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Workshop 4

Natural Resources, Accountability and Democracy

Workshop Directors

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Workshop Description

This workshop aims to re-examine both the generic linkages between natural resources and ‘democratisation’, and the specific case of the oil exporting states of the Gulf – indeed using the latter to throw light on the former. This is important for at least three reasons: (1) very little notice has been taken of Middle Eastern, and especially Gulf, case studies, in the broader literature on the subject; (2) the region has long presented a peculiar case, with exceptional resources combining with apparently exceptional resilience of traditional systems; and, not least, (3) these economies are arguably undergoing a slow evolution beyond pure rentierism, while possible emerging new socio-political trends may be in part linked to this. Both empirically and conceptually, then, a significant contribution remains to be made.

The literature on the link between resources and democracy is both wide and diverse, and contested. It ranges from suggested links between wealth and democracy, to the opposite suggestion in early rentierism literature on the Middle East where rentierism was claimed to be a key factor in explaining the absence of political participation at the same time as the survival of regimes.¹ Oil wealth in particular, and natural resource wealth more generally, have been argued, for instance by Terry Karl, to lead almost inexorably to authoritarian / autocratic government, or at least to be negatively correlated with ‘democracy’, ‘democratisation’, or more broadly political participation and accountability.²

The nature of such links, the mechanisms explaining them, and the variables that support them, intervene, or cut across them, remains incompletely understood. So does the extent to which hydrocarbon-based rentierism itself remains an adequate description of the GCC economies, and even more so of their *political* economies. Some recent work on the GCC economies has suggested that fledging shifts are indeed occurring that

¹ See e.g. Beblawi, H. & Luciani, G, (eds.), *The Rentier State* (London: Croom Helm, 1988).

² Terry L. Karl, *The Paradox of Plenty: Oil Booms and Petro-States* (University of California Press, 1997); Terry L. Karl, ‘Oil-Led Development: Social, Political, and Economic Consequences’, CDDRL Working Paper, no. 80 (Stanford University, 2007) (http://iis-db.stanford.edu/pubs/21537/No_80_Terry_Karl_-_Effects_of_Oil_Development.pdf); Michael Ross, ‘Does Oil Hinder Democracy?’, *World Politics*, 53 (April 2001), pp. 325–61.

are changing the nature of at least parts of these economies.³ At the same time, some recent work on these countries' political evolution has raised the question whether they need always remain stuck in the 'liberalised autocracy' stage at best, or might have medium or longer term possibilities of moving beyond this.⁴ Even in the current phase of more or less liberalising autocracy, does the evidence from the GCC force us to re-visit Karl's view?

The GCC economies

The general external perception of the Middle East and North Africa (MENA) is of a region demonstrating all the symptoms of "advanced rentierism". Statistics for the region are not encouraging: Exports from the Arab world make up only 5.5% of global exports of which oil counts for 90% and the public sector counts for 33% of all employment in the region. Within this, clearly the GCC states would seem to be the obvious 'front runners', with hydrocarbon-related aspects of the economies and, especially, budget revenues, being predominant. Not a single country in the region scores above the global median of the World Bank's index for global accountability. Yet paradoxically the countries of the Gulf Cooperation Council (GCC), once condemned as irredeemably 'rentier', are emerging as the most efficient economies in the region – or at least as containing some of the most efficient sub-sectors or 'islands of efficiency.'⁵

During a period of inflated energy prices, non-hydrocarbon exports from the GCC have more than doubled. Half of the GCC's GDP comes from non-oil products and a portion of this growth stems from the expansion of the private sector rather than public sector demand. The GCC economies the share of private investment in total capital formation

³ Steffen Hertog, 'Lean and Mean', paper presented to the Workshop on *Industrialization in the Gulf*, Washington: Center for Contemporary Arab Studies, Georgetown University, 27-28 March 2008; Giacomo Luciani, 'From Private Sector to National Bourgeoisie', in Paul Aarts & Gerd Nonneman (eds.), *Saudi Arabia in the Balance* (Hurst, 2005) pp. 144-181.

⁴ Gerd Nonneman, 'Political Reform in the Gulf Monarchies – From Liberalisation to Democratisation? A Comparative Perspective', in A. Ehteshami & S. Wright, *Reform in the Middle East Oil Monarchies* (Reading: Ithaca Press, 2007), pp. 3-46.

