Middle Eastern Studies

ISSN: 0026-3206 (Print) 1743-7881 (Online) Journal homepage: http://www.tandfonline.com/loi/fmes20

Wages of oil, parliaments and economic development in Kuwait and the UAE/Business politics in the Middle East/Transformation of the Gulf: politics, economics and the global order/ After the Sheikhs, the coming collapse of the Gulf monarchies

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To cite this article: Mina Toksoz (2017) Wages of oil, parliaments and economic development in Kuwait and the UAE/Business politics in the Middle East/Transformation of the Gulf: politics, economics and the global order/After the Sheikhs, the coming collapse of the Gulf monarchies, Middle Eastern Studies, 53:2, 318-324, DOI: 10.1080/00263206.2016.1213245

To link to this article: http://dx.doi.org/10.1080/00263206.2016.1213245

Published online: 05 Sep 2016.

Wages of oil, parliaments and economic development in Kuwait and the UAE, by Michael Herb, Ithaca and London, Cornell University Press, 2014, 242 pp., £21.50/ $27.95 (cloth), ISBN: 978-0-8014-5336-6
Business politics in the Middle East, edited by Steffen Hertog, Giacomo Luciani and Marc Valeri, London, Hurst & Company, 2013, 377 pp., £22.39/$29.10 (paperback), ISBN: 978-1-84904-235-2
Transformation of the Gulf: politics, economics and the global order, edited by David Held and Kristian Ulrichsen, Oxford, Routledge, 2012, 368 pp., £29.99/$38.98 (cloth), ISBN: 978-0-415-57451-8
After the Sheikhs, the coming collapse of the Gulf monarchies, by Christopher M. Davidson, London, Hurst & Company, 2012, 298 pp., £25.49/$33.13 (cloth), ISBN: 978-1-84904-189-8

The books reviewed here – all by excellent authors – on the political economy of the Gulf monarchies discuss three interrelated topics. One is how to manage the multiple external vulnerabilities of the oil exporting economies. Second is the social and political structure – the social contract – in the region and the prospects for reform and democratization. Third is the regional security concerns given the central position of the Gulf in the global oil supply. Current conditions in the region regarding all three are in their greatest flux seen since the 1950s.

The oil price and Gulf Cooperation Council economic reform cycles

A recurring economic concern in the Gulf Cooperation Council (GCC) countries is the high dependence on oil and vulnerability to global fluctuations in oil prices. The formation of the Organization of Petroleum Exporting Countries (OPEC) in 1960 seemed for a while to have overcome the latter problem. Investing the oil surpluses in the capital markets of advanced economies and relying on their income streams – as Kuwait did, also seemed to be an alternative. However, these policies only worked until the next global oil supply glut in the 1980s caused by the expansion in non-OPEC production. The resulting drop in oil prices persisted for over a decade and brought renewed reform activity aiming at economic diversification. This phase resulted in many downstream (petrochemicals) and energy intensive industries (aluminium production) being established in the region.

The reformist impulse weakened once again with the start in 2003 of the ‘second oil price boom’. This period saw a major expansion of public sector employment and spending on mega infrastructure investments not only in physical infrastructure such as several new cities, but also in human resources in terms of education and health. Meanwhile, the rise of Asian economies provided the basis of a new diversification strategy led by the UAE of re-establishing the historical role of the Arabian Peninsula as a trading hub for global trade (complemented with logistics, transport and financial services) in what came to be known as the Dubai model.

The rise of the services sector over this period helped reduce volatility as shown in Chapter 9, ‘Volatility, diversification and development in the GCC countries’ by Koren and Tenreyro in *Transformation of the Gulf: politics, economics and the global order*. However, the authors note that this did not cushion against external shocks as seen in the bursting of the credit and property bubble in Dubai following the global financial crisis of 2009. A countercyclical fiscal policy could have helped contain the bubble, but most GCC countries pursued highly pro-cyclical policies that only amplified the volatility (p. 209). Not covered by the above collection of essays, and despite some progress in regional financial integration, there was also a stalling of broader

GCC economic integration. This continues to hamper the emergence of a sufficiently large single market that would provide the base for establishing regional consumer goods manufacturing and the associated employment that it could bring.

