

Diversification to Democracy  
Understanding American Commercial Influence  
Relative to Hydrocarbon Construction Emphasizing the Geopolitics of OPEC Nations

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## ABSTRACT

To present the importance of understanding American commercial influence through the utilization of geopolitics while referencing the economic viability and public policy in Organization of Petroleum Exporting Countries nations, relative to oil production, consumption and the price per barrel. For the purpose, of successfully completing western led hydrocarbon construction activities Internationally. Additionally, this thesis will theorize several non-traditional strategies that will allow western led construction contractors and managers to effectively maintain and foster relationships with international trade labor. Allowing for more insight and project planning to complete successful and safe projects.

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## CHAPTER 1

### INTRODUCTION

Understanding American commercial influences throughout the Middle East is critical for success relative to any construction management company. The most important piece of any construction management company is its people, understanding this and the distributed execution model of many of the larger CM firms, it is very important to address some personnel, cultural and geopolitical issues. As an example, the Middle East relies heavily on the production of crude oil, ironically enough many large EPCM and construction management firms also base their stock price or company success on the price per barrel as well.

Currently due to substantial amounts of shale play crude being produced from the United States, coupled with other countries producing more and China having less demand the price per barrel has slipped below 50\$ per barrel. (Aasim M. Husain, 2015) The political importance this plays in these regions is enormous. The country Saudi Arabia is a large player in this arena. Saudi is a western allied country who is the largest producer of crude oil in the world. It is also one of the largest players in an organization called OPEC (Organization of Petroleum Exporting Countries). (Marcel, 2006)

Further examples are the declining price of oil, a key influence American construction companies will have is the ability to develop and build mechanisms for these nations to diversify their economy. With the price of oil decreasing or at least temporarily remaining at \$50 per barrel and demand flat lining, (Aasim M. Husain, 2015) it makes sense for countries that rely on crude oil production to diversify their economy and find economic viability in other mediums.

This large influx of cash will allow the Saudi government (and other OPEC nations) the opportunity to diversify in foreign industries and markets. These developments and industrial diversification projects are where American influence, primarily commercial relationships with corporations such as EPCM's are critical. Companies such as these have an expertise in the development of industries outside of energy and chemicals. This expertise includes developments such as steel fabrication, mining, and civil works, all of which the OPEC nations will soon need to invest in and develop within their own countries.

Historically western EPC companies have had some difficulty when it comes to maintaining efficient trade labor relations with international laborers. Many times, during construction in these Middle Eastern countries, war, violence or both befall either the labor force or the ones who have hired them. There is also a lack of efficiency due to training, education and a multitude of other geopolitical factors.

This thesis contains five chapters, they are as follows. Chapter 1 is the Introduction to the topic. Chapter 2 discusses the Kingdom of Saudi Arabia and how their sheer size and dominance in the hydrocarbon market makes them a key influencer on several issues which in the end effect America's ability to perform these construction activities. Chapter 3 is the overview of western involvement in the Middle East relative to oil & gas construction and other construction type activities in this region. Although impossible to include history from all parts of these interaction this will specifically cover the period from 2000 – 2017. This chapter also details the new types of markets that will emerge due to the increasing change in the geopolitical landscape, and what western led organizations are poised to collect on said opportunities. Chapter 4 discusses the

traditional trade labor issues historically held between western EPC firms and international trade labor personnel, and the cultural norms that make it increasingly difficult for western led construction to effectively execute work. Chapter 5 is the conclusion and covers the theory and or hypothesis that can be implemented from the detailing of this thesis. It also covers the impact of the theory and how it will help EPC and American companies achieve a greater level of success in these regions.

## CHAPTER 2

### SAUDI ARABIA, GEOPOLITICS AND CRUDE OIL DOMINANCE

The geopolitical climate in the Middle East has always been a tumultuous one. The countries in the Middle East have historically been ones that have been economically underdeveloped (Anderson, 2006) compared to most western nations, and their societies follow in suite to their economic stature. Due to these factors, you find that most of the politics and social norms in this region are behind the curve. This creates laws where women are unable to drive, and unable to work. (Bayat, 2007) Culturally and systemically this nation has denied many their citizen's education; they have taken roughly 50% of their available workforce (women) and denied them the ability to work. (Bayat, 2007) And thus, has diminished their ability to produce any type of industry excluding the production of crude oil.