⁵ Tim Niblock, *The Political Economy of Saudi Arabia* (London: Routledge, 2007); Steffen Hertog, 'Lean and Mean.'

is now higher than that of governments.⁶ In the UAE, in other ways seen as an almost archetypal hydrocarbon rentier state, the non-oil sector contributed 63% of the country's nominal GDP in 2005. Abu Dhabi has also been engaged in a striking shrinking of its previously bloated civil service – the number of employees in the Abu Dhabi civil service had by 2008 fallen to 11,000, from 64,000 just three years earlier.⁷ From 2000 to 2006, export of non-oil products increased by 20%. In Saudi Arabia, Gross fixed capital formation (GFCF) figures demonstrate that an inward inflow of GFCF increased from 1% between 1990-2000 to 32.1% in 2006.⁸ And contrary to earlier oil booms, the governments of the region have not only been more careful and judicious in allocating spending and in budgeting, but have also carried on with key reforms. The GCC countries have clearly recognized a need to move away from the “boom and bust” cycles of the 1970s and 1980s.

Economic prosperity was always bound up with the legitimacy of the Gulf monarchies. What appears to be new, is a recognition that both the need to avoid periods of ‘bust’ and the need to build a long-term sustainable economic future, require some economic restructuring if both the economic and political aims are to be secured.

While this is very much a fledgling project in progress, to varying extents Gulf monarchs have been grasping the need to assure long-term survival of economy and polity through attempts at diversification and fostering of the private sector, even if this has meant delegating some of the previously centralized control of the economy. By the same token the regulatory, administrative and legal frameworks have also begun to be addressed – and not just in free-wheeling Dubai. Saudi Arabia's judicial reforms appeared at last to get under way in practice in 2008-9, and the country topped the World Bank's “ease of doing business” index for the MENA.⁹ In recent years GCC governments have invested \$1.3 trillion in programmes aimed at diversifying their economies. The recent global financial crisis may damage attempts to lure foreign investment into such ambitious projects as the new economic cities being constructed in

⁶ Steffen Hertog, ‘EU-GCC relations in the Era of the Second Oil Boom’, Munich: CAP Working Paper, December 2007, p. 7.

⁷ N. Janardhan, ‘Economic Diversification and Knowledge Economy in the Gulf’, paper presented at the *Gulf Studies Conference*, Exeter University, July 3rd 2008

⁸ ISN ETH Zurich, ‘Saudi Arabia's Economic Liberalisation’, December 12th 2007

⁹ World Bank, ‘Doing Business 2007’, www.doingbusiness.org

Saudi Arabia. The GCC is also likely to see a considerable devaluation of its extensive \$1.6 trillion assets. But this adversity (which may only be temporary) may only be leading to a redirection, not an abandonment, of attempts at reform.

The link between the economy and socio-political challenges

Nevertheless, solutions to the indirect, if not direct, dependence on hydrocarbon-based wealth and on cheap foreign labour, and to the looming issue of local unemployment for the ‘youth-bulge’ in the populations, are by no means obvious. This is not merely a technical-economic issue, but one intimately intertwined with the underlying political economy, or the social contract, in these polities. The creation of a competitive economy – outside some of the already existing ‘islands of efficiency’ – with a competitive indigenous labour force, is not simply a matter of legislation: it is also a matter of a long-term adjustment and improvement of education, and an inevitable adjustment in expectations of the national population – something which is unlikely to be achieved without adjustments in the social contract. Whether these can be achieved through changes in how welfare is administered, or also need political adjustment, remains open to debate.

The recent apparent decoupling of economic reform from broader issues of public accountability in the Gulf region (with the partial exception of Kuwait and Bahrain) challenges the widely accepted analysis that “the existence of a sound democratic system – which includes transparency, the rule of law and accountability – is essential for the success of a market economy.”¹⁰ Certainly, the market liberalisation and attempts at increased efficiency of this region are being led from the top; indeed, it should be observed that in certain cases where democratic institutions have been granted tangible powers, such as in Kuwait, there has been a tendency to move towards (or maintain) protectionism. Oversight of government spending is still firmly in the hands of the ruling elites in the Gulf. Yet this success in isolating political reform in pursuit of economic efficiency may be fleeting. The recent largesse accumulated in the region from energy revenues is unlikely to be repeated in scale and diversification projects may

¹⁰ Hazem Beblawi, ‘Political and National Governance Reforms’, Paper presented at the *IMF/AMF High-Level Seminar on Institutions and Economic Growth in the Arab Countries*, Abu Dhabi, December 2006, p. 16.

buckle under the pressure of global economic downturn. Saudi Arabia had hoped to attract \$624 billion in FDI by 2020.¹¹ This figure may now need to be revised.

