

Shadow states are those states that are characterised by a “commercialisation of politics”, in which a system of patronage maintains a minimum level of state order. Foreign aid and other forms of external rents have offered state rulers wealth to distribute to loyal persons and financial resources to create a coercive state apparatus to marginalize and control political opponents. Given that international aid has at times exceeded a particular state’s overall budget and thereby contributed to this development, foreign aid and international economic reforms have at times undermined states and encouraged neopatrimonialism (Cooper 2005). In such a situation of economic restructuring, some state elites have provoked insecurities and societal tensions, sold private protection in turn, and contributed in the long term to the emergence of societies that are prone to settle disputes by recourse to violence (Reno 2002).

Viewed from this angle, the operation of shadow states comprise already all the ingredients of state failure. State failure – where it occurred – was essentially a collapse of the patronage system which had maintained a minimum level of order and a selective form of economic welfare (for those clients of the rulers). Even where internationally mandated economic reforms have reduced the economic resources available to shadow states, financial funds are often channelled through other means, such as non-state organisations (Schwarz 2005: 429-446). Comparing the collapse of shadow states and rentier states, one observes the importance of maintaining the distribution of welfare benefits (even at a low level) for the continuing functioning of the security function of the state. Where both fall apart, as in post-2003-Iraq, insecurities and the imposition of the monopoly on the legitimate use of violence (the first step in state-formation) becomes the highest priority. Gradual reform of post-rentier states is hence the key to transforming an allocation state into a taxation state, and of transforming weak states into legitimate, democratic states. That effective central control of the state is a prerequisite for this has been shown above.

## **b. Post-Conflict Peacebuilding**

The relevance of understanding state-formation in its theoretical and practical scope lies in recent humanitarian projects of the international community. There the tension has been one of rebuilding war-torn societies through the imposition of international administrations. This has witnessed a merging of peacekeeping with state-building agendas. Peacebuilding in its current form is hence distinct from peacekeeping in its classical sense, since the former entails elements of state reconstruction and the imposition of state functions on societies, as witnessed in East Timor, Kosovo and Afghanistan. These ambitious international efforts and the complex nature of post-conflict situations demand knowledge of several interrelated processes, most notably the historic process of state-formation and state-society relations.

The tensions of these projects can again be exemplified with regard to the three core functions of statehood (security, welfare, representation). International efforts at state-building have focused in recent years on building reformed states (leaner government; i.e. post-welfare states), and not strong states (effective states; i.e. the Weberian ideal type). This international reform agenda, most evident in the Washington consensus, implies however an insurmountable tension of objectives in security-related and economic matters (Fukuyama 2004). A global liberal economic order demands strong states, since weak and corrupt states are not attracting enough foreign investments or international companies, and have consequently been called the “black holes” of the world economy (Wolf 2004). In security terms, the lack of state capacity has come to haunt the developed world directly, as illustrated by the attacks of 9/11, and weak states have become a problem of the international political order. To conceive of weak states as a security threat to their population or as a challenge to world order are, of course, two entirely different things. International developments since 9/11 appear to have tilted the balance towards the latter (Fukuyama 2004). This renewed preoccupation with weak states will undoubtedly shift the focus of international state-building efforts on creating effective state structures rather than democratic polities.

The need for strong states is not only relevant for the state-building agenda in the Third world (weak states, failed states, or collapsed states), but also for debates on reforming strong state institutions in Western Europe. While many calls have been made in recent years to render strong states more competitive – especially in the realm of taxation (tax competition) – and make governments leaner, such a perspective endangers the very foundations of the modern state as a provider of public goods. The fulcrum of the modern state remains its constitutional basis – the notion of a civil or social contract between rulers

and ruled – and its preservation of individual freedom. A change from a constitutional state to a performance-oriented lean state would have profound implications on the *raison d'être* of modern states and on the rule-of-law (Kirchhof 2004). For is it really conceivable that states demand from citizens a security tax in exchange for the provision of law and order, or that the state levies a contract tax for providing the rule of law as the basis of entering into business contracts, or an educational tax from further employers? While there have been trends to move towards leaner government structures in many Western states, none of these questions the underlying notion of the state being the ultimate provider of public goods.