The turning of the oil price-supply cycle since the second half of 2014 has left the Gulf economies with high and rising budget deficits, and in most cases, reverted large surpluses on the current account into large deficits. Oil prices halved as global investment in new oil reserves and new technology to tap shale-reserves in the past decade. Adding to the downward price pressures were the short-term expectations of increased Iranian oil supply following its nuclear agreement and Saudi Arabia's refusal to play the role of the swing producer. Initial policy response to cope with dwindling oil revenues in the GCC included drawing down foreign currency reserves and sovereign wealth funds. However, with prices continuing to fall, and despite some trimming of budget spending and postponement of investment plans, the average GCC budget deficits rose to around 10 per cent of gross domestic product in 2015. As it became apparent that most of the oil price decline could persist for some time, more substantial fiscal reforms are being adopted. These include many long-postponed measures such as a GCC-wide value added tax (VAT) and cuts in energy subsidies. Those governments that have low public debt – such as Saudi Arabia and Kuwait – are also increasing sovereign borrowing in the domestic and international markets. While some oil producers – such as Russia and Azerbaijan – have used a depreciating currency to cushion the oil price shock, the Gulf monarchies – with currencies pegged to the US dollar – do not have this option. However, the pegs could come under pressure if the combination of strong US dollar and low oil price persists over the longer term, with a severe impact on the corporates and banks with high foreign currency debts.

The Saudi central bank (SAMA) foreign assets are down by over a $100bn since oil prices began their descent and at this rate could run out in 4–5 years. Yet, the conditions in the US shale producers that allow most to operate profitably at around $60–$70/b suggest there could be a new ceiling to international oil prices. The GCC average 'break-even' oil prices to balance budgets – still carrying the spending spree from the fiscal expansion in the wake of the Arab Spring protests – stood at around $90/b in 2015. According to current plans, it could take another 10 years for the break-even budget prices to come down to $60–$70/b.

OPEC could act to raise prices higher, but the boost to oil prices is likely to be temporary, as this will re-invigorate the higher cost investment options such as Canada's tar sands and renewable energy. We could be at the beginning of another oil supply/demand cycle that could last a decade. By then, the UAE will join Bahrain and Oman in becoming oil importers. While the oil reserves of Saudi Arabia and Kuwait are likely to last much longer, Saudi Arabia's surplus oil for export could be significantly reduced by rising domestic consumption. Per capita GCC oil and gas consumption and per capita emissions of carbon dioxide are 'among the highest on the planet' according to S. Hertog and G. Luciani in their contribution to Chapter 11: 'Energy and sustainability policies in the Gulf states' in *Transformation of the Gulf*. The authors provide a review of the regional plans for establishing non-carbon energy sources with a focus on solar and nuclear energy (p. 236).

Recent plans by the Saudi government – Vision 2030 – aim to rebalance the Saudi economy to the new oil market dynamics that will require radical reforms to reduce reliance on public spending and state employment, and increase the role of the private sector in driving growth. Vision 2030 outlines fiscal reforms, labour market reforms to increase the employment of Saudi nationals by the private sector, further reductions of subsidies in energy and utilities, plans for paring back public provision of education and health, and privatization of state assets. This is to include privatization of parts of ARAMCO, the state oil entity, with the revenues used to establish a sovereign wealth fund.

These reforms are not particularly new, with previous versions with similar titles announced in the region such as Bahrain's Vision 2030 in 2008. However, today, the prospect of a prolonged period of low oil prices adds an urgency to the reform drive that was missing when the oil price was above $100/b. Also, different today is that these reforms are being promoted by not just the relevant ministries or ageing royal family princes, as in the past, but a new generation of young GCC leaders.[1] In Saudi Arabia, the reforms are backed by Mohammed bin Salman, the King's son and defence minister, who combined the announcement of the reform programme with a restructuring of the government, replacing many long-serving ministers with younger candidates with private sector experience.