The GCC despite is also not exempt from energy poverty. Lack of adequate supplies of gas have prompted both Bahrain and Oman to improve relations with Tehran, while Saudi Arabia's diversification projects have not yet addressed a looming gas deficit. Already, various projects in the UAE have come to a halt as a result of inadequate energy supplies.¹²

This range of economic challenges exists both in its own right and as an integral part of the broader socio-political economy: one of the central issues inking the two is that of demography and employment. Two-thirds of the Saudi population is under 30 and, despite the boom in energy revenues, income per capita is the second lowest in the Gulf Cooperation Council.¹³ Current estimates calculate that Saudi Arabia's population is expected to double between 2002 and 2025 to 48.5 million, creating a grave strain on state resources to match expectations with regard to social and economic opportunities.¹⁴ Indeed while the GCC has undoubtedly become more open and efficient in attracting external investment, governments' success in tackling these social problems is patchy and tentative at best.

The World Bank has noted that a grave threat to regional stability in the Gulf is "the striking weakness in external accountabilities and in access to basic political and civic rights."¹⁵ The lack of empowered parliaments or public institutions and the self-censorship practiced by the region's media are a barrier to an open discourse on future governance of the region. Nevertheless the recent reforms, although limited in the

¹¹ To date the Saudi Arabian government has also demonstrated a reluctance to invest heavily in Sovereign Wealth Funds (SWF). In 2008 Saudi Arabia announced its first SWF which was limited to \$5.3 bn, much less than anticipated. *The Financial Times*, "Saudis to launch \$5.3 bn sovereign fund" 28 April 2008.

¹² J. Dargin, 'Trouble in Paradise – The Widening Gulf Gas Deficit', *Middle East Economic Survey*, 29 September 2008.

¹³ *Middle East Online*, 'Saudi oil: 75 years on, 75 more years to go', 23 May 2008.

¹⁴ N. Janardhan, 'Economic Diversification and Knowledge Economy in the Gulf,' Paper delivered at the *Gulf Studies Conference*, Exeter University, 3 July 2008.

¹⁵ World Bank, 'Better Governance for Development in the Middle East and North Africa', Washington DC, 2003 p. 62

transfer of tangible powers to legislatures, have permitted the emergence of a public debate on political reform. This has allowed for a degree of ‘decompression’ to take place, a process carefully managed by the ruling regimes of the region.¹⁶ In a period of economic crisis, or, in the medium and longer term, societal alongside political questions, this tentative criticism now aimed at some of the ruling regimes may become more assertive.

In sum:

1. these states exhibit interesting signs and ‘pockets’ of economic reform, as well as varying extents of controlled political liberalization.
2. Yet they remain faced with severe medium- and long-term economic challenges and uncertainties, raising questions about the nature and prospects of their evolving economic models, and about the future of ‘rentier economics’.
3. They also, to varying extents, face associated socio-political challenges and questions that are affected by, and feed into, the economic questions mentioned. While on the one hand aspects of the current social contract constrain the possibilities of economic reform, the current economic dispensation is unlikely to afford these states the means to deal with growing economic demands – not least as regards employment.
4. To greatly varying degrees, population groups in these states increasingly express grievances over aspects of economic and other governance, and in some cases demand a greater say in governance overall. It is an open question whether fledgling political reforms being introduced by the regimes will contain and co-opt such demands, ultimately maintaining ‘liberalised autocracy’, or whether there are circumstances under which in some states this dynamic may lead beyond autocracy altogether.

The workshop aims to address these inter-linked questions in order to explore further the debate on the effect of resource wealth on economic and political governance, in the first place in the GCC, but, by implication, also enriching the wider literature on the effects of natural resource wealth, rentierism, and economic and political reform.

¹⁶ Nonneman, ‘Political Reform in the Gulf Monarchies.’

In particular, it aims to address the following research questions:

- To what extent do rentier dynamics continue to define the economy of the GCC states?
- Is the GCC moving beyond economic rentierism – and if so, to what extent and how? What are the prospects, constraints and conditions?
- What does the evidence from the GCC states tell us about the linkages between natural resource wealth (and hydrocarbon wealth in particular) on the one hand and political liberalization and democratization on the other? To what extent do the politics of the GCC states continue to be defined (if they ever were) by rentierism? Do the evolving dynamics of this region constitute a confirmation of, or challenge to, the general rules proposed in this regard in the wider literature (Beblawi, Karl, Ross and others) – or are they simply an exceptional case?
- How does the evolving situation in energy production, export and consumption in the GCC states feed into likely patterns of economic and political reform?
- Are these political systems potentially moving, or could they eventually move, beyond autocracy? What are the key factors affecting the answer to this question?
- What role can or do external actors have in these dynamics and trends?