Benjamin E. Martorell a student from Depaul University published a paper called "Oil, politics, society and the state in the middle east: Enduring authoritarianism in Iran and Saudi Arabia" (Benjamin E. Martorell 2012) his paper is addressing the unique system of authoritarianism that exist in both the countries of Saudid Arabia and Iran. And the authoritarian type government and society they live in. In this paper, he speaks about the large amount of oil wealth that Saudi Arabia has and how this in a way has created the society in which they live. He discusses that the nationalization of crude oil, which coupled with Saudi Arabia being the largest producing source of energy from this region has eventually created a monopoly for their government. This causes a difficult situation for many countries in the region as well as other countries who develop said oil and energy related resources. (Martorell, 2012)

Many nations have in the past when faced with such circumstances as a declining market have immediately changed the entire face of their economy to move with the times and remain profitable. Saudi Arabia however does not necessarily need to change so rapidly nor innovate as quickly. In the past since crude oil has become a primary source of energy for the world, Saudi Arabia sitting on one of the world's largest reserves has proved beneficial for them in congruence with how closely the United States economic influence is tied to their monopoly of crude oil. In 1974, the petrodollar deal was made by then President Richard Nixon. This deal virtually eliminated the dependence of the US dollar on gold and theoretically transferred that to the barrel of crude oil. Since that period, the US dollar has appeared to follow the value of the barrel of crude oil. This has allowed the reserves and production capability that Saudi Arabia has to remain virtually as stable as the US Dollar, and has allowed their economy to expand in profits from this transaction, making them a very wealthy nation. To the point where roughly 90% of Saudi's GDP comes from the production and sale of crude oil (Marcel, 2006).

This presents a potential problem for the rest of the region geopolitically as there is heavy involvement from both Saudi's production and America's commercial interest. This causes several other nations to realize the great amount of economic power this allows the United States to wield. It also allows these name nations to recognize how much social and energy dominance this gives to Saudi Arabia. Saudi Arabia's claim to being the role model for Muslim governments (Bayat, 2007) causes many who are outside the small royal family, the group who created and negotiated the petrodollar deal, to have distain for a government that claims to be a role model for all Muslims but



simultaneously acts and does business with the western nations who have vastly different morals, and principles as they do.

Other nations who give issue to these monopolies of power have of late began combining forces to stop this trend. The first way some of these nations have attempted to do this is by weakening the U.S. dollar. Currently the U.S. dollar is the world reserve currency, this means that the medium of currency and the thing that other nations base the evaluation of their own currency to is the dollar. Giving it immense power. (Aasim M. Husain, 2015) Especially when we know that oil transactions are made in dollars. Countries like Russia, China, and India have recently attempted to utilize Brics banks. These are banks that use the Chinese yen as opposed to the dollar. This presents a problem not only because the Chinese manipulate their currency to gain advantage on interest rates, but also because if more countries do this it has the potential to weaken the US dollar to the point where it is no longer world reserve currency, (Aasim M. Husain, 2015) and oil would then not traded with the dollar. This could mean catastrophe for the United States economically, and for Saudi Arabia as they would lose market share as well.

This is incredibly important to understand as the people who have lived for generations in these locations know how and why their government does things. They are aware of the notion that their government on one hand preaches about being the most upright moral object for the Islamic world, and then on the other hand does commercial deals with nations who fundamentally disagree with many of their cultural and social ideals. This causes a large amount of distain for a government who works with the west on a seemingly commercial driven agenda. Perpetuating the perception that when

westerners and Saudi Arabia work together only commercial beneficial results will occur for the west and the monarchy. Not the religion of Islam nor the people who are not the leadership in that nation.

## CHAPTER 3

### AMERICAN COMMERCIAL INFLUENCE IN THE MIDDLE EAST

America has had a unique form of interactions and influence for a very long time in this region. To cite a more specific example where both the United States and Saudi Arabia influenced the region to obtain dominance and control is to point to the war on terrorism. The United States for the last sixteen or so years has been engaged in a war with many rouge non-state actors known as terrorist groups in the Middle East. These groups have received their training from many sources and have become a formidable enemy regarding maintaining stability in the region. (Malik, 2017) According to an interview the author of this thesis conducted with Captain Harris Malik, an Army combat veteran who has spent many months in the Middle East fighting out nation's enemies. Capt. Malik when questioned about the region made mention to the note that "The enemy we are fighting has demonstrated new capabilities and has made it incredibly difficult for the nations in which they occupy to adequately defend themselves without western involvement." (Malik, 2017) The war began in the early 2000's when Hank Crumpton who was the CIA's lead for this operation utilized his assets to topple the established stronghold of Al-Qaida. (Crumpton, 2012) This war has created a very volatile situation for not only the region but for the oil producing nation of Iraq. Iraq is an OPEC nation and has not until recently began production of crude oil as a nation. This means that the oil industry has suffered the loss of production from Iraq. This is one factor where supply for oil shrank leading to greater demand. This is reflected in the jumps in price during this time. (Aasim M. Husain, 2015)