Even so, how much of the announced reforms will be implemented remains to be seen. Many governments have been trying to reduce the heavy reliance on cheap immigrant labour for many years with poor results as business resists employing higher cost nationals. Fuel subsidies in the GCC cost $70bn in 2015 according to the International Monetary Fund with the measures taken so far only providing a fraction of the needed savings. In Saudi Arabia, the puritanical Wahhabi religious authorities have traditionally not interfered with the economy, but some proposals in the 2030 Saudi plan such as increased tourism, recreation and cultural activities could meet with more resistance.

On the other hand, some measures such as cancellation or postponement of the mega investment projects and sending back migrant workers and expats working on them will provide fiscal and foreign payments relief without major social and political repercussions. The high levels of net international assets of most Gulf economies (except Bahrain and Oman) also suggest that governments have some room for flexibility in the timing and depth of implementation of reforms. Nevertheless, even partial implementation of these initiatives could bring significant changes to the structure of the economies challenging the political patronage relations that have dominated the region.

The resilience of the Gulf monarchies

Will this also bring major political reforms? In recent years, the region has had to contend with several political shocks including foreign intervention and failed state building in Iraq, the overthrow of secular autocratic regimes in 2011 and the collapse of Syria, Libya and Yemen. In the past, the Gulf monarchies have shown a capacity to adapt to challenges with minimum political reforms. Internationally, they had the support and backing of the US and European governments during the Cold War, and since the 1990s against radical Islamic challenges.

However, today, both the international and domestic conditions are changing. The regimes must also contend with a younger, more educated and growing population with higher expectations. The possibility that oil prices could stay low for some time will increasingly erode the ability of the regimes to buy off protest with welfare handouts – as they did in the aftermath of the 2011 Arab Spring. Is the multiplicity of challenges now facing the region different to previous ones?

The monarchies of the Gulf are on borrowed time argues Christopher Davidson in *After the Sheikhs, the coming collapse of the Gulf monarchies* published in 2012. Despite the title, all but the last chapter of Davidson's book explains how the monarchies have survived so long. He cites previous failed challenges to these regimes including Arab nationalism in the 1950s and 1960s, and in the 1970s Soviet and Chinese inspired liberation movements in Yemen and Oman (that was the topic of another book heralding the end of monarchic rule – *Arabia Without Sultans* by Fred Halliday published in 1974). Many observers also expected urbanization and economic development to bring about democratization of these regimes. However, despite rapid economic development, the GCC was not part of the wave of democratization in the 1990s in Eastern Europe, Latin America and parts of Africa. This led to conclusions of Middle East exceptionalism that ultimately saw the basic reason as connected to Islam.

Rejecting this pat answer, Davidson provides an extensive review of the political, cultural and economic factors to explain the resilience of the Gulf monarchies. Once oil revenues began to flow, a primary enabler of the survival of the monarchies was the emergence of the rentier state that allowed the state to act independently of social demands. This was combined with a social contract or a 'ruling bargain for the Arab world, where people choose to remain politically acquiescent in return for sufficient stability and services from their governments' (p. 11). The emerging middle and indigenous working classes were given public sector jobs for life, and political opposition was co-opted and rewarded with patronage projects. Key to this social bargain was the restrictive citizenship that had to remain 'distinct, aloof, and…compact' (p. 11) with the path to naturalization blocked for expatriates and migrant workers. At the cultural level, traditional sources of tribal allegiances and religious legitimacy were reinvented 'with the Gulf monarchies … particularly skilled at grafting seemingly modern political institutions onto essentially traditional power bases' (p. 9). This is referred to as neo-patriarchy – with Qatar being the best example.