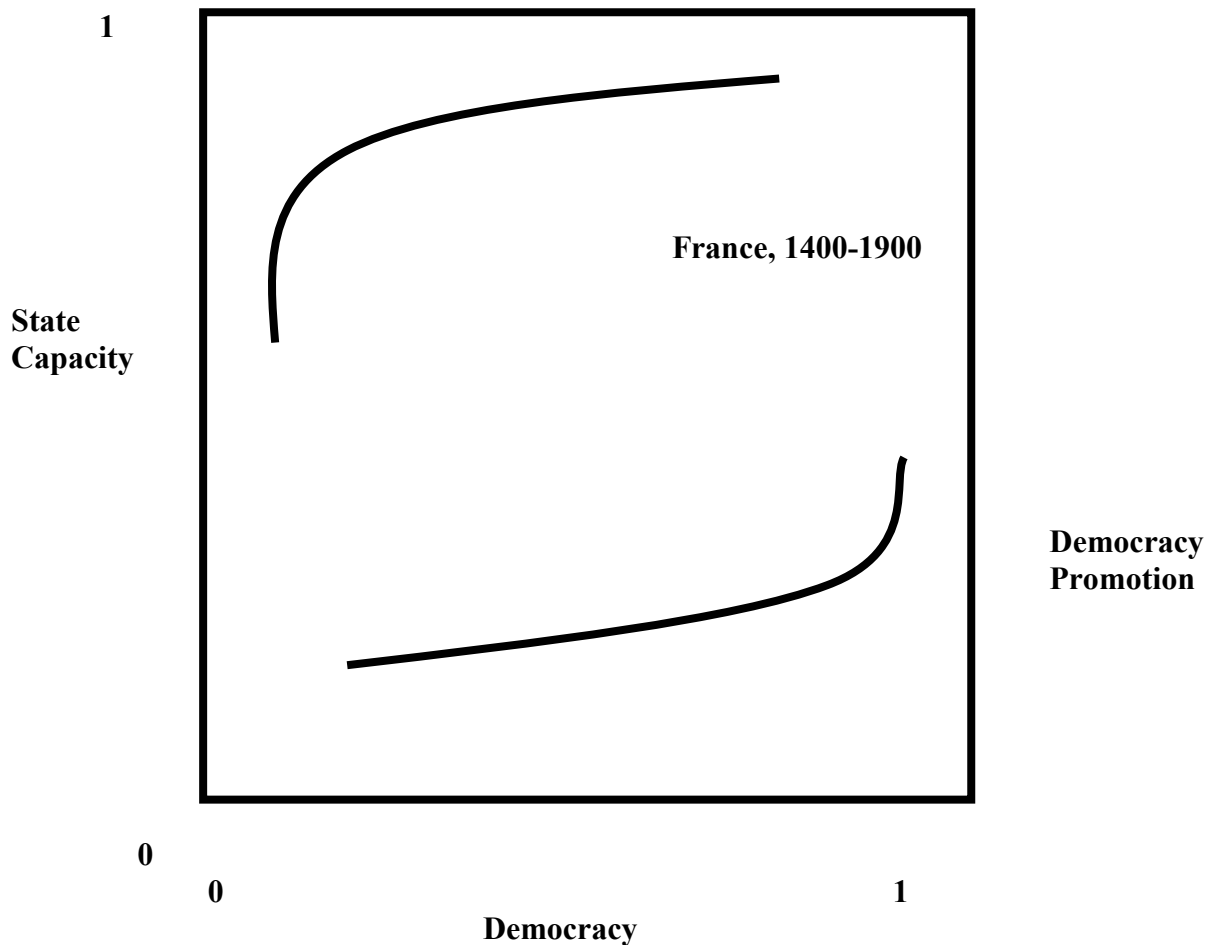
The international community's preoccupation in recent years in finding policy solutions to civil wars and state failure through the merging of peacekeeping with state-building points towards the underlying assumptions of statehood in the current international order. From this it seems clear that international responses to dysfunctional states demand first of all both a rethinking of the concept statehood in IR and the relevance of internal and external traits of states in the international system.

### **c. Democratic Peace Theory**

The importance of statehood has also importance for IR debates in the context of the Democratic Peace theory. The peacefulness of democratic states in relation with each other has produced debates on policies of democracy promotion in order to ensure that the “zone of peace”, made up of democratic states, expands across the world.

The analysis of prospects for democracy through the lens of comparative experiences of state-formation questions indeed common assumptions about policies of democracy promotion. Looking at the historic path of state-formation in early modern Europe, exemplified here by the example of France, it becomes obvious that the path to democratic states went through authoritarian states and the subsequent civilianisation and democratisation of rulers.

**Figure 2: Rise of the Modern State and Current Democracy Promotion Strategies<sup>4</sup>**



While policies of democracy promotion currently in place imply an inverse path (from democratic governance to state strength) there are reasons to doubt the feasibility of this on a theoretical level (Fukuyama 2004; Tilly 2007). More particularly with regard to the Middle East, an additional element needs to be taken into considerations, namely the informal nature of politics (based on the allocation of welfare benefits through patronage networks), in order to gear policies of democracy promotion designed for formal institutions (parliaments, NGOs, etc.) to their desired outcome in a context of informal institutions. This article has demonstrated that the nature of rentier states in the Arab Middle East – especially the allocation policies of rentier states in the field of welfare benefits in exchange for democratic rights (the rentier political bargain) – must first be understood before prospects for democracy in the region can be advanced (Alissa 2007).

<sup>4</sup> Adapted from Tilly (2007).

## **Conclusion**

Much has been written about the exceptionalism of the Middle East. Many authors have applied this notion also to the analysis of state-formation, where Islamic culture and Islamic political thought are seen as the prime reason why Middle Eastern states differ from Western European states. This article has suggested that it is rather the rentier nature of Arab states that set them apart from other world regions. Studying the state-formation processes in the Arab Middle East offers avenues to understanding current world affairs and carries great potential to general IR theory, as already recognised by several scholars (Anderson 1990; Beck 2002; Teti 2007; Valbjørn 2003).

The policy relevance of an analytical refinement of existing theories about state-formation is discernible in light of recent interventionist policies in world politics and particular in view of recent attempts to rebuild a state in Iraq. It relates to the fields of state failure, post-conflict peacebuilding and democracy promotion.

The analysis of rentier states has furthermore particular implication for general IR theory. Firstly, it points to the importance of internal characteristics of states. Rentier states are not like-units. They show a markedly different external behaviour to other states, be it in times of fiscal crisis or in times of fiscal stability. The second conclusion rentier states offer to IR theory relates to political stability and the likelihood of state failure. The combination of rentierism and war-making in the contemporary period has produced a twin phenomenon of state failure and “life support” for failed states. Where it not for the availability of external rents many failed states would probably have succumbed to institutional state collapse, even while maintaining all along a legal façade of statehood. Finally, internal traits of states, be they democratic, rentier or other, point towards the fact that they systematically influence states’ outside actions and foreign policies. This article has shown that contrary to Kenneth Waltz’s assertion (1979, p. 65) valid generalisation can be drawn from looking inside of states.

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