In an interview the author of this thesis conducted with First Lieutenant Joseph

Lawless, a Psychological Operations Group Officer, LT. Lawless said “The ongoing conflict in the Middle East has opened my eyes to the lack of effectiveness of the nation building policy. This is not to downplay the need for counter-insurgency (COIN) operations and humanitarian aid, but to exploit the questionable track record of nation building in that region of the world. COIN and humanitarian aid are crucial to building rapport with the local populace, but history shows that to take it a step further and to build a nation is generally unsuccessful.” (Lawless, 2016) These comments and insights into how this shapes our geopolitical playing field as commercial influencers should stand out as indicators that the key to successful operations are not systemic changes with the reigning government, but more so with the local populace. This should also point out that even though there is an enormous amount of wealth in these countries due to such heavy western influence and purchase of minerals such as oil, there is a deep necessity for western influence as the region is unstable, and more than likely will continue to need the western source of innovation and diversification as time moves on, despite the local conflict of western and Middle Eastern collaboration.

War has also shaped the playing field in these regions heavily. With war comes the sustainment of our own personnel and the Army Corps of Engineers responsibility is to ensure that these construction activities are completed. Historically and according to 1LT Joseph Lawless the Army Corps of Engineers does not typically train their construction personnel on how to mitigate through the social and geopolitical elements of locals, or subcontractors. (Lawless, 2016) This means that the cost of actual construction is increased due to the lack of local subcontractors being utilized. Army personnel are used in every element of these construction jobs. In both Iraq and Afghanistan companies

such as Fluor and KBR were brought on to help manage at a lower price point the construction and logistic efforts for said military operations. This brought into creation the LOGCAP projects. (Logistic Civil Augmentation Program). These programs take civilians and place them into military bases etc. to manage the process from more commercial responsible standpoint.

Another instance where the United States and Saudi Arabia influenced the region to obtain dominance can be clearly outlined by what is known as, “Charlie Wilson’s War”. This began simply to combat the USSR, but developed into a way to influence the region. In 1979 the USSR invaded Afghanistan, to spread communism and create a foothold in the region after a failed attempt in making Israel as a communist sympathetic nation. (Crumpton, 2012) The United States CIA partnered with Congressman Charlie Wilson to lobby congress to provide funding for weapons and training for the Afghan people to fight off the militarily superior USSR. This would equal to guns, stinger missiles etc. (Crumpton, 2012) If the USSR had such a powerful influencer state in the region, then both Saudi and the U.S. interest would be in jeopardy. The Central Intelligence Agency conducted talks and negotiations with the Saudi government alongside Congressman Wilson and brokered a deal where they would match dollar for dollar what the U.S. paid towards this cause.

Ironically the weapons had to appear Russian as not to draw suspicion to the USSR that western influence was at play and the largest stockpile of Russian weapons was in Israel. (Crumpton, 2012) Again, another example of the “role model” Muslim government aligning with someone who theologically and ideologically one of their enemies, yet they make major commercial deals with said outsiders in purchasing

weapons, all to retain their dominance and power in the region. Ironically the United States is in a comparable situation as the people our nation sold weapons to and trained were non-state actors associated with the mujahedeen, after time and neglect of funding for rebuilding infrastructure it is believed that many of these fighters became portions of the Taliban. (Crumpton, 2012)

This unique type of commercial influence in the Middle East has continued through today's time. Saudi through today's time has also remained the largest producer of crude oil to date and has done so by having the largest supply on the market, as well continuing heavy western influence in their dealings and homestead. In addition to this however the United States being the largest consumer as well as one of the largest producers of crude oil has put itself in a position to be potentially oil independent in the future. This is first observed by the advancing shale production in the United States due to new innovations in technology (fracking, well development etc.). Also, a large factor to consider is that oil exploration and production is not federalized in the United States, mainly due to its culture. This means that if a land owner discovers crude oil on his property then he can start a company and drill for this energy resource. This means that if it is commercially advantageous these small drilling companies will produce oil.