Davidson had concluded – back in 2012, at the peak of the Arab Spring protests – that all the above factors that sustained these regimes were in flux with mounting domestic and external pressures for change. But, Davidson does not answer how this change will come about except to say that people demanding more democratization and rights are now more diverse and wide ranging. He cites examples of brave middle class individuals and the Shia population in Kuwait, Bahrain and Saudi Arabia that remain a major source of opposition. However, the movements led by such forces during the Arab Spring protests in the Gulf – including Islamist parties with grass-roots support such as the Moslem Brotherhood – have been largely crushed or co-opted for now. This process of course ensures that the field is left open for the most hardened opposition which today takes the form of Salafi and jihadi movements.

…challenged by the private sector?

Business Politics in the Middle East, edited by Steffen Hertog, Giacomo Luciani and Marc Valeri explores the possibility of top-down reform led by sections of the elite – some kind of liberal bourgeoisie taking a lead. In Egypt, for example, there were the Sawiris – with multinational business interests that provided some independence from the crony/patronage system that prevails in the Middle East. There were also those sections of the business community that supported the Moslem Brotherhood who were excluded from the inner government circles around Mubarak.

However, Steffen Hertog questions the ability of the business elite to play an independent political role. He suggests that 'the whole notion of a democratising bourgeoisie is problematic in an age of mass politics. Where European bourgeoisies pushed for more political participation in the eighteenth and nineteenth centuries, they did so in the context of a limited franchise and politically demobilised societies' (p. 12). The fragmentation of Syria, Yemen and Iraq also provides negative examples. The public understanding of this fragility of the GCC nation-states may also explain the relative absence of demands for 'regime change' in the Gulf protests with the reformists tending to focus on specific issues with limited demands.

Nathan Hodson is more positive on this in Chapter 5: 'Breaking Loose: reduced private sector dependence on governments in GCC economies'. Despite their co-opted status, and in contrast with Egypt, Syria and Iraq (which all underwent socially wrenching Baathist revolutions), big business/merchant clans in the monarchies have a longer, less interrupted development trajectory with deeper social roots and stronger status that could provide some element of independence from the government. He gives the example of Saudi Arabia where there is increased pressure by business for a 'more transparent and less corrupt economic system' (p. 132). The decline of oil prices, if sustained for some time can only reinforce the growth of the private sector. Meanwhile, the reduced patronage pot will reduce the power and possibly the cohesion of the ruling families, paving the way for a stronger role for business in politics.

It is impossible to say when major changes in a political structure of a country will take place or what will be the trigger for change. However, four years on from Davidson's book, the monarchical regimes are still here despite mounting pressures for change since the collapse of oil prices in 2014. This could be because according to Michael Herb in the *Wages of Oil*, these regimes are more flexible and adaptable than usually portrayed. Herb focuses on Kuwait and the UAE, but there is also a chapter where he discusses possible political trajectories for the other Gulf regimes. He also highlights the differences among the monarchies where Kuwait stands out in the region for its combative National Assembly. The source of Kuwaiti exceptionalism is a combination of a historically stronger merchant class relative to the ruling al-Sabah family; the personal commitment to a National Assembly by Abdullah Salim, the Emir at the time of independence and the strategic threat from Iraq. Herb emphasizes the latter as being unique to Kuwait which had to rely on foreign powers for its protection against Iraqi territorial claims with the National Assembly providing the crucial 'signal to foreign powers the support of Kuwaitis for their ruling family and for Kuwaiti sovereignty' (p. 66).

In his previous work published in 1999, Herb had critiqued the over-emphasis on the 'rentier state' bargain to describe the mechanism of survival of the Gulf monarchies.[2] Although noting its importance in reinforcing monarchical rule, it is argued that a social contract based on a negotiated balance of power between the ruling family and the merchant class predated the oil era. Herb is following the work of Albert Hourani, the veteran Middle East scholar, who had explained the resilience of the Gulf monarchies as rooted in the historical traditions of '*asabiyya*' which Hourani described as a 'corporate spirit oriented towards obtaining and keeping power'.[3]

Herb sees the process of democratization in the Gulf economies as intrinsically linked to the extension of citizenship to migrants or their replacement by the indigenous labour force. Thus, he is most pessimistic about the UAE as being destined to become a caste society with 'entire economic sectors built on foreign labour (and) relegated to a permanently lower cast status' (p. 214). Qatar could go in the same direction. The outlook for Bahrain is clouded by the sectarian rift that has become deeper since the Arab Spring protests.

The demographic imbalance is not as big a problem in Oman and Saudi Arabia, and both have a chance to increase the indigenous labour force in the economy. However, replacing cheap and more highly skilled foreign labour by citizens has a price as it would increase costs and lower profitability for business. It will also take time. Saudi Arabia's *Nitaqat* programme to increase the employment of nationals in the private sector was launched in 2011 – in the midst of the Arab Spring protests; but in 2014, the share of foreign labour still stood at 84 per cent. Hence, the pace and extent of political reform could depend on the features of a new social contract between the private sector and the royal family: the price of acceptance by business to absorb the costs of employing higher wage Saudi nationals (and thus, contain unemployment) may be political reforms that give them greater say.

Herb suggests that Saudi Arabia could go in the direction of the Kuwait model. However, events in Kuwait show that the combination of its National Assembly with a continued powerful monarchy is an unstable arrangement that has paralysed economic policy. In the longer term, Herb notes, power will have to shift either back to absolutism or towards greater parliamentary powers (p. 208). Since the Arab Spring, the trend has been towards the former. Some observers note the growing 'securitisation of the political, media and public spheres and a far-reaching crackdown on dissent and free speech'.[4]

GCC and the rebalancing of the global order

The possibility of another long period of low oil prices and the possible weakening of OPEC's ability to control prices also has wider geopolitical implications. As the oil revenue backed patronage relations come under strain, GCC monarchies appear likely to combine domestic repression with more active and interventionist regional policies.

The decade long high oil prices in the 2000s have provided the resources for the regimes to extend their 'soft power' internationally. The strength of the GCC in the immediate aftermath of the global financial crisis, also brought increased confidence and a more proactive foreign policy as argued in *Transformation of the Gulf*, edited by David Held and Kristian Ulrichsen.

However, the Gulf monarchies have different approaches to their regional policies, frequently diverging from each other. In Libya, Saudi Arabia and Qatar – the two Gulf Wahhabi regimes – supported different factions, once Qaddafi was overthrown. In Egypt, Qatar supported the Moslem Brotherhood government in contrast with Kuwait and Saudi financial assistance to post-Mursi military regime. The GCC regimes' support for Sunni militias in Syria also shows that they have borrowed Iran's tactics of backing proxy forces in pursuing their regional interests. All these factors increase the risks of regional conflict.

The Saudi intervention in Yemen also suggests that Gulf rulers are more prepared for military intervention in regional conflicts. This was already seen in the military support by UAE and Saudi Arabia in suppressing the Shia protests in Bahrain during the Arab spring protests. This trend has been amplified given the alarm over the rise of transnational Islamist movements such as the Islamic State in Iraq and Syria (ISIS) that is seen as a challenge to the nation-state.

More militaristic regional policies by the GCC are also a response to the perception of lower engagement by the USA in the region. Even though the USA retains a huge military presence, its Middle East policies look set to be prescribed by a complex mix of isolationist trends, growing energy self-sufficiency in North America, and the security focus on Asia. These factors combine with greater public pressure on USA and European governments by domestic human rights lobbies for a more selective support for the Gulf regimes.