Saudi Arabia has federalized oil production however, (Marcel, 2006) so if the price per barrel is ten dollars or one hundred dollars they have complete control over how much they produce. This means that recently when the US has an increase in production because of the smaller drilling companies and new innovations allowing us to obtain before impossible oil deposits, (Aasim M. Husain, 2015) it negatively effects the market share of Saudi Arabia's federalized oil production. This trend is what has caused the

recent drop in the price per barrel. OPEC (Organization of Petroleum Exporting Countries) chose not to regulate production, which in turn would “flood” the market with too much crude oil bringing the price down. Since both OPEC and the U.S. did not regulate nor slow their production it caused the price to drop from roughly one hundred dollars a barrel to under fifty. (Aasim M. Husain, 2015) This was all in the name of maintaining market share for the largest producing member of OPEC, Saudi Arabia.

This dependence on market share of crude oil is derived from the fact that Saudi Arabia has an extremely high social cost, i.e.: free healthcare, no income tax etc. (Anderson, 2006) They can currently afford this because of the large amount of crude oil revenues they generate. However Saudi Arabia has now placed themselves in a position where the price of oil will not reach back to the one hundred number for a very long time. This means that the primary source of revenue for Saudi Arabia will not reach back to its full earning potential for a very long time. If this profit and these benefits are no more, then the system of social control and the monarchy they have created is in jeopardy. This country is also not one of innovation, or diversification, or development, simply put it has been reliant on the monarchy of oil and the royal family members who manage it for decades upon decades. You simply cannot divorce them from these principles and it will remain as it is. The perception of western nations and companies by Saudi nationals may vary depending on how successful the Saudi’s are at profiting on their primary revenue source. This is where the United States comes in to play as a great necessity for the Middle East as it is one of only the western nations developed and innovative enough to successfully perform commercially competitive and effective methods in refining and extracting these natural resources their economy is in such desperate need of.

It becomes critical to understand these nations culture and applying it to American commercial hydrocarbon construction activities in order to potentially capitalize on these commercial opportunities in this region. Especially with Saudi's great dependence on the profits from crude oil production.

This movement creates opportunity. This opportunity will arrive in the form of new markets and a willingness to diversify away from crude oil production by these nations. Understanding this delicate situation will allow western contractors and EPC companies the opportunity to help the diversify these nations economy, through infrastructure development. An American corporation McKinsey, who specializes in innovative and creative business solutions, has recently been awarded a contract to reform their services for the Saudi government. This work they will do will open the gates even further to more opportunity to develop not only the wealth of resources that this nation has, but allow for contractors like Fluor and KBR to develop infrastructure like mines, roads, etc. that are revenue generating sources to supplement the Saudi way of life.



## CHAPTER 4

### HISTORICAL ISSUES WITH INTERNATIONAL TRADE LABOR

Chris Riley, an experienced oil and gas professional with a diversified range of international experience spent many years overseas. In his own words below are accounts he experienced while abroad. As a general note: Chris spent 18 years working in the Middle East and North Africa (Algeria, Saudi, Egypt, Iraq, Jordan, Kuwait, Qatar, UAE, Oman). For 99% of the time, he did not think that the locals disliked westerners. “The labor force that was used in Saudi Arabia were Indians, Pakistanis, Nepalese, Filipinos, Bangladeshis, and some Thais. They came to Saudi to help support their families at home. Some were only able to return home every three years or at the end of their labor contract. This would mean that for the large majority of the project duration these individuals were not able to see or communicate their families. As such, phone cards, which can be used to activate certain types of phones that are popular, were a good option to reward the workers for safe completion of general construction activities. We would purchase these as safety awareness rewards usually Saudi Riyal 50 or 100 (~US\$ 13 and US\$ 27) and would distribute them on the spot or at weekly morning gatherings. This did drive some competition amongst the crews.” (Riley, 2017)

Chris during our interview also gave insight on how other western based methods and policies could be implemented on an overseas job. “As far as a western company using its western processes to successfully execute work in Saudi, I think that the labor force would need to be re-trained in environmental and safety processes to meet the western standard, as many are unfamiliar with these kinds of issues and will not understand why they aren’t able to complete work in the way they have been doing it. I

think you would probably have to do the same for quality; i.e. following the proper instructions in completing work; e.g. mason mixing the mortar in a clean container rather than on the dirty ground.” (Riley, 2017)

The discovery that Chris has while overseas is critical to the understanding of how many projects work overseas. The locals who perform these types of jobs are treated poorly from the people who are employing them. Safe work is an incredibly critical aspect to construction execution. Creatively incentivizing basic construction activities to gain favor with and inspire the local trade labor can benefit the overall project success. Chris during our interview also gave insight on how other western based methods and policies could be implemented on an overseas job.

A careful understanding of all the above nuisances and politics that are at play will benefit the contractors who go overseas to complete these contractions jobs. In many of the local trade labor’s lives, working conditions for them in Saudi Arabia are not ideal. Irrespective of what country you are from the company you work for must obtain your passport while you work for them, for some it is a sense of ownership in a perceived socially backwards region. This would mean that a local carpenter would not be allowed to see his family very often if his company did not allow it, he would potentially not receive the full labor wage rate his company was receiving for his labor if his company was not of high moral fortitude.

As an example, if the company he works for is charging fifty dollars an hour, then he may only receive ten dollars of that per hour. This individual would also know that due to their status or lack thereof he would not truly see the result and positive contribution that this project would have. So, for American contractors performing these

activities, the biggest hurdle is going to be getting these “carpenters”. These labor workers or engineers from Saudi or other countries in the region. Who do not appreciate the west nor the United States, who are underpaid, who are treated as company property, are in the middle of decades of politics, are fundamentally and ideologically against American influence in their region, and understand that they will never see any real benefit from these projects, but Americans will. To execute safe work, without cost creep or schedule slip.

## CHAPTER 5

### CONCLUSION

The author's theory is to incentivize the simple daily task that good construction firms practice in the states. IE: showing up on time, being safe, etc. If someone is making pennies on the dollar compared to the company, they work for then the financial incentive is not there. In these local groups the women who are at home with the children, as it is for many people, is the reason why they came to work that day. To provide food and a good living for their loved ones. Ironically enough in many of these Islamic regions of the world the inside of the home is managed and run by the female of the house. The husband will be the one who goes out and provides, but as far as the one who is developing and maintaining the household, it is the wife. This presents a unique opportunity as the one who is concerned with how much food each child gets to eat, or how much time the children can spend with their father, or what their education and future look like all are the primary responsibility of the mother as opposed to the father. This makes their households very matriarchal, and means that incentives that would give more benefit to this dynamic inside the household would be much more effective than traditionally western led practices for construction productivity.

A theory the author believes will have significant impact are if a worker showed up on time, and was safe that day, they put a ticket into a raffle. Every worker on the project would have the opportunity to put their name in said jar, and every day if they completed these things then every day they would get a ticket. At the end of the week the project manager or whoever oversaw the management of the project would draw a few names from the pool. Whoever's name was drawn would win a large several pound bag

of food that was popular in the area, examples such as, grain, rice, wheat, etc.

This would typically be an expense that the majority if not all the labor force overseas would not be able to afford on their own without great reduction in their operating cost or living expense. If these items could be incentivized and made available to the workers to bring home to their families, it is the author's hypothesis that the matriarchal household will begin to encourage and demand that attendance, and safe work are performed on the job site. This would be a very cheap incentive for American contractors to provide to ensure the widespread conformance to the schedule and safety standards these mega projects require.

Developing solid procedures and policies that can drive a construction effort to success understanding these influences is how success on these international projects will occur. The author's methodology for collecting this data is from several peer and industry professional interviews which have provided both data and firsthand accounts of projects and policies from the Middle East. This provides valuable insight to real world experiences on what works and what does not in those regions. This thesis contains both qualitative and quantitative data, and consist of interviews with project managers and commercial managers who have spent time dealing with and interacting daily with subcontractors and local hires on international construction projects.

Another medium of data collection in this thesis is the author's personal observations of the interactions between local contracts or sub-contractors and the Fluor engineering group or commercial management group. Finally, a documentary analysis of peer reviewed and published papers describing accounts from Middle Eastern politics has been utilized to ascertain leading indicators to successful construction management

procedures used to achieve project success.

If implemented the author theorizes that these strategies would have a profound impact in Saudi Arabia with local subcontractors. These laborers would see the value in this incentive and would conform to it. the author also believes that because of the environment they would be in because of the culture of Saudi Arabia it would cause them to appreciate these types of projects more where Americans are involved. The more that American commercial influence also pushes this nation as well as others to diversify, it is also the author's hypothesis that it will cause steps towards a democracy for Saudi Arabia. If more locals become more open to American influence once they see the positive they provide, as well as the diversification and separation from a one market economy allowing for more job training and education for the populous. Which the author and many others believe will lead to more diversity in their population and ultimately lead to secular education, repeal of discrimination laws and eventually a democracy.

It is the hypothesis of this author, after careful observation that Matriarchy prioritized incentives and benefits will have much higher yields on Middle Eastern construction labor performance, relative to trade labor skills, as opposed to traditionally taught Western-culture based incentive programs.

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