These conditions provided the opportunity for Russian intervention in Syria highlighting the weakness/reluctance to act of the old-security guarantor powers in the region – the USA and Europe. The Russia–Iran alliance (plus Damascus and Baghdad) in some respects creates a new 'cold war' axis in the region. There is also the possibility of a greater strategic role for China. China – GCC relations have grown rapidly in the past decade, with mutual trade and investments overtaking that with Japan. While the trade relationship is driven by oil, it also extends to other sectors with Saudi Arabia in particular involved in mega projects to build refineries and petrochemical plants in China. The growing economic relations are yet to extend to military security arrangements, but this may change. China has a close strategic relationship with Pakistan with the Gwadar Port in the Arabian Sea licensed to a Chinese state enterprise, Overseas Port Holdings, since 2013.[5] China and Pakistan held joint air force exercises in the Arabian Sea in April 2016, although this was mostly a show of force aimed at India. In contrast with the tensions in the USA–GCC relations over tactics in Syria and the Iran nuclear agreement, China's 'pragmatic foreign policy and emphasis on non-intervention is … attractive to Saudi Arabia and the other Gulf states' (p. 21). These recent developments confirm Held and Ulrichsen's argument that the Gulf states have become a pivot around which the rebalancing of the global order is taking place.

Notes

1. J. Kinninmont, *Saudi Arabia Faces its Future in Vision 2030 Reform Plan* (London: Chatham House, 2016). See also from Chatham House, London, 'The Social contract in the GCC', Middle East and North Africa programme Work-shop summary, 11–12 January, 2016.

2. M. Herb, *All in the Family: Absolutism, Revolution, and Democracy in the Middle Eastern Monarchies* (Albany: State University of New York, 1999).
3. Quoted by M. Ruthven, 'How to Understand ISIS', in *The New York Review*, Volume LXII, Number 11, p. 20, June 23—July 13 (New York: New York Review of Books, 2016).
4. See V. Talbot (ed.), *The Rising Gulf, the New Ambitions of the Gulf Monarchies* (Rome: ISPI, 2015).
5. Gwadar used to be an overseas territory of Muscat and Oman from 1783 to 1958.

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http://dx.doi.org/10.1080/00263206.2016.1213245

Muslim—Christian relations in late Ottoman Palestine. Where nationalism and religion intersect, by Erik Freas, Basingstoke, Palgrave Macmillan, 2016, 314 pp., $100 (cloth), ISBN 978-1-137-57041-3

In the literature discussing the history of the late Ottoman Empire, the topic of Muslim—Christian relations is often buried in the discussion of the Ottoman reforms, the millet system and of the relationships with Europe. For those who teach Ottoman history, it is often a challenge to collate the material to discuss religious relations: Erik Freas, in *Muslim--Christian Relations in Late Ottoman Palestine*, has indeed done an excellent job tying together several arguments. With a flowing narrative and a good organization, the book opens suggesting that the purpose of this work is to examine Christian–Muslim relations within the context of the formulation of Arab national identity and the extent to which it proved inclusive of non-Muslims. According to Freas, we need to look at three key historical developments in order to understand the dynamics that shaped these relations up to today. First, the development of national identities based on faith by non-Arabic speaking communities in the European parts of the Ottoman Empire. Second, the Tanzimat and following reforms, and last, that the shift from being a 'Muslim' to being an 'Arab' meant little change in the daily life of people. Though the title suggests a focus on Palestine, the reality is that Freas has broadened his analyses by looking at other parts of the Ottoman Empire, on the one hand making Palestine less relevant to his study, and on the other, providing us with effective comparisons that enrich our understanding.

Muslim—Christian Relations in Late Ottoman Palestine is divided into eight chapters for the most part based on secondary sources and an extensive use of Western produced material — mainly British consular reports. Freas is very careful to justify his choice; though he could have certainly looked at some local press and other available sources, the author has done a good job of critically employing this material. The only concern arises from the nearly ever-present 'voice' of James Finn, British consul in Jerusalem from 1846 to 1863. The first chapter is dedicated to presenting the complexities of the process of 'becoming Arab'. Freas reminds us that for many Muslim intellectuals, Arab identity was largely based on the relationship with Islam, while Christian intellectuals were keener to support a secular model of national identity; a dichotomy amplified by the three historical developments suggested at the beginning. Chapter two provides the reader with a brief overview of the Ottoman Empire in the nineteenth century with a focus on the Tanzimat reforms and Egyptian rule of Palestine. This was a period when Christian and Muslim interests often coincided, but at the same time, the introduction of general conscription sowed the seeds for more confrontation than cooperation.